DETERMINATION

Annual Report 2010

SEGA SAMMY HOLDINGS

INFORMATION

The SEGA SAMMY Group uses various communication tools to facilitate interactive communication with shareholders, investors, and a wide range of other stakeholders. This section explains the functions of our communication tools.

How to reach us

Annual Report 2010

In order to better understanding among shareholders and investors, Annual Report 2010 includes multifaceted information about the SEGA SAMMY Group's business lines, business conditions, and business results. We have included an index below so that readers can access information easily.

Investor Relations Web Site

On the investor relations (IR) page of the SEGA SAMMY HOLDINGS web site, we post comprehensive, reliable information for shareholders and investors promptly. This includes timely disclosures as well as financial settlement figures in Excel format. For individual investors, the "Individual Investors" section and other sections provide an easy-to-follow introduction to the Group's business lines. Further, we have established a mobile IR web site accessible from mobile phones.

The official SEGA SAMMY HOLDINGS web site
http://www.segasammy.com/

Timely disclosures
Financial settlement figures (Excel format)
Information for individual investors
IR tools
Inquiries

The IR page of the SEGA SAMMY HOLDINGS web site
http://www.segasammy.co.jp/english/ir/

The Group's CSR Report

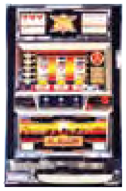
SEGA SAMMY Group
CSR Report 2010

This report, Annual Report 2010, touches on some of the Group's corporate social responsibility (CSR) activities in the Corporate Social Responsibility section on pages 46 through 48. A broader and more detailed picture of these activities is available in the SEGA SAMMY Group CSR Report 2010.

Our history

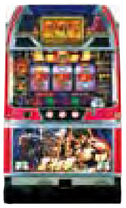
	SEGA®	Sammy
1950	1951 Founded	
1960	1960 Incorporated (Company name: Nihon Goraku Bussan Co., Ltd.) 1964 Started production of amusement arcade machines. 1965 Started operation of amusement centers. Changed company name to SEGA ENTERPRISES LTD.	
1970		1975 Established Sammy Industry Co., Ltd. 1978 Began game machine development.
1980	1983 Launched *SG-1000* 8-bit home video game platform. 1985 Launched *Hang On*, the world's first force feedback game. Launched *UFO Catcher*. 1986 Registered stock on over-the-counter (OTC) market. 1988 Listed stock on the second section of Tokyo Stock Exchange. Launched *Mega Drive* 16-bit home video game platform.	1982 Began sales and marketing of pachislot machines. 1989 Began sales of *Aladdin* single-bonus hitter pachislot machine.
1990	1990 Listed stock on the first section of Tokyo Stock Exchange. Launched *R-360*, the world's first amusement arcade machine that could rotate 360 degrees in all directions. 1991 Launched first title in the *Sonic the Hedgehog* series. 1993 Launched *Virtua Fighter*, the world's first amusement arcade 3D computer graphics fighting game. 1994 Launched *SEGA Saturn* 32-bit home video game platform. 1995 Launched *Print Club* with ATLUS Co., Ltd. 1996 Opened *TOKYO JOYPOLIS* rooftop theme park in Tokyo's Odaiba area. 1998 Launched *Dreamcast* home video game platform.	1990 Began development and sales of game software. 1991 Moved head office to Toshima-ku, Tokyo. 1995 Began sales of pachinko machines. 1997 Changed company name to Sammy Corporation. 1999 Registered stock on OTC market. Launched *GeGeGe No Kitaro*, the first pachislot machine equipped with an LCD.
2000	2000 Changed company name to SEGA CORPORATION. 2003 Launched *The King of Beetles "MUSHIKING"*, the world's first kids' card game.	2000 Made RODEO Co., Ltd. (formerly Barcrest Co., Ltd.), a subsidiary. 2001 Listed stock on the first section of Tokyo Stock Exchange. Completed Kawagoe Factory. 2003 Launched *Hokuto No Ken* pachislot machine, which set a new record for unit sales.

UFO Catcher



Aladdin
pachislot machine
© Sammy

Sonic the Hedgehog
© SEGA



Hokuto No Ken
pachislot machine
© Buronson & Tetsuo Hara
© Sammy

SEGA SAMMY HOLDINGS

2004 Establishment of SEGA SAMMY HOLDINGS INC.

2005 Acquired all outstanding shares of The Creative Assembly Ltd. (SEGA).

2006 Made SPORTS INTERACTIVE Ltd. a wholly owned subsidiary (SEGA).
Entered strategic business alliance with Sanrio Company, Ltd. (SEGA SAMMY HOLDINGS).

2007 Made TAIYO ELEC Co., Ltd., a subsidiary (Sammy).

2008 Reached agreement with Sanrio Company, Ltd., to jointly develop new characters (SEGA SAMMY HOLDINGS).

2009 Made GINZA CORPORATION a subsidiary (Sammy).
Established SEGA SAMMY VISUAL ENTERTAINMENT INC.* (SEGA SAMMY HOLDINGS).
Established Bakugan Limited Liability Partnership (Bakugan LLP) (SEGA SAMMY HOLDINGS and Group companies).

* Currently MARZA ANIMATION PLANET INC.

About us

The SEGA SAMMY Group is a comprehensive entertainment company encompassing businesses throughout the entertainment field. These include the Pachinko and Pachislot Machine Business segment, the Amusement Machine Sales Business segment, the Amusement Center Operations segment, and the Consumer Business segment, which is engaged in the plan, production and sale of home video game software, toys, network games for mobile phones and PCs, and animation.

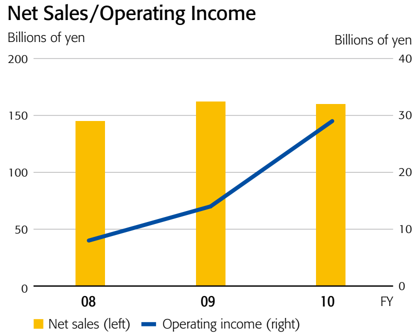
In Japan and overseas, we provide highly original entertainment to a wide range of age groups, from kids to adults. At the same time, through the mutual use of content and management resources within the Group, SEGA SAMMY creates synergies and pioneers businesses in new areas of the entertainment field.

Pachislot Psalms of Planets Eureka Seven
© 2005 BONES / Project EUREKA • MBS
© Sammy
© 2009 NBGI

Pachinko and Pachislot Machine Business

The main pillar of the Group's earnings, this business segment comprises the pachinko machine business and the pachislot machine business. Entering the market in 1982, the pachislot machine business established an industry-leading position by introducing products with innovative gameplay. We made our foray into the pachinko machine market in 1995 and have been building our presence steadily ever since by boosting development capabilities.

Net Sales/Operating Income

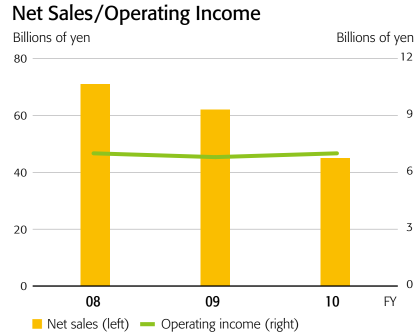


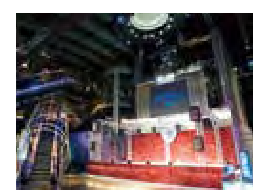
HATSUNE MIKU Project DIVA Arcade
© SEGA
© Crypton Future Media, Inc.
VOCALOID is a trademark or a registered trademark of Yamaha Corporation, Japan.
Hatsune Miku is a computer software by singing synthesis.

Amusement Machine Sales Business

By launching a series of mold-breaking products, this business segment has helped drive market development. As well as having particular strength in network-enabled game machines and other high-value-added products, the business segment has an extensive product lineup that caters to diverse user needs. Also, the Amusement Machine Sales Business segment is introducing a new revenue-sharing business model that is invigorating the amusement market.

Net Sales/Operating Income



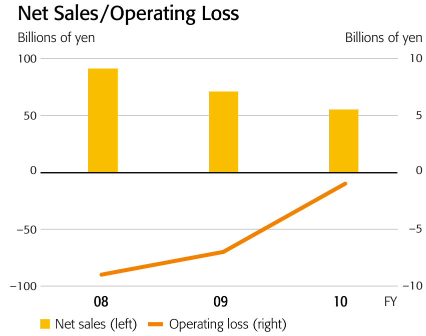


TOKYO JOYPOLIS

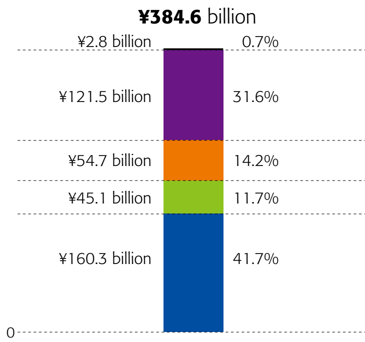
Amusement Center Operations

Close collaboration with the Amusement Machine Sales Business segment gives this business segment the advantage of being able to offer a lineup of in-house products that meets diverse user needs. Moreover, as a point of contact with users, the business segment collects precise market feedback, which the Group draws on when developing amusement arcade machines. Currently, the business segment is improving profitability by closing amusement centers with inadequate profitability or potential.

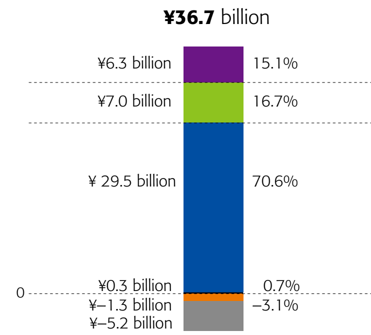
Net Sales/Operating Loss



Net Sales by Business Segment

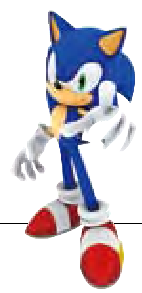


Operating Income (Loss) by Business Segment*



- Pachinko and Pachislot Machine Business
- Amusement Machine Sales Business
- Amusement Center Operations
- Consumer Business
- Other businesses
- Corporate and eliminations

* Composition of operating income (loss) by business segment is net of corporate and elimination.



© SEGA

BAKUGAN
© SEGA TOYS / SPIN MASTER / BAKUGAN 2 PROJECT • TX

ANPANMAN
© Takashi Yanase / ANPANMAN Project

Consumer Business

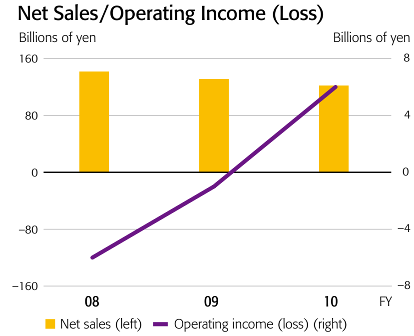
Home video game software The originator of many famous titles such as the *Sonic* series, SEGA enjoys one of the highest levels of overseas unit sales among Japan's software publishers. The Consumer Business segment is further improving its competitiveness and earning power by enhancing the quality of its titles and increasing development efficiency through reductions in its number of titles, R&D expenses, and content production expenses.

Networks Business SEGA and Sammy NetWorks Co., Ltd., provide game content for mobile phones and PCs in this business, which is posting solid business results. Our networks business is strengthening profitability through the introduction of pay-per-use while building its earnings platform by providing new services that extend its customer group.

Toys SEGA TOYS CO., LTD., is responsible for the Group's toys business. As well as offering such perennial favorites *as Anpanman* toys, this business is opening up new markets by launching edutainment toys and products for adults. And, the company markets a large number of toys featuring SEGA SAMMY Group content. *BAKUGAN*, a toy jointly developed by SEGA TOYS and Canadian manufacturer Spin Master Ltd. accounts for related product sales and animation broadcasts in approximately 120 countries.

Animation TMS ENTERTAINMENT, LTD., is engaged in the production of numerous high-quality works of animation in Japan and overseas. The company also sells the roughly 9,000 episodes of animation that it owns to terrestrial and satellite television broadcasters. Furthermore, using characters from these animation series, it grants product commercialization rights and videogram licenses.

Net Sales/Operating Income (Loss)

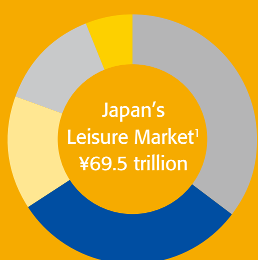


Structure of the Pachinko and Pachislot Machine Market

In order to better understanding of the conditions that the Group faces in the pachinko and pachislot machine market, this section explains the market's highly distinctive structure.

Pachinko & Pachislot

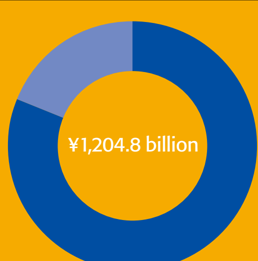
Shares of Pachinko and Pachislot in Japan's Leisure Market



Games / Publicly Operated Sports / Eating and Drinking	¥24.7trillion	35.5%
Pachinko and Pachislot[2]	**¥21.1trillion**	**30.4%**
Hobbies	¥10.2trillion	14.7%
Tourism	¥9.4trillion	13.5%
Sports	¥4.1trillion	5.9%

Source: *White Paper on Leisure Industry 2010*, Japan Productivity Center
1 2009.
2 Total amounts of hall ball and token rentals

Pachinko and Pachislot Machine Market Scale*



Pachinko machines	¥978.9 billion
Pachislot machines	¥225.8 billion

Source: Yano Research Institute Ltd.
* Fiscal 2009 (settlement dates from July to June)

Pachinko CR SOUTEN-NO-KEN
© 2001 Buronson & Tetsuo Hara
© Approved No. SAG-309
© Sammy

Pachislot Psalms of Planets Eureka Seven
© 2005 BONES / Project EUREKA • MBS
© Sammy © 2009 NBGI

About Pachinko and Pachislot

Pachinko machines trace their origins to bagatelle boards, imported to Japan almost a century ago, in the 1920s. In the 1930s, these evolved into vertically positioned boards studded with numerous pins. By manipulating a handle, players mechanically fire steel pachinko balls with diameters of about 11 mm onto the board. When the balls fall into the tulip-shaped devices or the jackpot mouth, additional pachinko balls are won from the jackpot.

Meanwhile, the roots of pachislot are said to be slot machines brought from the United States after the end of the Second World War. The 1960s saw the emergence of modified slot machines requiring a certain level of playing skill because they incorporated buttons that allowed players to stop the reels spinning. Subsequently, these machines were upgraded to the current box-cabinets and spread to pachinko halls throughout Japan.

The functions and gameplay of pachinko and pachislot machines have continued to evolve, creating a uniquely Japanese form of entertainment. Today, machines continue to entertain fans through varied, dynamic staging based on liquid crystal displays (LCDs) and a range of other electronic components.

Market Size

In Japan, the pachinko and pachislot machine market is huge. Comprising the ball rental fees and token rental fees that pachinko halls charge players, it accounts for revenues of ¥21.1 trillion[1], or about 30.4% of the leisure market. Further, sales in the pachinko and pachislot machine market are worth about ¥1.2 trillion[2]. The evolution of this market is extending the boundaries of the pachinko and pachislot machine industry to include new industries. For example, the increasing use of advanced technologies for pachinko and pachislot machines is strengthening ties with manufacturers of LCDs, light-emitting diodes, sensors, and other components. Similarly, the growing automation of pachinko halls is supporting an industry that produces peripheral equipment for pachinko and pachislot machines.

1 2009. Source: *White Paper on Leisure Industry 2010,* Japan Productivity Center
2 2009. Source: Yano Research Institute Ltd.

Competitive Conditions of the Pachinko and Pachislot Machine Market

There are 32 pachinko machine manufacturers[3] and 71 pachislot machine manufacturers[4] participating in the market. Realizing hit products is vital. As a result, manufacturers' shares of the market fluctuate significantly depending on whether or not they have hit titles. Recent years have seen an increasingly marked trend toward manufacturers with brands or machines that promise high utilization rates claiming the lion's share of orders. Consequently, the leading companies have become firmly entrenched and as a group dominate a growing share of the market.

3 As of March. 31, 2010. Member companies of Nikkoso, a pachinko machine manufacturers' industry association
4 As of June 30, 2010. Member companies of pachislot manufacturing network

Overview of the Regulatory Environment

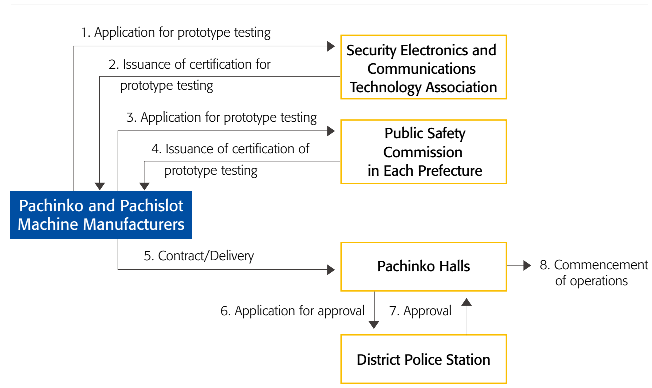
Before they launch a pachinko or pachislot machine, manufacturers are required to navigate an approval process in accordance with the Entertainment Establishments Control Law. First, manufacturers must file an application for prototype testing with the Security Electronics and Communications Technology Association. They must acquire certification that such elements as materials, functions, and gameplay are in conformance with the requirements of the Entertainment Establishments Control Law. Then, the machines are verified by the Public Safety Commission in each prefecture. Only then can they be sold and supplied to pachinko halls. Before using machines in operations, pachinko halls must acquire approval from district police stations.

Cyclical Changes in Market Conditions Due to Regulatory Revision

The Entertainment Establishments Control Law and the internal regulations of industry bodies have been frequently revised with a view to the sound development of the pachinko and pachislot machine industry. These changes in regulations and internal regulations, and pachinko and pachislot machine manufacturers' innovations in response to them, have driven cyclical changes in market conditions. In the 1990s, changes in regulations and internal regulations aimed at controlling excessive gambling elements caused a sudden slump in the pachinko machine market. On the other hand, these changes triggered rapid expansion of the pachislot machine market. More recently, July 2004 saw the enforcement of a revision of regulations pertaining to the Entertainment Establishments Control Law (2004 regulatory revision), which initiated major changes that continue to affect market conditions.

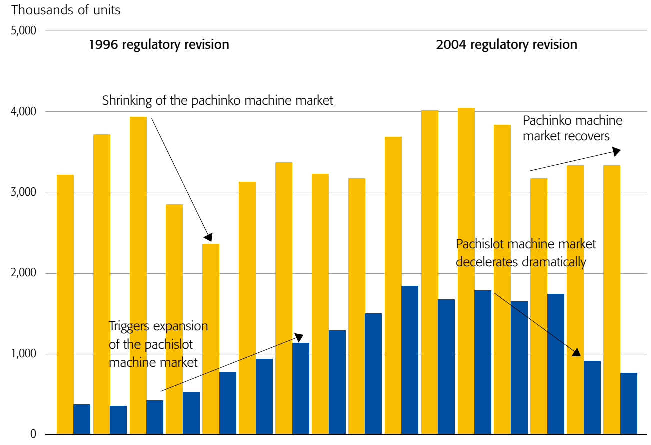
For further details, please see "Market Conditions of the Group's Business Segments" on pages 6 and 7.

Approval Process for Pachinko and Pachislot Machines



Cyclically Changing Market Conditions

Thousands of units



Pachinko machine unit sales
Pachislot machines unit sales
Fiscal years (based on the settlement periods of respective fiscal years)
Source: Yano Research Institute Ltd.
Fiscal years (settlement dates from July to June)

The Market

Pachinko and Pachislot Machine Market

Long-Term Trends—from the 1990s to 2005

After peaking in the mid-1990s, the pachinko and pachislot machine market contracted. This trend was attributable to casual players leaving the market because an increasing number of machines featured more complicated gameplay or strong gambling elements. Fiercer competition among pachinko halls trying to attract a dwindling number of users resulted in a shakeout of small pachinko halls, and the number of halls continued to decrease.

In a bid to secure users, pachinko halls frequently introduced new machines. Therefore, unit sales of pachinko and pachislot machines remained solid. In addition, the prices of machines rose as they began to include such high-value-added features as larger LCDs. Consequently, the pachinko and pachislot machine market generated higher revenue levels. The turning point in market conditions came in 2006 due to the 2004 regulatory revision.

Following the July 2004 Regulatory Revision

1. From 2006 to Mid-2009

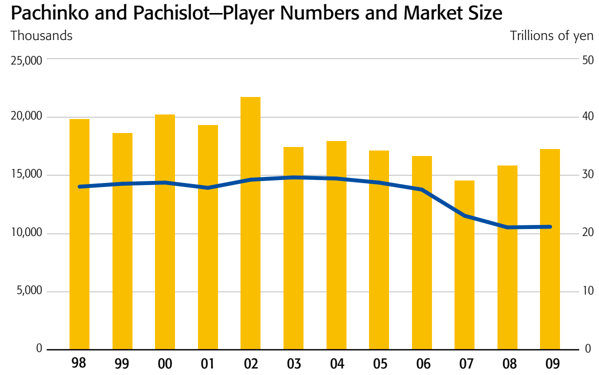
The 2004 regulatory revision extended the scope of gameplay, giving the pachinko machine market a new lease of life. These favorable market conditions continued until mid-2009.

Meanwhile, the 2004 regulatory revision narrowed the scope of gameplay for pachislot machines, thereby lowering their gambling elements. During the three-year interim measures period in which the sale of pachinko and pachislot machines compliant with the previous regulations was permitted, the 2004 regulatory revision did not significantly affect the pachislot machine market. However, the interim measures period ended in the fall of 2007. As pachinko halls began introducing pachislot machines compliant with the new regulations in stages, pachislot users left the market in growing numbers due to the difference in gameplay.

During the same period, pachinko halls' financial positions worsened primarily because there were fewer users, and they were spending less on pachinko and pachislot per year. As well as further steepening the decline in pachinko hall numbers, the effect of this deterioration was passed on to pachinko and pachislot machine manufacturers.

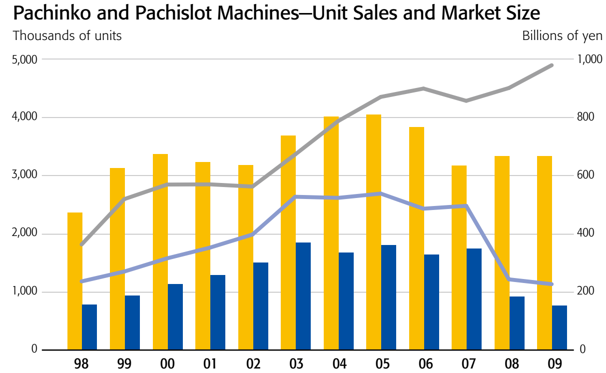
As the decline in annual turnover* shows, the trend toward less frequent replacement of mainly pachislot machines became more pronounced as pachinko hall operators curbed capital investment.

Pachinko and Pachislot—Player Numbers and Market Size



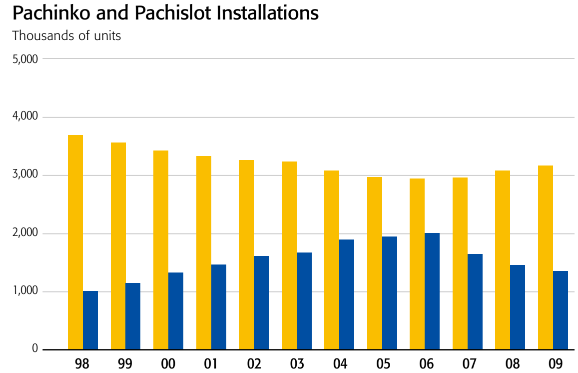
Number of pachinko and pachislot players (left)
Pachinko and pachislot machine market size (right)
Source: *White Paper on Leisure Industry 2010*, Japan Productivity Center

Pachinko and Pachislot Machines—Unit Sales and Market Size



Pachinko machine unit sales (left)
Pachislot machine unit sales (left)
Pachinko machine market size (right)
Pachislot machine market size (right)
Fiscal years (settlement dates from July to June)
Source: Yano Research Institute Ltd.

Pachinko and Pachislot Installations



Pachinko machine installations
Pachislot machine installations
Fiscal years (settlement dates from July to June)
Source: National Police Agency

Because it took time for manufacturers to develop pachislot machines that captivated users, pachinko machines increasingly replaced pachislot machines.

For pachinko machines, pachinko hall operators sought reliable returns on investments by introducing more machines with high utilization rates. As a result, orders concentrated on the leading manufacturers.

* Annual turnover = Annual unit sales ÷ Machine installations. The number of times pachinko and pachislot machines are replaced each year.

Following the July 2004 Regulatory Revision

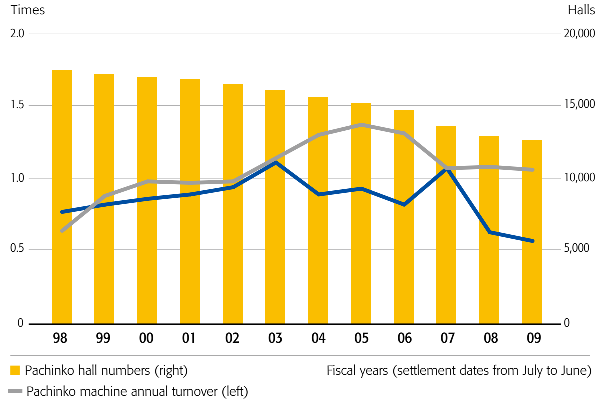
2. Since Mid-2009

From mid-2009, the favorable conditions in the pachinko machine market and the sluggishness in the pachislot machine market began to show signs of change.

"Max-type" pachinko machines, which have a strong gambling element, began to account for an increasing share of pachinko machine installations from 2008. This began to push casual users out of the market. Aiming to counter this trend and broaden their user bases, pachinko hall operators lowered ball rental fees and launched "one yen pachinko" marketing strategies. As of March 2010, pachinko machines covered by these marketing strategies accounted for roughly 20% of total pachinko machine installations. Although the market strategies based on low ball rental fees have achieved a certain degree of success in widening user bases, the resulting decrease in users' average spending on pachinko machines has undermined the profitability of pachinko halls markedly. Further, business management aimed at achieving rapid return on investment in the face of pachinko halls' worsening business results is causing users to leave the market and creating a vicious circle. As a result of these trends, the market for new pachinko machine installations, robust until the second half of 2009, has begun to slow.

At the same time, the development efforts of manufacturers finally produced pachislot machines that satisfied market demand while remaining within the scope of current regulations. Consequently, the utilization rate of pachislot machines bottomed out, and unit sales per pachislot machine increased. Moreover, a trend toward replacing pachinko machines with pachislot machines is providing a tailwind. Given theses trends, the pachislot machine market is on the brink of emerging from its prolonged downturn.

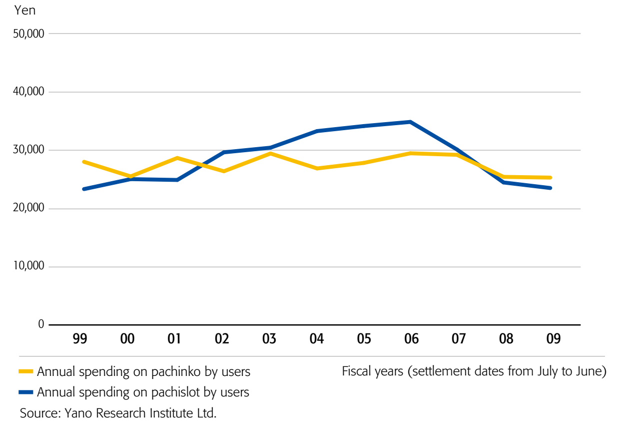
Annual Turnover* and Pachinko Hall Numbers



* Annual turnover = Annual unit sales ÷ Machine installations

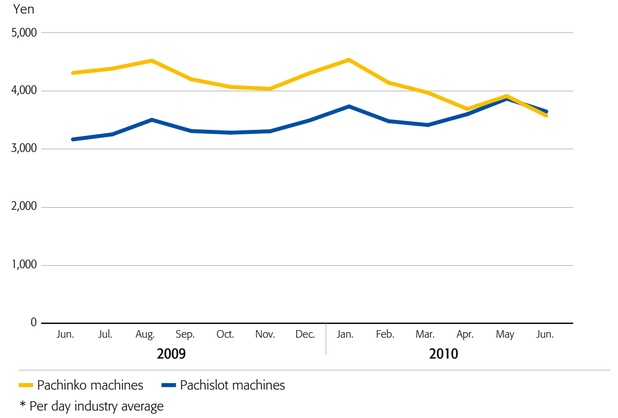
Sources: The Company has calculated annual turnover based on data from the National Police Agency and Yano Research Institute Ltd. Pachinko hall numbers are from National Police Agency.

Annual Spending by Users



Source: Yano Research Institute Ltd.

Gross Profit of Pachinko Hall Operators per Pachinko and Pachislot Machine*



* Per day industry average

Source: Daikoku Denki Co., Ltd., *DK-SIS* data

The Market

Amusement-Related Market (amusement arcade machines, amusement center operations)

Changes in the Amusement Center Operations Market Due to Sluggish Consumer Spending

The amusement-related market comprises the amusement arcade machines market, generating revenues of about ¥190 billion*, and the amusement center operations market, accounting for roughly ¥570 billion* in revenues. Capital investment trends among amusement center operators directly affect the amusement arcade machines market.

From fiscal 2002 to fiscal 2006, the amusement center operations market expanded continuously on the back of new types of gameplay, such as kids' card games, and stepped-up openings of family-oriented facilities in shopping centers.

However, amusement center openings in shopping centers and success in attracting families became increasingly linked to consumer-spending trends. As a result, in fiscal 2007 the amusement center operations market began contracting due to curbed consumption amid uncertainty in financial markets as well as the industry's failure to supply enough machines and services catering to potential user needs. This contraction continued in fiscal 2008.

* Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2008*

Business Conditions Worsen Further Due to Sluggishness of Existing Amusement Centers and Deterioration of Fund-Raising Conditions

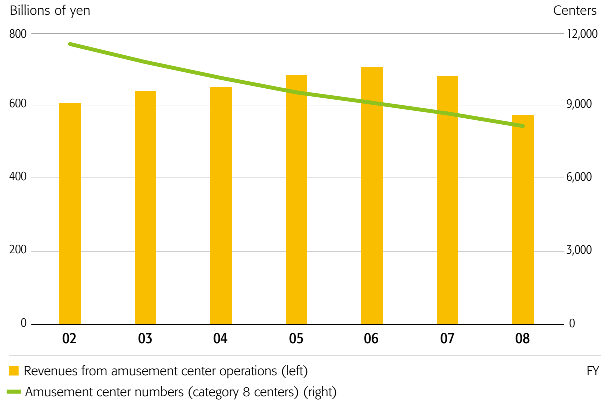
In the amusement center operations market, existing amusement center revenues have continued to edge down year on year since fiscal 2004. Before this, the market as a whole had grown continuously. These tough business conditions arose because companies did not develop enough new user groups. Exacerbating this overall market stagnation, amusement center operators face difficulties in raising funds for capital investment aimed at introducing new products and invigorating amusement centers due to worsening conditions in financial markets.

The number of amusement centers has been in decline for many years. Previously, this trend mainly stemmed from the withdrawal of small amusement center operators. In recent years, however, major amusement center operators have begun closing unprofitable amusement centers.

Demand for Large, High-End Products Softens

Advancing in step with the amusement center operations market, the amusement arcade machine market grew for five consecutive years through fiscal

Amusement Center Numbers and Market Size

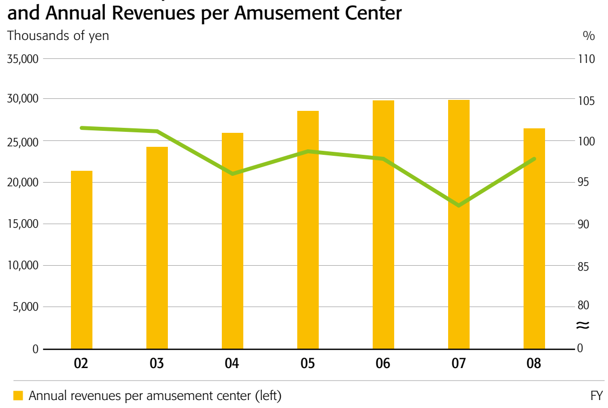


Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2008*

Revenues from Amusement Centers in Shopping Centers and Department Stores

Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2008*

Year-on-Year Comparison of Sales at Existing Amusement Centers and Annual Revenues per Amusement Center



Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2008*

2006. The drivers of this growth included high-value-added products differentiated from home video game consoles, large medal games for large-scale amusement centers, and trading card games. However, the amusement arcade machine market began decreasing year on year from fiscal 2007 onward following declining amusement center revenues. In fiscal 2008, the scale of Japan's amusement arcade machine market decreased a significant 11% year on year.

With revenues from amusement center operations having peaked, demand contraction is particularly conspicuous for the large, high-end products that used to drive the market. Further, revenues are declining because, rather than sales of amusement arcade machines themselves, sales of comparatively inexpensive software that upgrades amusement arcade machines are increasing. This lower demand for large, high-end amusement arcade machines with advanced functions clearly demonstrates amusement center operators' diminished capacity to undertake capital investment.

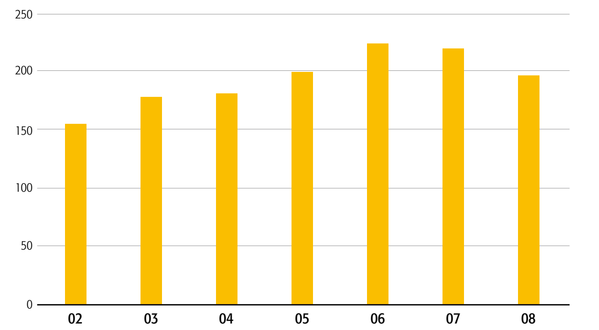
Collaboration between Amusement Center Operators and Machine Manufacturers is Key to Reactivating the Market

Since fiscal 2009, economic conditions have been gradually improving. However, business conditions for amusement center operators remain tough. The recovery of the overall market depends on how far amusement center operators and amusement arcade machine manufacturers are able to collaborate. They must embark upon joint efforts to attract potential users by offering amusement arcade machines distinctive from home video game consoles or by providing services that tie in with home video game consoles. Another focus of collaborative efforts should be the introduction of systems that can reinvigorate amusement centers based on limited capital investment.

In fact, efforts to invigorate amusement centers are already underway. For example, manufacturers are standardizing machine cabinets to enable amusement center operators to upgrade content flexibly as needed. Also, they are reducing development and equipment costs by introducing high-performance multipurpose computer graphics boards for amusement arcade machines. Further, manufacturers and amusement center operators are establishing new usage fees and rates. These include time charges that encourage a wider group of users to play amusement arcade machines or the setting of content fees at levels that facilitate the diversification of earnings sources. Other initiatives are building new revenue-sharing business models in which amusement center operators and manufacturers share the earnings from machine utilization.

Amusement Arcade Machine Sales*

Billions of yen



Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2008*

* Total domestic sales and exports

The Market

Home Video Game Software Market

Growth Weakens in Home Video Game Software Market Worldwide

Until 2008, the home video game software market trended toward expansion, which centered on North America and Europe. The spread of current-generation game platforms and the inclusion of families and other new users fueled this growth. In 2009, however, the market suffered a slowdown worldwide. Japan's market shrunk 1.8%* year on year. As for the former growth drivers, the industry saw year-on-year decreases in market size of 7.8%* in Europe and 9.1% in North America. The main reason for this loss of momentum was the slump in consumer spending from fall 2008, which affected the home video game software industry despite its reputation for being recession-proof. In addition, other factors are affecting today's home video game software market, including expansion of the market for used products, an increase in customers purchasing downloads, and the emergence of free video games.

* Source: *Famitsu Game White Paper 2010*

New Game Platforms Emerge

The advance of such new game platforms as smartphones and social network services (SNS) is beginning to have a significant affect on market trends.

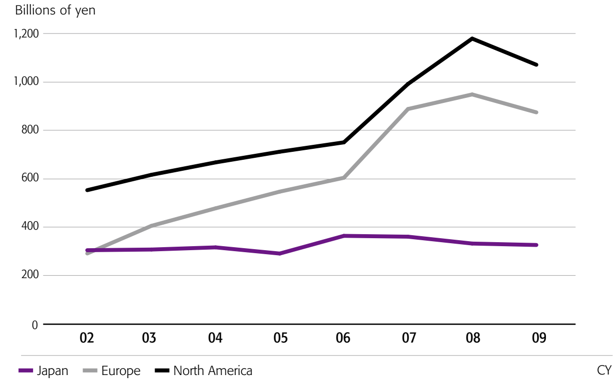
As smartphones spread rapidly, the application software market catering to them is becoming increasingly important. With the marketing of tablet mobile terminals in 2010, the application software market is set to grow even further. Similarly, the expansion of the content market for large-membership SNS is gathering speed.

In response to these shifting conditions, home video game software manufacturers are attempting to enter new markets and develop new products by taking into consideration such aspects as user interfaces or operability, user groups, and where games are played—a set of considerations completely different from the requirements for existing game platforms.

Evolving Game Platforms Call for Technological Innovations

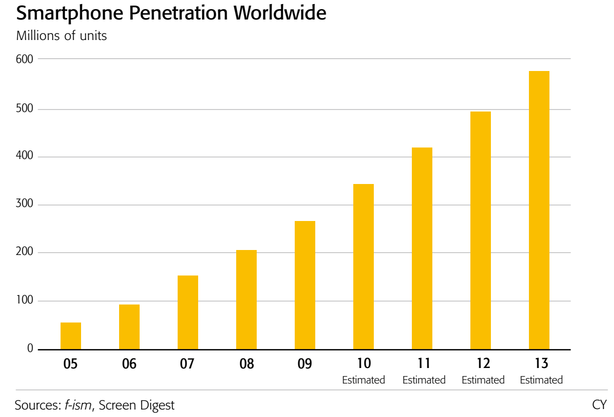
In 2009, the home video game software market for current-generation platforms contracted year on year. Due to slumping consumer spending, this market continued to decelerate in 2010. On the other hand, 3D technology, new controllers, and other technological innovations promise to reignite the home video game software market. While new game platforms are attracting infrequent users mainly based on "casual" game content, game content for current-generation platforms is catering to the increasingly sophisticated needs of core video game fans. As the industry enters an uncharted competitive territory, only manufacturers that can painstakingly design products and services to suit ever more diverse user needs will survive.

Home Video Game Software—Market Size in Main Regions



Source: *Famitsu Game White Paper 2010*

Smartphone Penetration Worldwide



Sources: *f-ism*, Screen Digest

Toy, Network Content, and Animation Markets

Toy Market—Marketing Targeting Broader Groups Intensifies

In fiscal 2009, Japan's toy market, excluding home video game platforms and software, declined 3.7% year on year, to ¥313.1 billion*, reflecting increasingly conservative, thrifty consumer sentiment and falling birth rates. Despite this decline, card games and other toys for boys and edutainment toys posted robust sales.

In recent years, initiatives by manufacturers to expand the toy market have typically involved developing and marketing products aimed at groups other than children. For example, manufacturers have opened up new markets based on hobby toys that parents and children can enjoy and toys that promote the well-being of senior citizens.

* Source: Yano Research Institute Ltd.

Network Content Market—New Earnings Models Take Shape

In Japan, there were more than 110 million mobile phone subscriptions as of March 31, 2010. Of these, 96.4%* were for mobile phones with Internet connectivity. Recently, mobile Internet users have increased and content has become more varied and rich due to networks with wider bandwidths and higher speeds and the popularization of flat-rate plans.

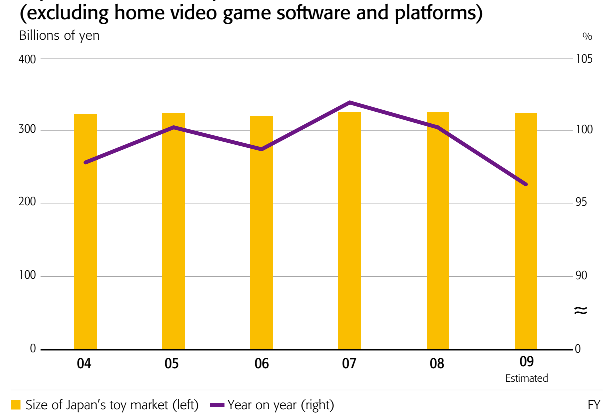
The market for online games for PCs continues to grow centered on role-playing games with numerous participants. In particular, recent years have seen a surge in the momentum of this growth with the emergence of Internet games users can play casually via Internet browsers and social games linked with SNS. In conjunction with these trends, new business models are emerging such as charging by item or pay-per-use systems.

* Ministry of Internal Affairs and Communications

Animation Market—Computer-Graphics (CG) and 3D Animation Emerge as New Markets

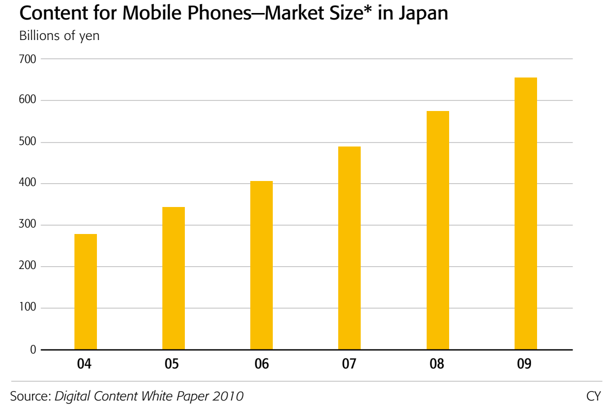
After peaking in 2006, the number of animation series broadcast on television decreased. Very recently, this downward trend has begun to flatten out. Diversified broadcasting, in terms of TV stations, broadcast days, and broadcast times, has become established and caters to the preferences of a range of different viewers. There has been a pronounced trend toward some animation works that were originally in video format becoming hits after showing at movie theaters. Other animation works are seeing steady sales growth due to demand for high-quality products from core fans. Further, the evolution of technologies for CGI animation as well as 3D-compatible animation are attracting interest as keys to fresh growth in the animation market.

Toys—Market Size in Japan (excluding home video game software and platforms)



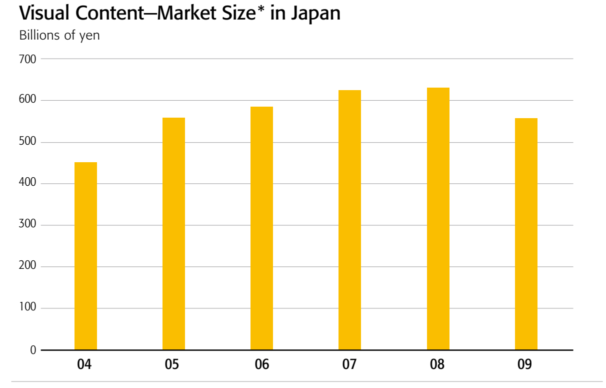
Source: Yano Research Institute Ltd.
* Shipment basis

Content for Mobile Phones—Market Size* in Japan



Source: *Digital Content White Paper 2010*
* Estimated market size

Visual Content—Market Size* in Japan



Source: *Digital Content White Paper 2010*
* Estimated market size

Market Data

The Market

Number of Pachinko Halls

Number of halls

CY	2005	2006	2007	2008	2009
Number of pachinko halls with pachinko machines installed	13,163	12,588	12,039	11,800	11,722
Number of pachinko halls with pachislot machines installed	2,002	2,086	1,546	1,137	930
Total	15,165	14,674	13,585	12,937	12,652

Source: National Police Agency. Number of pachinko halls with pachinko machines installed includes halls that combine installations of pachinko machines, pachislot machines, arrange-ball machines, and other machines.

Pachislot Machine and Pachinko Machine Sales, Installed, and Market Scale

CY/FY*		2005	2006	2007	2008	2009
Pachislot machines	Machine sales (units)	1,786,292	1,647,759	1,744,308	913,053	765,924
	Machines installed (units)	1,936,470	2,003,482	1,635,860	1,448,773	1,347,176
	Market scale (millions of yen)	536,539	490,959	502,501	247,860	225,860
Pachinko machines	Machine sales (units)	4,047,999	3,837,960	3,173,725	3,349,146	3,332,984
	Machines installed (units)	2,960,939	2,932,952	2,954,386	3,076,421	3,158,799
	Market scale (millions of yen)	869,940	898,646	868,623	918,514	978,937

Sources: National Police Agency (machines installed) and Yano Research Institute Ltd. (machine sales and market scale)
* Number of installed machines is on a calendar year basis. Number of machine sales and market scale information is on a fiscal year basis (settlement dates from July to June).

Share of Annual Pachislot Machine Sales

FY*	2005		2006		2007		2008		2009	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	**Sammy**	**34.0%**	**Sammy**	**31.8%**	**Sammy**	**21.8%**	Company Y	18.8%	**Sammy**	**21.3%**
2	Company D	13.2%	Company D	12.1%	Company U	11.0%	Company S	14.6%	Company S	13.6%
3	Company H	10.5%	Company H	10.9%	Company S	9.7%	**Sammy**	**13.5%**	Company U	13.1%
4	Company Y	8.4%	Company Y	10.5%	Company D	8.7%	Company H	7.4%	Company Y	9.5%
5	Company S	6.3%	Company K	9.4%	Company Y	8.7%	Company K	6.5%	Company K	7.8%

Source: Yano Research Institute Ltd.
* Settlement dates from July to June

Share of Annual Pachinko Machine Sales

FY*	2005		2006		2007		2008		2009	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Company S	24.7%	Company S	23.1%	Company S	25.8%	Company S	24.2%	Company S	18.0%
2	Company S	18.3%	Company K	21.0%	Company S	22.9%	Company S	13.5%	Company S	17.2%
3	Company K	9.6%	Company S	16.7%	Company K	16.1%	**Sammy**	**11.7%**	Company K	12.8%
4	Company N	7.9%	Company N	6.6%	Company N	6.4%	Company K	10.5%	Company N	11.9%
5	**Sammy**	**7.1%**	Company D	5.1%	Company D	5.3%	Company N	10.4%	**Sammy**	**10.8%**
			Sammy	**3.5%**	**Sammy**	**3.4%**				

Source: Yano Research Institute Ltd.
* Settlement dates from July to June

Amusement Machine and Amusement Center Operations Markets

FY	2004	2005	2006	2007	2008
Net sales of amusement machines (millions of yen)	180,550	199,227	223,357	219,061	196,164
Net sales from amusement center operations (millions of yen)	649,223	682,458	702,857	678,099	573,104
Number of amusement centers	10,109	9,515	9,091	8,652	8,137
Year-on-year comparison of sales at existing amusement centers (%)	96.0	98.7	97.8	92.2	97.8

Source: JAMMA, AOU, NSA, *Amusement Industry Survey 2008*.

Home Video Game Software—Market Size in Main Regions

Billions of yen

CY	2004	2005	2006	2007	2008	2009
Japan	316.3	290.8	363.9	360.5	332.1	326.2
Europe	477.7	546.7	604.0	888.3	948.5	874.5
North America	667.6	711.7	750.4	991.9	1,179.3	1,071.2

Source: *Famitsu Game White Paper 2010*

Mobile Phone Content Market Scale*

Billions of yen

CY	2004	2005	2006	2007	2008	2009
Mobile phone content	278.3	343.8	405.6	489.3	574.8	655.6
Visual content	1.1	1.4	2.4	3.6	6.2	11.2
Music content	137.4	162.3	163.1	172.0	177.3	171.8
Game content	41.2	58.9	74.8	84.8	86.9	88.4
Text content	98.6	121.2	165.3	228.9	304.4	384.2

Source: *Digital Content White Paper 2010*
* Estimated market data

Domestic Toy Market Scale (Excluding Home Video Game Consoles and Software)

Billions of yen

FY*	2004	2005	2006	2007	2008	2009
Domestic shipments	322.5	323.0	318.7	324.7	325.3	313.2
Domestic retail sales	510.8	510.5	504.3	512.8	516.1	493.3

Source: Yano Research Institute Ltd.
* Settlement dates from July to June

Domestic Visual Content Market Scale*

Billions of yen

CY	2004	2005	2006	2007	2008	2009
Packaged visual content	450.6	558.3	584.3	623.8	630.7	557.2
Network visual content	17.3	29.2	36.8	44.4	51.3	55.3

Source: *Digital Content White Paper 2010*
* Estimated market data

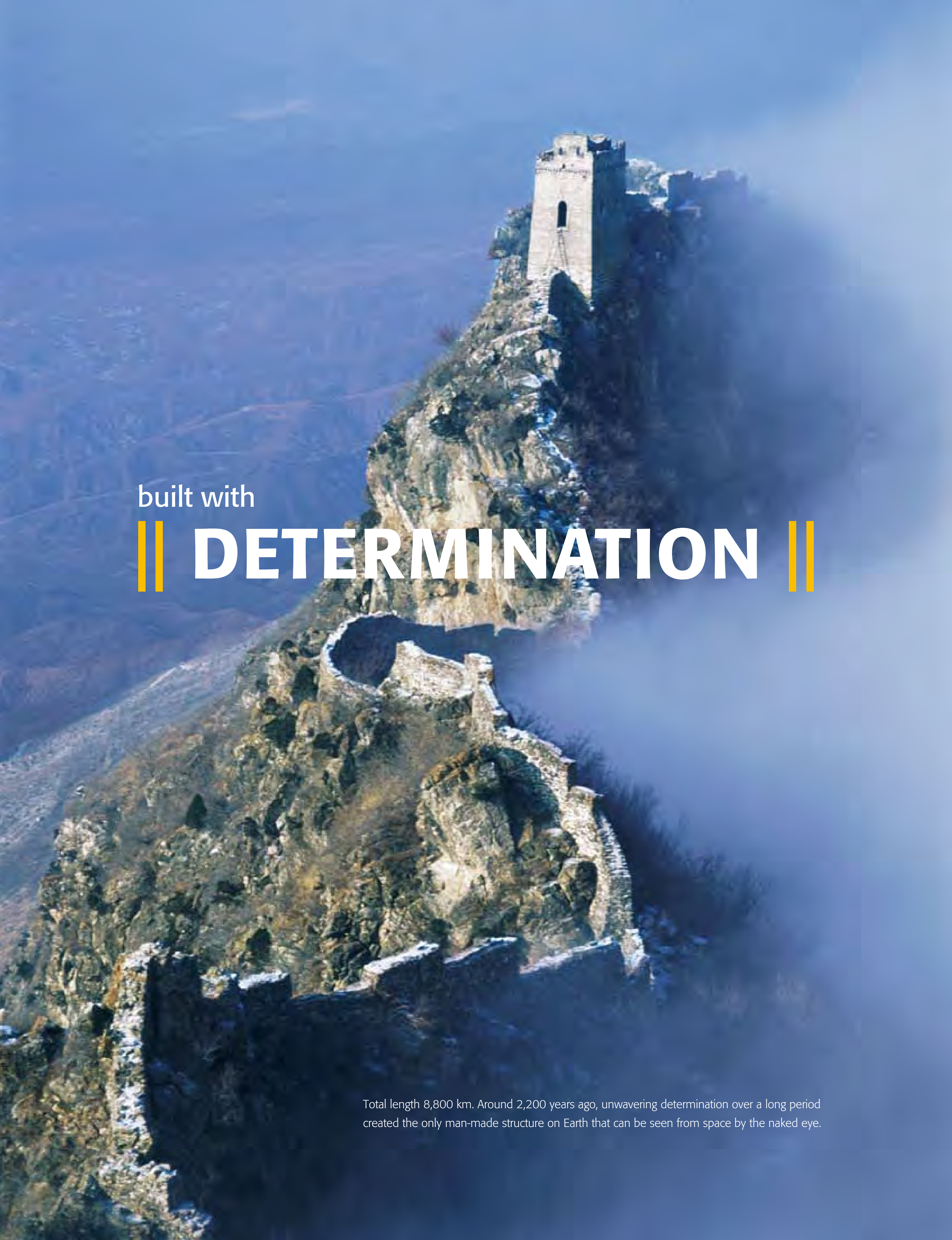
DETERMINATION

Annual Report 2010

SEGA SAMMY HOLDINGS

Contents

3rd Century BC

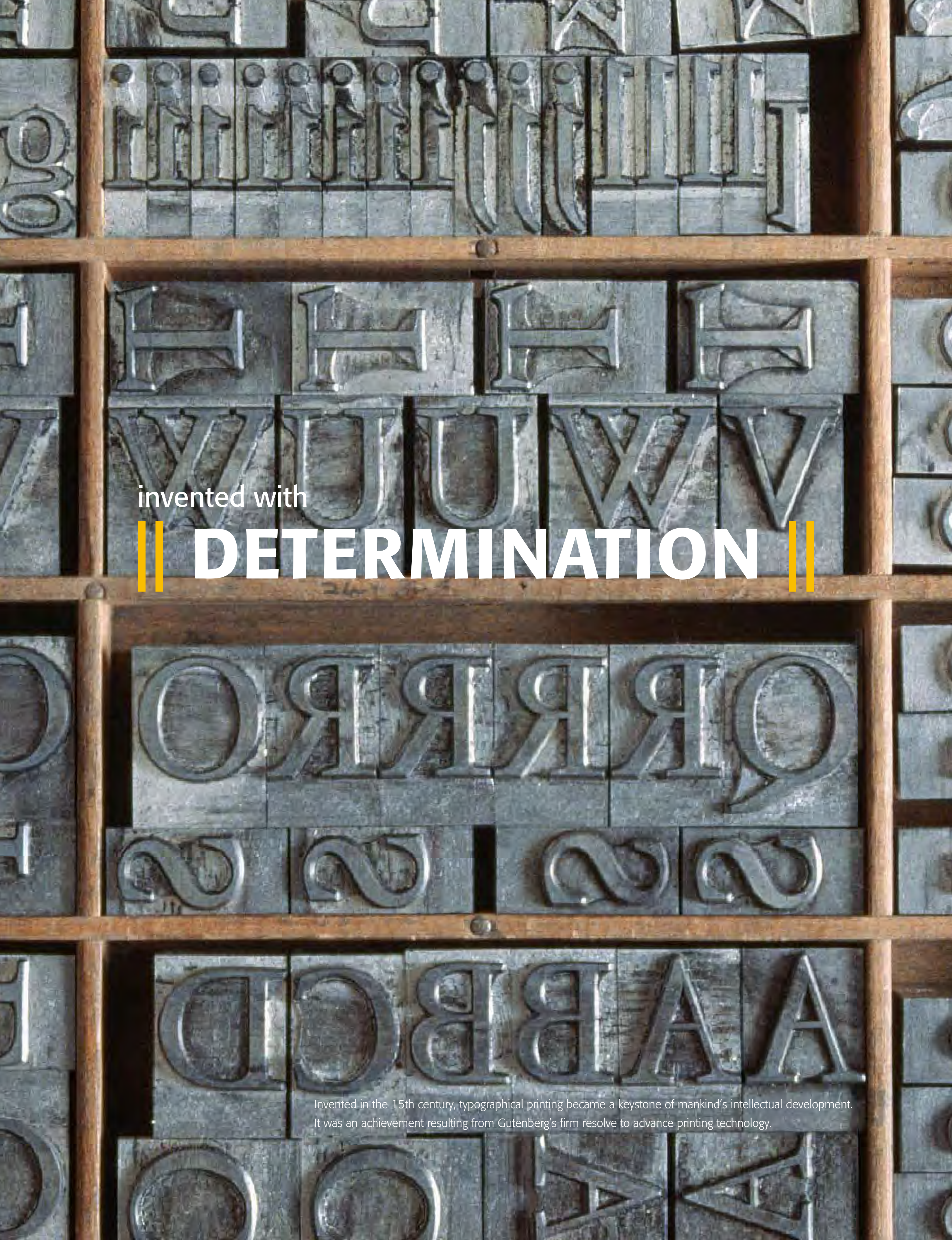


built with

DETERMINATION

Total length 8,800 km. Around 2,200 years ago, unwavering determination over a long period created the only man-made structure on Earth that can be seen from space by the naked eye.

15th Century



invented with

DETERMINATION

Invented in the 15th century, typographical printing became a keystone of mankind's intellectual development. It was an achievement resulting from Gutenberg's firm resolve to advance printing technology.

20th Century

reached with

DETERMINATION

In 1969, man ventured where no one had gone before.
Without intelligence and strong commitment, the historic feat of landing men on the moon and bringing them back safely would not have been possible.

Today, they still inspire us.

DETERMINATION

Accomplishing Structural Reforms

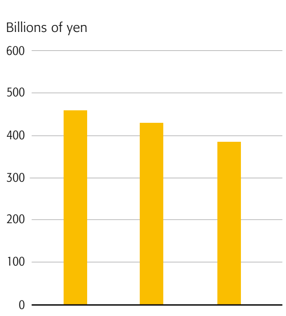
+ 339.0%	As reforms to date began bearing fruit, we posted a 339.0%, or ¥28.3 billion, year-on-year increase in operating income, to ¥36.7 billion, for fiscal 2010. p. 12–17
+ 39,000 units	For the first time in five fiscal years, unit sales of pachislot machines grew thanks to contributions from such titles as *Pachislot Psalms of Planets Eureka Seven*, which shipped 56,000 units. p. 30–32
69.1%	In fiscal 2010, the pachinko machine business' new development system not only produced a steady stream of hit titles but also dramatically improved profitability by reusing parts and increasing pachinko board sales to account for 69.1% of pachinko machine business unit sales. p. 18–20
Reactivating the market	Launched based on the *ALL.Net P-ras* revenue-sharing business model—which improves investment efficiency for amusement center operators while securing stable long-term revenues for the Group—the amusement arcade machine *BORDER BREAK* earned a high level of utilization. p. 33–34
Closed or sold 66 amusement centers	Aiming to improve earnings, we closed or sold 66 amusement centers in Japan that had inadequate profitability or potential. p. 35
Into the black for the first time in 3 years	The home video game software business enhanced its profitability by narrowing down the number of titles in Japan. As a result, the Consumer Business segment achieved profitability for the first time in three years. p. 21–23
Cross-media strategy	Establishing Bakugan Limited Liability Partnership (Bakugan LLP) marked the beginning of full-fledged efforts to maximize the value of *BAKUGAN* as an intellectual property in Japan by rolling it out across a range of media. p. 24–27

Consolidated Financial Highlights

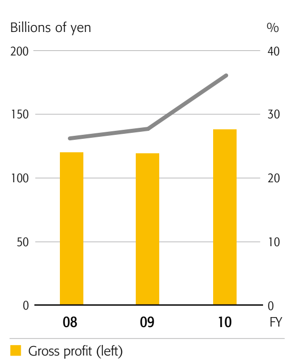
SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years Ended March 31

	Millions of yen, unless stated otherwise					Thousands of U.S. dollars[1]
	2006	2007	2008	2009	2010	2010
Net sales	¥553,241	¥528,238	¥458,977	¥429,195	¥384,679	$4,134,116
Pachinko and Pachislot Machine Business[2]	265,632	211,540	145,583	161,691	160,376	1,723,552
Amusement Machine Sales Business[2]	71,513	75,455	71,062	61,926	45,117	484,875
Amusement Center Operations[2]	106,246	103,850	91,227	71,310	54,788	588,808
Consumer Business[2]	90,353	119,593	141,791	131,361	121,575	1,306,561
Others[2]	19,497	17,800	9,314	2,904	2,821	30,318
Gross profit	229,012	203,079	120,403	119,092	138,867	1,492,397
Selling, general and administrative expenses	109,868	126,549	126,232	110,728	102,154	1,097,846
Operating income (loss)	119,144	76,530	(5,829)	8,363	36,712	394,550
Pachinko and Pachislot Machine Business	99,848	71,102	8,444	14,528	29,502	317,059
Amusement Machine Sales Business	12,177	11,683	7,152	6,890	7,094	76,242
Amusement Center Operations	9,244	132	(9,807)	(7,520)	(1,338)	(14,384)
Consumer Business	1,977	1,749	(5,989)	(941)	6,332	68,053
Others	(1,713)	(1,345)	(75)	353	336	3,611
Corporate and eliminations	(2,389)	(6,791)	(5,554)	(4,947)	(5,213)	(56,031)
EBITDA[3]	140,999	104,578	39,782	35,007	53,887	579,134
Net income (loss)	66,222	43,456	(52,471)	(22,882)	20,269	217,832
Capital expenditures	37,650	59,272	50,422	26,610	16,164	173,716
Depreciation and amortization	21,855	28,048	45,611	26,644	17,175	184,584
R&D expenses, content production expenses	36,338	52,107	65,385	59,676	41,502	446,018
Net cash provided by (used in) operating activities	83,228	60,623	(25,879)	32,199	54,998	591,062
Net cash provided by (used in) investing activities	(54,706)	(75,395)	(10,399)	936	(7,640)	(82,108)
Net cash used in financing activities	(21,153)	(1,713)	(7,580)	(7,653)	(3,401)	(36,550)
Free cash flows[4]	28,522	(14,772)	(36,278)	33,135	47,358	508,954
Total assets	522,914	549,940	469,643	423,938	423,161	4,547,680
Total net assets / shareholders' equity[5]	316,680	358,858	281,628	242,532	256,770	2,759,492
Number of shares outstanding (shares)	283,229,476	283,229,476	283,229,476	283,229,476	283,229,476	

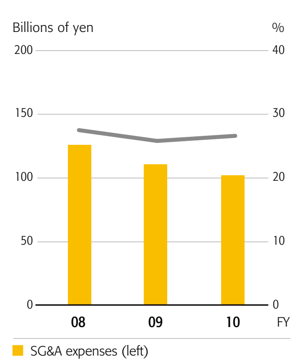
Net Sales



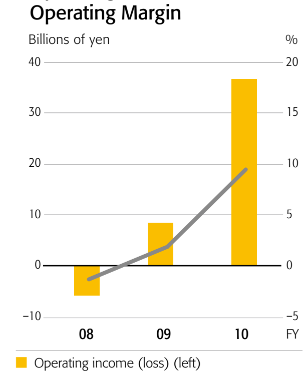
Gross Profit/Gross Profit Margin



SG&A Expenses/SG&A Ratio



Operating Income (Loss)/ Operating Margin



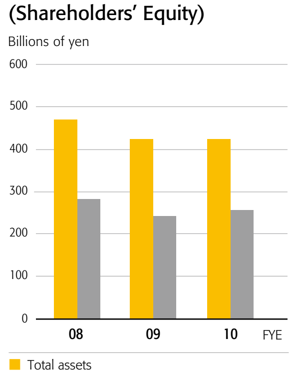
Per share data	2006	2007	2008	2009	2010	2010
	Yen					U.S. dollars[1]
Net income (loss)	¥ 261.06	¥ 172.47	¥ (208.26)	¥ (90.83)	¥ 80.46	$ 0.86
Diluted net income	260.35	172.35	—	—	—	—
Total net assets / shareholders' equity[5]	1,254.14	1,341.80	1,030.09	882.47	937.80	10.07
Cash dividends	80.00	60.00	45.00	30.00	30.00	0.32

Key ratios	2006	2007	2008	2009	2010
	%				
Gross profit margin	41.4	38.4	26.2	27.7	36.1
SG&A ratio	19.9	24.0	27.5	25.8	26.6
Operating margin	21.5	14.5	−1.3	1.9	9.5
R&D expenses to net sales	6.6	9.9	14.2	13.9	10.8
ROE	23.0	13.3	−17.6	−9.5	8.8
ROA[6]	24.8	15.2	−1.6	1.5	8.5
Total net assets ratio	60.6	61.5	55.3	52.4	55.8

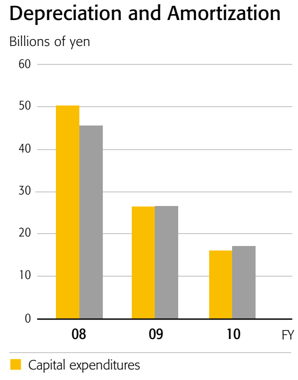
Main segment benchmarks	2006	2007	2008	2009	2010
Pachislot machines unit sales	607,106	523,422	380,688	123,286	162,932
Pachinko machines unit sales	288,895	132,981	108,184	391,831	360,171
Number of domestic amusement centers	462	449	363	322	260
SEGA's existing domestic amusement center sales year on year (%)	103.3	95.8	89.0	92.4	91.7
Home video game software unit sales (thousands)	16,400	21,270	26,990	29,470	26,750

1 Yen amounts have been translated into U.S. dollars solely for convenience at the rate of ¥93.05 to U.S. $1, the prevailing exchange rate at March 31, 2010.
2 Net sales to outside customers
3 EBITDA = Operating income (loss) + Depreciation and amortization
4 Free cash flows = Net cash provided by (used in) operating activities + Net cash provided by (used in) investing activities
5 Following the enactment of the new Japanese Corporate Law in 2006, the Company presents total net assets for the fiscal years ended March 31, 2007 and 2008, which represent the shareholders' equity figure used in previous years plus minority interests and share subscription rights.
6 ROA = Ordinary income ÷ Total assets

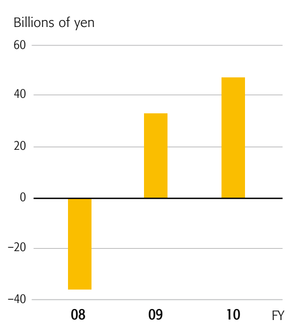
Total Assets/Total Net Assets (Shareholders' Equity)



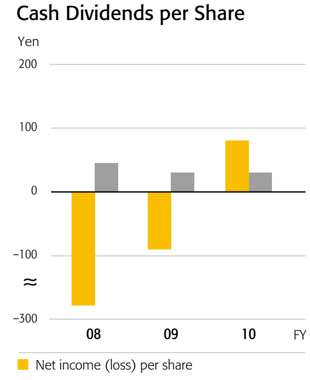
Capital Expenditures/ Depreciation and Amortization



Free Cash Flows



Net Income (Loss) per Share/ Cash Dividends per Share



Discussion with Management

Okitane Usui
President, Representative Director, and Chief Operating Officer, SEGA CORPORATION

Hajime Satomi
Chairman of the Board and Chief Executive Officer, SEGA SAMMY HOLDINGS INC.

Keishi Nakayama
President, Representative Director, and Chief Operating Officer, Sammy Corporation

Determined to improve earnings even further and continue building corporate value, the SEGA SAMMY Group will carry through decisive business management reforms and steer toward resurgence.

Overview of Fiscal 2010 Business Results

In fiscal 2010, ended March 31, 2010, although net sales declined 10.4% year on year, to ¥384.6 billion, operating income increased a sharp 339.0%, to ¥36.7 billion. The operating income margin improved 7.6 percentage points, to 9.5%. The following summarizes the main factors that led to these business results.

Lower net sales were principally due to a 27.1% decrease in net sales from the Amusement Machine Sales Business segment, which resulted from the absence of the previous fiscal year's major title launches and a 23.2% year-on-year decrease in net sales from the Amusement Center Operations segment because there were fewer amusement centers.

Meanwhile, by improving their profitability, all business segments contributed to the significant increase in earnings. The biggest contributor to earnings was the Pachinko and Pachislot Machine Business segment. Thanks to successful measures to improve profitability, such as increasing high-margin pachinko board sales as a percentage of pachinko machine unit sales, the Pachinko and Pachislot Machine Business segment saw operating income rise 103.1%, to ¥29.5 billion. Also, the Consumer Business segment contributed to business results by achieving operating income of ¥6.3 billion through efforts to narrow down the number of titles and thereby heighten the efficiency of its home video game software development. In addition, the Amusement Center Operations segment reduced operating loss considerably, from ¥7.5 billion for the previous fiscal year to ¥1.3 billion, by curbing cost of sales and operating expenses through the closure or sale of amusement centers with inadequate profitability or potential. And, the Amusement Machine Sales Business segment performed solidly as the titles that it marketed continued enjoying high utilization rates based on a revenue-sharing business model.

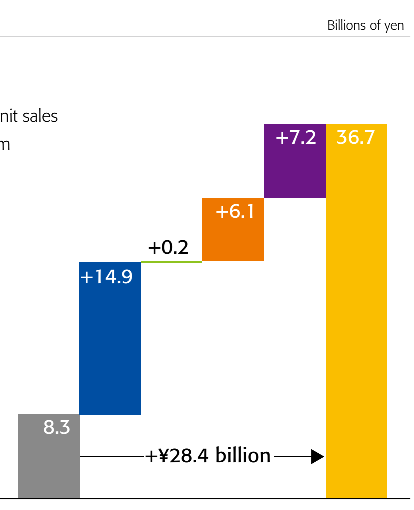
Net other expenses shrank significantly, from ¥28.3 billion for the previous fiscal year to ¥9.6 billion. As a result, for fiscal 2010 the Group achieved net income of ¥20.2 billion, compared with net loss of ¥22.8 billion for the previous fiscal year.

Business restructuring that reflected changing business conditions and built an unshakable earnings platform enabled our business results for fiscal 2010.

In the following pages, the senior management team discusses the SEGA SAMMY Group's reforms to date, outstanding tasks, and strategic direction going forward. Hajime Satomi, Chairman of the Board and Chief Executive Officer, offers a Groupwide perspective. Insights into the Group's main business areas are provided by the presidents of core operating companies: Keishi Nakayama, President, Representative Director, and Chief Operating Officer of Sammy Corporation and Okitane Usui, President, Representative Director, and Chief Operating Officer of SEGA CORPORATION.

Main Contributors to Higher Operating Income

Pachinko and Pachislot Machine Business	• Higher pachislot unit sales • Lower parts procurement costs • Increase in pachinko board sales as a percentage of pachinko machine unit sales • Reduction of cost of sales and operating expenses due to withdrawal from the pachinko and pachislot machine peripheral business • Revision of pricing strategy
Amusement Machine Sales Business	• Increase in revenue from revenue-sharing business model • Brisk sales of CVT kits* • Reduction of R&D expenses/content production expenses
Amusement Center Operations	• Revision of amusement center portfolio • Reduction of depreciation and other operating expenses
Consumer Business	• Improvement in development efficiency through narrowing down of the number of titles in Japan • Reduction of R&D expenses/content production expenses



* Kits for upgrading boards, software, and exteriors

Discussion with Management

Heading toward Resurgence

Reforms to Date

Q. What prompted your business restructuring of the past two years?

A. Satomi We have reformed mainly because business conditions have changed dramatically.

In fiscal 2005—the first fiscal year after the management integration of SEGA CORPORATION and Sammy Corporation—and fiscal 2006, the SEGA SAMMY Group recorded operating income of more than ¥100 billion due to favorable sales of pachislot machines by the Pachinko and Pachislot Machine Business segment and the explosive popularity of the Amusement Center Operations segment's kids' card games. From fiscal 2007, however, our profitability began to change.

This change was triggered by the revision of regulations pertaining to the Entertainment Establishments Control Law*(2004 regulatory revision), which affected the Pachinko and Pachislot Machine Business segment. In the pachinko and pachislot machine market, the 2004 regulatory revision resulted in decreases in pachislot machine installations and unit sales. This significantly affected the business results of the segment, one of the Group's earnings mainstays. On the other hand, the 2004 regulatory revision liberalized the development of pachinko machines, invigorating the pachinko machine market. However, the Group did not fully benefit from this upturn because it had been unable to establish sufficient brand power in the market.

During the same period, improving the profitability of SEGA emerged as a task. The operating company faced problems. The popularity of kids' card games, which contribute significantly to earnings, had reached the end of a cycle. Also, in the Amusement Center Operations segment sales at existing amusement centers were sluggish. Moreover, the Consumer Business segment saw lackluster sales of game software in Japan.

To address these problems, from May 2008 the Group began revising its overall business structure. Furthermore, the reduction in consumer spending accompanying the worldwide recession from fall 2008 became a headwind for the Group. Confronted with business conditions that were tougher in all respects, we stepped up reform.

* Rules that stipulate the approval process that must be followed by machine manufacturers from development to sales

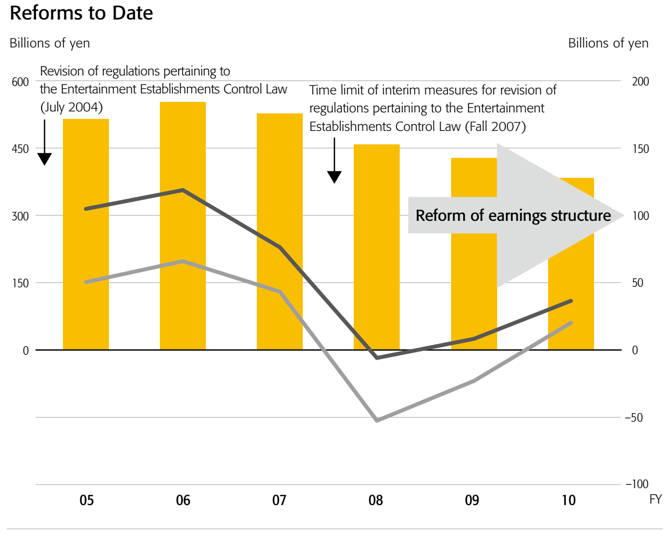
Q. Could you summarize your business restructuring efforts so far?

A. Satomi We have decisively strengthened competitiveness and revised cost structure throughout the Group.

The Group's businesses cover a range of entertainment areas. Therefore, we reformed businesses based on the changes in market conditions they faced.

In the Pachinko and Pachislot Machine Business segment, our strategy had two main thrusts. First, we took offensive measures to claim a larger share of the pachinko and pachislot machine market by

Reforms to Date



Main Business Restructuring

Pachinko and Pachislot Machine Business	• Strengthened pachinko machine business (transferred to new development system/increased pachinko board sales as a percentage of pachinko machine unit sales) • Withdrew from the pachinko and pachislot machine peripheral business • Reduced cost by reusing parts • Improved profit margin by revising pricing strategy
Amusement Machine Sales Business	• Stopped developing certain large, high-end machines • Reduced R&D expenses/content production expenses • Introduced new business model (revenue-sharing business model)
Amusement Center Operations	• Closed or sold amusement centers with inadequate profitability or potential
Consumer Business	• Narrowed down number of titles under development • Reduced R&D expenses/content production expenses
Other Reforms	• Rightsized workforce by introducing voluntary early retirement plan (SEGA/SEGA TOYS CO., LTD.) • Implemented measures in earnest to create Group synergies (established Bakugan Limited Liability Partnership and SEGA SAMMY VISUAL ENTERTAINMENT INC.*)

* Currently MARZA ANIMATION PLANET INC.

strengthening development capabilities. Second, we strengthened profitability. Our strengthening of development capabilities focused on growing our share of the pachinko market. This was because, compared with the pachislot machine market, the pachinko machine market is larger and offers the Group a huge amount of leeway to extend market share. Our main initiative involved building a market-oriented development system. This produced benefits. The utilization and outside evaluation of our pachinko machines rose considerably, and our share of machine installments grew. Also, heightening the appeal of products helped increase high-margin pachinko board sales as a percentage of pachinko machine unit sales, significantly improving the segment's profitability.

Measures to strengthen profitability included reusing parts and reducing cost by curbing parts procurement costs. Also, we withdrew from the pachinko and pachislot machine peripheral business, which was unprofitable, and concentrated management resources on our main businesses.

In the Amusement Machine Sales Business segment, the Amusement Center Operations segment, and the Consumer Business segment, the main theme was streamlining cost to match the scale of earnings. In the Amusement Center Operations segment, we continued closing or selling amusement centers with inadequate profitability or potential. Also, we reduced cost of sales and operating expenses, focusing on personnel expenses. The Consumer Business segment scrutinized return on investment in the home video game software business and concentrated development and marketing only on titles promising high returns. Further, the segment closed an overseas development studio. The Amusement Machine Sales Business segment stopped developing certain large, high-end machines for which demand had been declining. These initiatives sought to ensure return on R&D expenses and investment.

Other initiatives revised cost structure from a Groupwide perspective. For example, we introduced a voluntary early retirement plan at a listed subsidiary and withdrew from unprofitable businesses by closing a subsidiary.

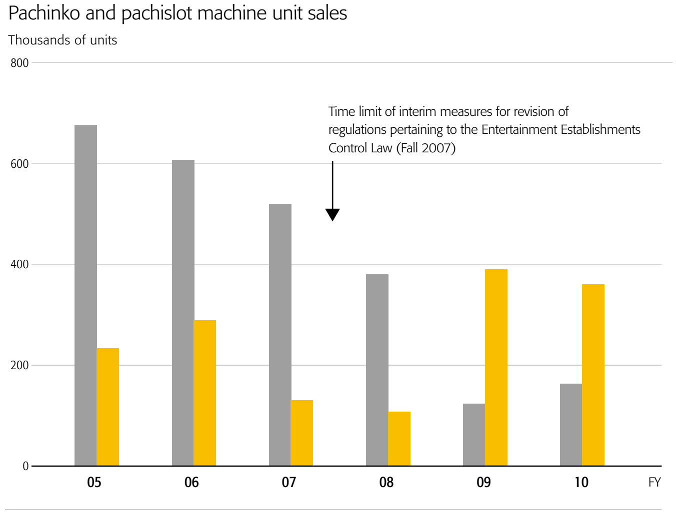
Q. How do you view the fiscal 2010 business results?

A. Satomi Although we increased earnings substantially, I am by no means complacent about our current standing.

I think we were able to show the benefits of reforms to date. In fiscal 2010, all business segments improved earnings year on year, and consolidated earnings rose significantly. However, this does not mean that I am satisfied with our present performance. Firstly, if we compare fiscal 2010 business results with those of fiscal 2005 and 2006, when we posted operating income above ¥100 billion, there is room to grow earnings and improve profit margins. Secondly, the recovery in earnings for fiscal 2010 was due to revision of cost structure. In order to grow earnings continuously, in addition to cost reduction efforts, we need to place net sales back on a growth track. To date, we have completed 80% of our business restructuring. In fiscal 2011, I want to complete this restructuring while setting a course for net sales growth.

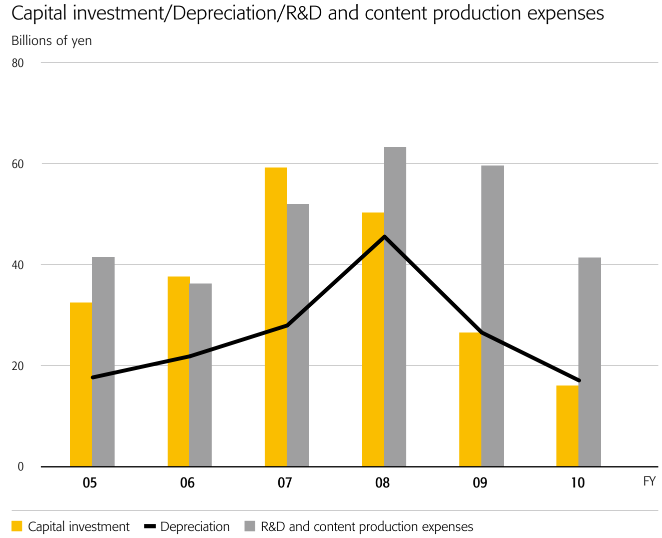
Strengthened Pachinko Machine Business

Pachinko and pachislot machine unit sales



Reduced Expenses Rigorously

Capital investment/Depreciation/R&D and content production expenses



Discussion with Management

Strategies Going Forward

Q. What are your targets and priority measures for fiscal 2011?

A. Satomi We are steering toward a resurgence in business results.

In fiscal 2011, the SEGA SAMMY Group is setting course for a resurgence in business results. We are targeting year-on-year increases of 4.0% in net sales, to ¥400 billion, and 9.0% in operating income, to ¥40.0 billion.

The driver of this growth will be the Pachinko and Pachislot Machine Business segment, which will likely see net sales rise 25% and earnings increase more than 18% from fiscal 2010 levels. Market conditions are challenging. However, in the pachinko machine business we aim to erode the market shares of the leading companies. As for the pachislot machine business, our focus is on building a dominant market share. Further, we intend to increase the revenue and earnings of the entire segment synergistically by strengthening coordination among Group companies through standardization of parts and development collaboration. In the Amusement Machine Sales Business segment, we will invigorate Japan's market by promoting the spread of revenue-sharing while developing overseas business in earnest. Plans call for developing an operational platform from which to target Asia's markets, with a particular focus on China. Regarding the Amusement Center Operations segment, we want to improve profitability by continuing to revise our portfolio of amusement centers and strengthening operational management capabilities. Also, the Consumer Business segment's home video game software business will focus on reducing overseas titles. At the same time, the segment will cater to such new markets as content for social networking services and smartphones.

In addition, plans call for building systems that enable the mutual use of management resources within the Group and further strengthen its competitiveness as a comprehensive entertainment company.

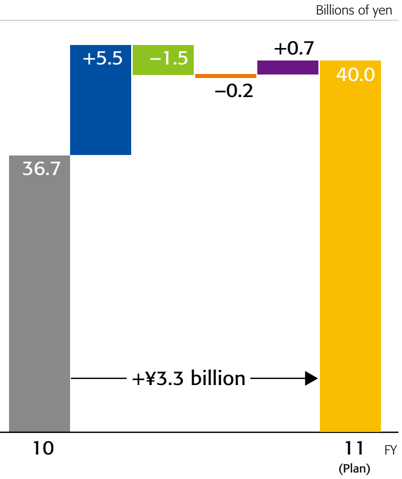
Fiscal 2011 Targets*

Billions of yen	2010	2011	YOY change
Net sales	384.6	400.0	4.0%
Pachinko and Pachislot Business	160.3	200.0	24.8%
Amusement Machine Sales Business	45.1	53.0	17.5%
Amusement Center Operations	54.7	44.0	−19.6%
Consumer Business	121.5	100.0	−17.7%
Operating income	36.7	40.0	9.0%
Pachinko and Pachislot Business	29.5	35.0	18.6%
Amusement Machine Sales Business	7.0	5.5	−21.4%
Amusement Center Operations	(1.3)	(1.5)	–
Consumer Business	6.3	7.0	11.1%
Corporate and eliminations	(5.2)	(6.0)	–
Net income	20.2	22.0	8.9%

* Numerical targets for fiscal 2011 are based on information available when figures were announced (May 14, 2010) and the judgment of business managers. Please be aware that these targets are subject to risks and uncertainties and that actual future business results could differ significantly from these targets due to a variety of factors. Further, the Company undertakes timely disclosures to stock exchanges of the latest information, which it also releases on the IR page of its web site (URL http://www.segasammy.co.jp/english/ir/).

Fiscal 2011 Operating Income—Main Positive and Negative Factors

Pachinko and Pachislot Machine Business	• Increase in pachinko and pachislot machine unit sales • Reduction of parts procurement costs
Amusement Machine Sales Business	• Increase in R&D expenses/content production expenses • Increase in overhead costs
Amusement Center Operations	• Decrease in number of existing amusement centers in Japan
Consumer Business	• Closure of overseas development subsidiary, reduction of cost of sales and operating expenses • Reduction of R&D expenses/content production expenses • Improvement in profitability of listed subsidiaries



Q. What specific measures are you taking to create Group synergies?

A. Satomi We are moving forward with a project tasked with maximizing the value of character intellectual properties.

In November 2009, we established Bakugan Limited Liability Partnership (Bakugan LLP) through a joint capital investment by SEGA TOYS CO., LTD., TMS ENTERTAINMENT, LTD., SEGA CORPORATION, Sammy Corporation, and Sammy NetWorks Co., Ltd. SEGA TOYS and Canadian toy manufacturer Spin Master Ltd. developed the character toy *BAKUGAN*. Animation based on *BAKUGAN* is broadcast, and related products are marketed, in 120 countries. Bakugan LLP aims to maximize the value of *BAKUGAN* as an intellectual property by marketing products across a range of media. In Japan, the new company controls overall production and merchandising, animation, toys, kids' card games, content for PCs and mobile phones, and licensed products. Also, Bakugan LLP will heighten awareness throughout the Group of the importance of concerted efforts that create synergies. This is why Sammy, despite not being directly related to *BAKUGAN*, has a stake in Bakugan LLP. We hope this project will initiate the spread of structures for multifaceted value creation throughout the Group.

For further details, please see the feature "Exploiting Intellectual Properties to the Utmost" on pages 24 to 27.

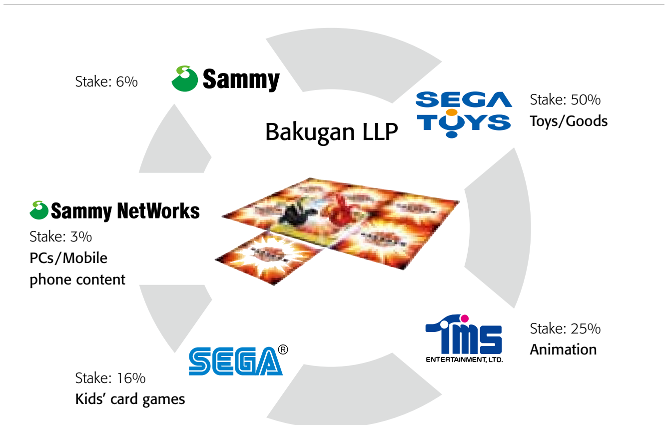
Q. What is your approach to cash dividends and capital policy?

A. Satomi Our policy is to pay cash dividends that reflect earnings appropriately while investing retained earnings in growth business areas.

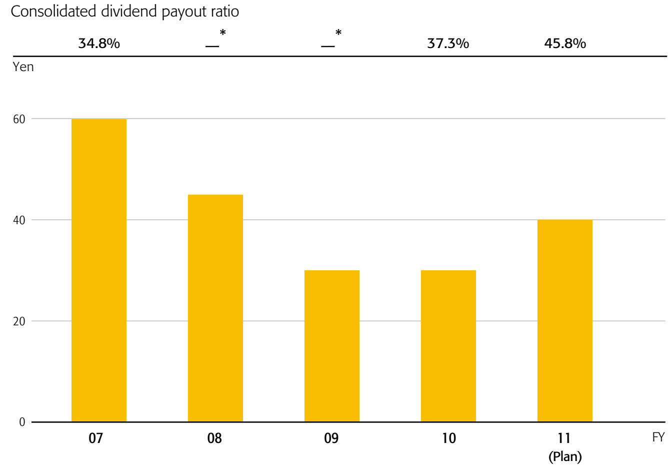
For fiscal 2010, the Group paid full-year cash dividends of ¥30.00 per share, comprising interim cash dividends and year-end cash dividends of ¥15.00 per share. As a result, the consolidated dividend payout ratio was 37.3%. For fiscal 2011, we plan to pay interim cash dividends of ¥20.00 per share and year-end cash dividends of ¥20.00 per share. This will give full-year cash dividends of ¥40.00 per share, up ¥10.00 from fiscal 2010. We expect the consolidated dividend payout ratio to increase to 45.8%. Going forward, we intend to continue viewing returns to shareholders as our most important business management task and paying cash dividends that reflect earnings appropriately.

Meanwhile, steering toward resurgence from the current fiscal year, we will give greater importance to strategic investment as an option for strengthening existing business areas and accelerating the development of new businesses. Our policy is to use retained earnings effectively for strategic investment by carefully selecting targets.

Aiming to Maximize Intellectual Property Value through Concerted Multimedia Roll-outs by the Group



Full-Year Cash Dividends



Full-year cash dividends per share

* Not applicable because recorded net loss for the fiscal years

Discussion with Management

Making Sammy a Consistent Winner

Q. Why did you transfer to a new development system in the Pachinko and Pachislot Machine Business segment, and what have the benefits been?

A. Nakayama The new system has improved average utilization rates substantially.

When I became Sammy's president in May 2008, I made it my mission to build an organization that can generate earnings steadily no matter how business conditions change. In my first fiscal year, we identified Sammy's problems and focused on initiatives to overcome them. Our first initiative was to transfer to a new development system that would steadily provide hit titles and increase market share.

The reputation and brand power of pachinko and pachislot machines correlates closely to utilization rates* in pachinko halls. Pachinko and pachislot machines with high utilization rates, which represent player endorsement, contribute to the cash flows of pachinko halls. Therefore, we adopted utilization rates as an important indicator because they have a major effect on pachinko and pachislot machine unit sales. Against this backdrop, we strengthened collaboration among development divisions, production divisions, and marketing divisions, which are our points of contact with players and pachinko halls. This involved shifting to a new development system that better reflects market perspectives in development processes. Comprising key personnel from the three divisions, Product Strategy Committees lead the new development system. Aiming to develop and market surefire hit products, the system incorporates strict quality control standards as well as outside opinions and assessments. During the two years since the system's introduction, Sammy's development capabilities have improved markedly. Significantly higher utilization rates compared with previous levels are proof of this improvement.

* The rates at which pachinko machines or pachislot machines are utilized (played) by customers

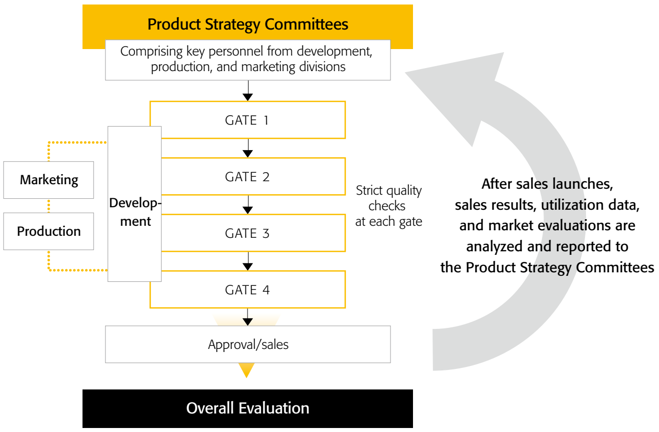
Q. Sammy also seems to be targeting better profitability.

A. Nakayama We took steps to build a leader profit structure.

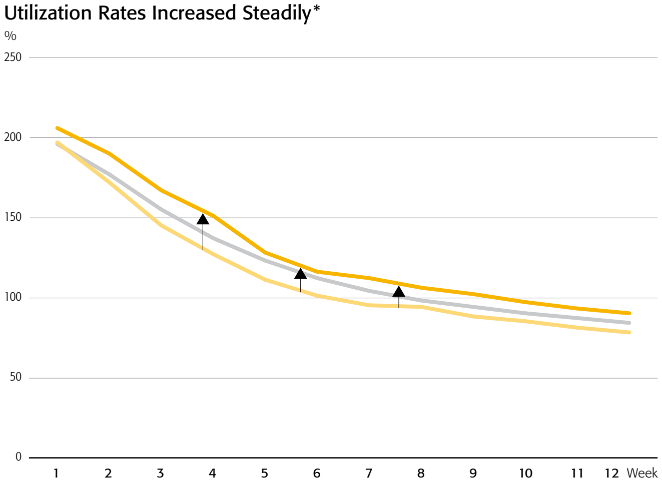
In the past two fiscal years, we have strengthened profitability rigorously. As well as curbing costs, mainly by reducing procurement costs for LCD-related parts, we have promoted the reuse of parts and lowered the number of variety of parts used. Further, improving marketing divisions' communication with pachinko halls has enabled us to gauge demand accurately before launching new machines. Consequently, our ordering of parts has become more precise, and our disposal of parts has fallen.

Because the steady development and marketing of differentiated pachinko and pachislot machines has become possible under the new development system, we have revised pricing strategies for mainstay titles. The pachinko machine business' products have garnered a strong reputation, which has extended the Group's market share. In step with this growth, sales of high-margin replacement-use pachinko boards* rose

New System for Developing Surefire Hits



Utilization Rates Increased Steadily*



Before the transition (2007/3–2008/5) After the transition (2008/9–2010/7)
Average for all manufacturers (2009–2010)

* Utilization rate = Utilization of the Group's pachinko and pachislot machines ÷ Average utilization of all manufacturers

from 10.5% of segment unit sales for fiscal 2009 to 69.1% for fiscal 2010. Higher sales of these products mitigates pachinko halls' capital investment while improving our profit margin.

Thanks to this range of measures, the operating income margin of the Pachinko and Pachislot Machine Business segment rose from 9.0% for fiscal 2009 to 18.4% for fiscal 2010.

* A vertically positioned board that includes numerous pins and tulip-shaped devices, LCDs, and gameplay control boards

Offensive Measures to Increase Market Share

Q. What kind of reforms do you plan next?

A. Nakayama We are setting course to claim a bigger market share.

We have dramatically increased the level of pachinko machines unit sales from about 100,000 units for fiscal 2008 to more than 350,000 units for fiscal 2009 and fiscal 2010. For pachislot machines, developing machines that earn player support has taken time since the 2004 regulatory revision. Finally, our efforts to date have begun bearing fruit. We are able to develop and provide pachislot machines well received in the market.

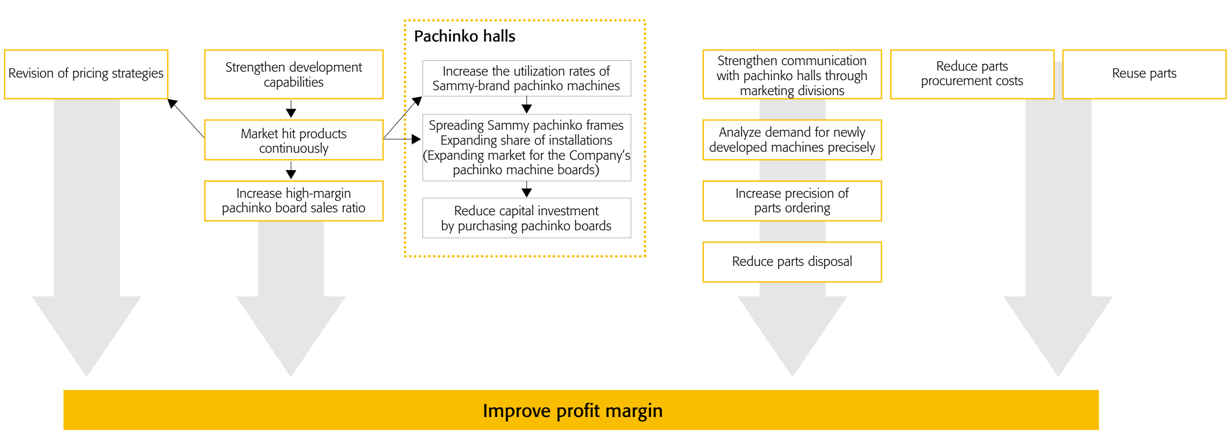
To sum up the past two years, Sammy has met targets for each year by consistently bringing hit products to market and substantially improving profit margins. Consequently, we are becoming a strong organization. Nevertheless, reforms are never finished. We must set even more ambitious targets and continue to take on challenges. Reforms so far have raised the operating income margin to 18.4%. However, measures to improve earnings by reducing costs, revising pricing strategies, and reusing parts are approaching limits and will not be enough to improve earnings. Therefore, maintaining the solid foundation that we have built, we have to increase our top-line. With this in mind, in fiscal 2011 the pachinko machine business and the pachislot machine business will make a significant strategic shift toward staking out larger market shares.

Q. What is your assessment of market conditions?

A. Nakayama The recovery trend in the market for pachislot machines is becoming clearer.

The 2004 regulatory revision drove recovery in the pachinko machine market because the new regulations afforded greater development freedom. In contrast, the pachislot machine market began shrinking because the new regulations limited the game elements that companies were able to offer. From the second half of 2009, however, the pachislot machine market began to recover modestly. In the pachinko machine market, from 2008 machines with a strong gambling element began accounting for a growing share of machine installations. This caused some players to leave the market. In response, pachinko halls created a market with less of a gambling element by introducing lower than normal "one yen pachinko" playing rates in order to attract a wider range of customers. While this has helped pachinko halls develop new customer bases, it has curbed earnings.

Overview of the Reforms



Discussion with Management

I believe that manufacturers bear part of the responsibility for this negative effect because they did not supply the market with enough pachinko machines that met the needs of pachinko players and pachinko halls. Therefore, we are now developing new pachinko machines more likely to satisfy market needs. Meanwhile, the pachislot machine market is recovering, a trend that has become pronounced since the beginning of 2010. The main reason for this upturn has been the penetration of pachislot machines with market approval. Although the Group needed time to develop the mainstay titles it launched from the second half of 2009, it has finally realized products compliant with the current regulations and satisfy users. I am confident we have contributed to the recovery of the pachislot machine market.

Q. What are your priority strategies for fiscal 2011?

A. **Nakayama** **Amid business conditions that are separating winners from losers, Sammy will win out and expand its market share.**

Sammy is becoming an organization that can respond immediately and produce stable earnings no matter how business conditions change. Continuing to evolve is its top priority.

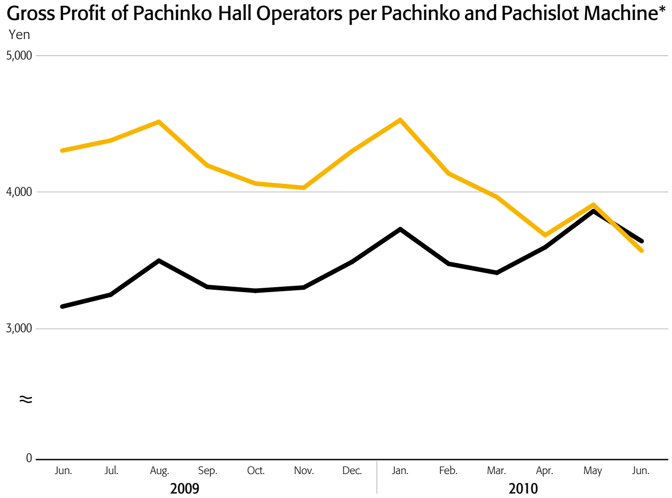
In fiscal 2011, the pachinko machine business will continue to reduce costs and sell high-margin pachinko boards while selling mainstay titles. We aim to increase unit sales by at least 14% year on year, thereby claiming one of the top three shares of the unit sales market.

Sammy's pachislot machines have a long-standing reputation for high utilization rates. Amid the pachislot machines market's ongoing recovery, we will move ahead of competitors by creating pachislot machines that are within the scope of current regulations and earn user support. For fiscal 2011, we are targeting a 29% year-on-year increase in pachislot machine unit sales. However, given the very strong momentum of sales, we want to surpass this target and maintain the top share of the market.

Also, we must heighten the presence of the SEGA SAMMY Group's Pachinko and Pachislot Machine Business segment through collaboration —led by Sammy—among RODEO Co., Ltd., TAIYO ELEC Co., Ltd., and GINZA CORPORATION. Specifically, we intend to reduce costs through joint purchasing of parts and sharing development and marketing expertise.

Over the medium term, the distinction between winners and losers among manufacturers is likely to become pronounced as pachinko halls become more selective. Leading manufacturers will dominate a growing share of the market. In response, Sammy intends to become a consistent winner by expanding market share and heightening profit-creating capabilities. Over the past two years, we have established a solid foundation that will enable us to achieve this goal.

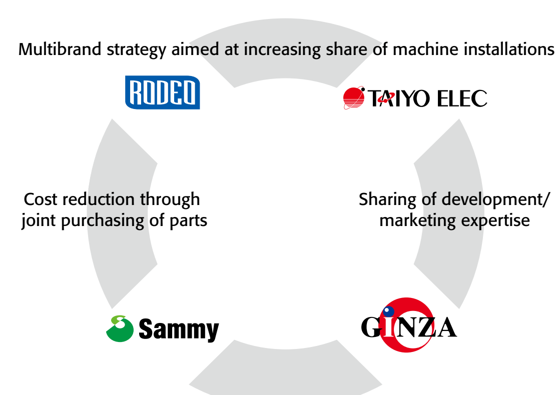
Gross Profit of Pachinko Hall Operators per Pachinko and Pachislot Machine*



Pachinko machines Pachislot machines

* Per day industry average
Source: Daikoku Denki Co., Ltd., *DK-SIS* data

Creating Group Synergies in the Pachinko and Pachislot Machine Business





Using SEGA's Creativity at All Points of Contact with Customers

SEGA's Reforms to Date

Q. Could you summarize reforms you have carried out so far?

A. Usui Giving priority to balancing revenues and expenses, we have reformed our cost structure.

When I became the president of SEGA in May 2008, we set out *CHANGE 2011—Revitalizing SEGA* as a three-year management vision that called on SEGA to achieve three objectives: optimization of core operations, rapid achievement of profitability in new domains, and expansion of earnings and stable generation of free cash flow. In fiscal 2009 and 2010, we focused on building a cost structure suited to business size and on balancing revenues and expenses. We have taken forward-looking measures that emphasize efficiency in preparation for full-scale offensive measures. For all businesses, we have applied a policy of investing in carefully selected products and businesses for which we can predict return on investment accurately.

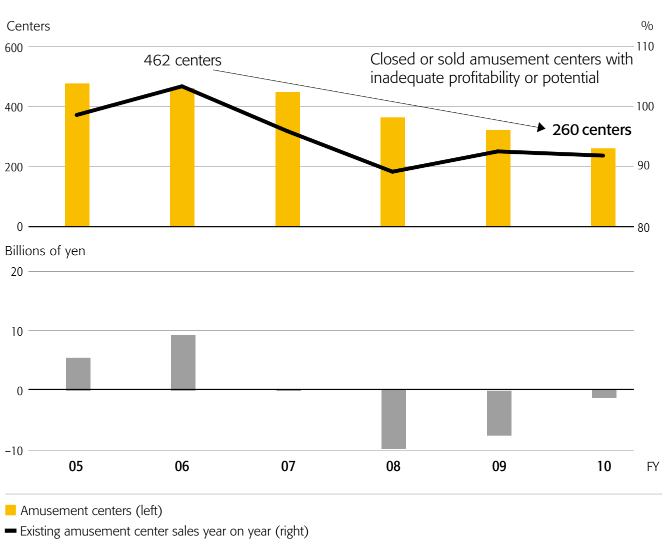
Q. What concrete measures have you taken, and how do you evaluate them?

A. Usui We achieved our goal of building a system in preparation for resurgence.

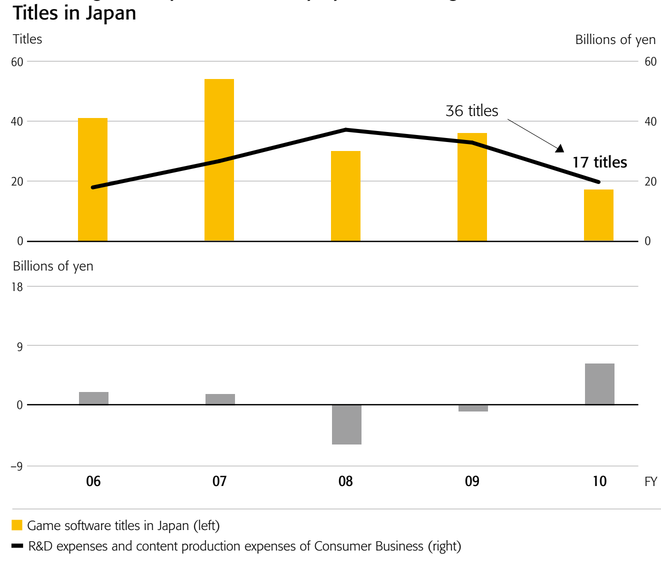
In the Amusement Machine Sales Business segment, we stopped the development of certain large, high-end products due to the tough business conditions amusement center operators are facing. In the Amusement Center Operations segment, we established withdrawal standards based on amusement centers' gross profit. We closed or sold amusement centers that did not meet these standards due to inadequate profitability or potential. By the end of fiscal 2010, we had 260 amusement centers, down from 322 at the previous fiscal year-end. As a result, the segment's capital investment decreased from ¥14.8 billion for fiscal 2009 to ¥7.7 billion for fiscal 2010. Consequently, depreciation and amortization fell from ¥15.9 billion to ¥8.2 billion. In the Consumer Business segment's home video game software business, we significantly consolidated titles marketed in Japan. In fiscal 2010, we marketed 17 titles in Japan, compared with 36 titles in the previous fiscal year. In response to a slowdown in the overseas game software market, we closed one North American development subsidiary.

By reducing titles under development, we achieved year-on-year decreases in R&D expenses and content production expenses* of 32%

Restructuring Amusement Center Operations



Increasing Development Efficiency by Streamlining the Number of Titles in Japan



Discussion with Management

for the Amusement Machine Sales Business segment and 40% for the Consumer Business segment. Efforts to improve development efficiency were particularly successful in the Consumer Business segment, which posted operating income.

In addition, we curbed fixed cost by rightsizing personnel numbers to suit business size and restored cost flexibility. SEGA reduced personnel expenses roughly ¥8.5 billion by offering early retirement to approximately 900 employees in fiscal 2008 and fiscal 2009.

To summarize progress under *CHANGE 2011*, we still face tasks in relation to rapid achievement of profitability in new domains. However, we have balanced revenues and expenses by controlling R&D expenses and curbing fixed costs. Therefore, I believe steady progress in heightening efficiency has cemented our foundation as we head toward resurgence.

* From fiscal 2010, in order to directly link content production expenses, which have been trending upward in recent years, to earnings and enable appropriate presentation of income and expenses for fiscal periods, the Company changed its accounting policy for the treatment of cost of sales from recognition when production expenses arise to recognition at time of sale.

SEGA's Growth Strategy

Q. **As entertainment diversifies, what strategies do you plan to follow?**

A. **Usui** **We will develop and provide content tailored to suit particular aspects of customers' everyday lives.**

Customers use an increasingly wide range of platforms. As well as dedicated game machines or amusement arcade machines, customers play games using smartphones and other mobile phones and SNS. In our everyday lives, it has become possible to play games at various times and places. As a result, attitudes to game playing have broadened. In such an environment, SEGA will use intellectual properties to entertainingly occupy customers' free time. We intend to extend and evolve the traditional idea of what a game is and offer customers worlds that become more fun the more they participate. *CHANGE 2011* calls on SEGA to become an unrivaled entertainment and content provider that can offer outstanding entertainment to customers in their everyday lives at any time and in any location.

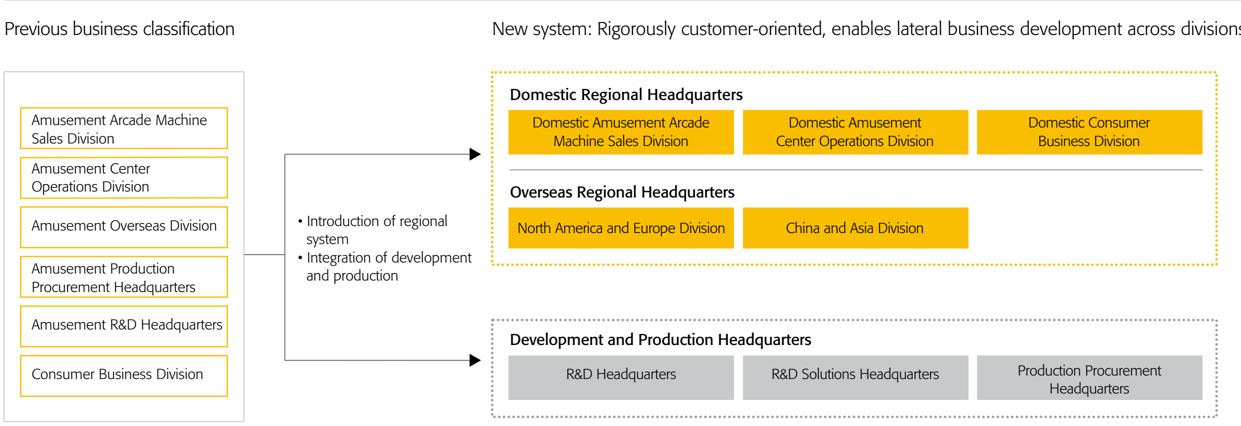
In order to take advantage of SEGA's competitive advantages in new markets, we must develop and offer content tailored to suit the particular aspects of customers' everyday lives. These efforts should capitalize on SEGA's strong development capabilities and considerable experience to venture beyond the limits of the traditional game market. Because we believe putting such initiatives into practice requires creating an organization that spans businesses laterally, we embarked upon major business restructuring.

Q. **What kind of restructuring are you undertaking at the moment?**

A. **Usui** **We are reorganizing so that businesses better reflect customer needs.**

As platforms diversify and attitudes toward game playing broaden, our classification of businesses into the Amusement Machine Sales Business segment, the Amusement Center Operations segment, and the Consumer Business segment is becoming less meaningful for customers. Therefore, in July 2010 we introduced a regional, rigorously customer-oriented system.

SEGA's Business Restructuring



We reorganized business divisions under an Overseas Regional Headquarters and a Domestic Regional Headquarters. This reorganization aims to provide customers in each region with content suited to their needs. Further, we established a Development and Production Headquarters, combining the development functions of the amusement machine sales business and the game software business. In addition to enabling customer-oriented development transcending divisional boundaries, this reorganization will promote the sharing of each business' accumulated expertise, experience, and technology by removing vertical organizational barriers.

Q. The Amusement Machine Sales Business segment and the Amusement Center Operations segment are facing tough business conditions. What is your basic strategy for these segments?

A. Usui SEGA will continue taking measures aimed at invigorating Japan's market while stepping up the development of overseas business.

For the Amusement Machine Sales Business segment, which the shrinking of Japan's amusement center market is affecting, we will adopt a strategy emphasizing coexistence and coprosperity with amusement center operators. For *BORDER BREAK*, launched in fiscal 2010, we incorporated a revenue-sharing business model that uses *ALL.Net* network service. This not only reduces amusement center operators' initial investment, it stabilizes SEGA's customer base and revenues. Through widespread introduction of revenue-sharing and initiatives to invigorate the market, we will secure earnings despite tough market conditions.

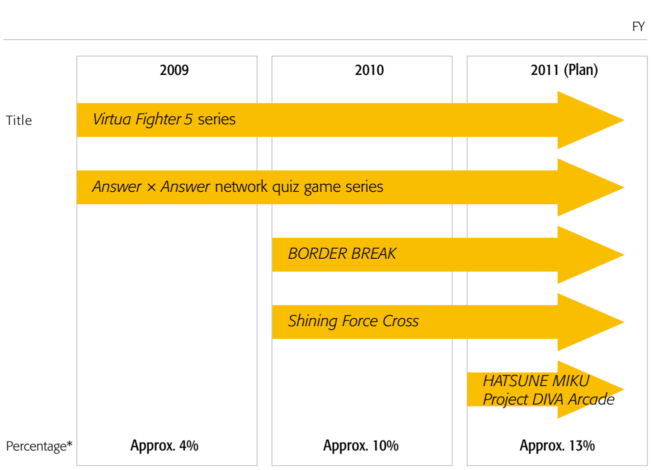
In the long term, we have to develop businesses overseas to grow the Amusement Machine Sales Business segment and the Amusement Center Operations segment. Accordingly, we will step up efforts to build earnings platforms overseas, focusing on emerging countries.

Q. What specific strategies will you pursue overseas?

A. Usui SEGA will curb risk while heightening the probability of success.

Aiming to contain risk and increase the likelihood of success, we will form alliances with partners based on our business needs. For example, we have concluded an entertainment facilities licensing agreement with a developer in the United Arab Emirates, Emaar Malls Group. We cut the tape on our first indoor entertainment facility based on this agreement, *SEGA REPUBLIC*, in a large shopping mall in Dubai in spring 2009. Because such businesses are licensing businesses, they promise stable revenue generation without enlarging our balance sheet. In initiatives to develop the Amusement Machine Sales Business segment overseas, we aim to redouble efforts in Asia's markets, which have particularly large potential demand. To this end, we will form tie-ups with local companies in Taiwan in China. As well as fully exploiting SEGA's brand power, these alliances with local companies will cover not only production and sales but also development, thereby realizing product appeal and cost competitiveness that will win in local markets.

Breakdown by Title of Revenue-sharing Revenue



* Revenue from the utilization of revenue-sharing titles as a percentage of revenue from amusement arcade machines and prize game machines in Japan's market

Overseas Licensing Business Model that Curbs Risk and Secures Stable Earnings

SEGA REPUBLIC

Feature

Exploiting Intellectual Properties to the Utmost

Concerted Strategic Use of Intellectual Properties Begins

Using character intellectual properties strategically will create a chain of profit-making opportunities. The SEGA SAMMY Group has begun concentrating on strategies that will bring its combined strength to bear on developing entertainment businesses. Here's a close-up of the organization leading this effort, the SEGA SAMMY Group Character Licensing Subcommittee, and the steps it is taking.

Establishing the Character Licensing Subcommittee

When developing an entertainment business, vigorously capitalizing on character intellectual properties is a key differentiating factor. In recent years, strategic use of intellectual properties has become even more important as growth in Japan's market has slowed due to low birth rates. For example, we can increase profit-making opportunities by exposing customers to character intellectual properties at a range of points of contact in order to "lock in" customers or by rolling out character intellectual properties globally through a range of media.

The SEGA SAMMY Group boasts an abundance of highly appealing character intellectual properties such as *Sonic*. Until now, however, intellectual properties have been scattered across Group companies, with each company taking separate measures to increase the value of intellectual properties. Seeking closer collaboration among Group companies in order to fully realize the potential of its precious management resources, the Group established the SEGA SAMMY Group Character Licensing Subcommittee in April 2008.

Already, the subcommittee has initiated concrete measures for *BAKUGAN*, which is gaining popularity worldwide, and *Lil'Pri*, which SEGA and Shogakukan Inc. developed jointly.

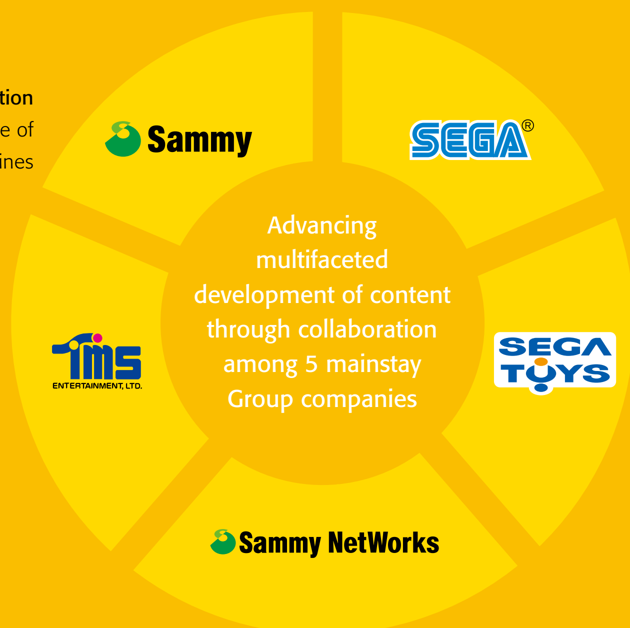
Going forward, the subcommittee will lead efforts to maximize the value of intellectual properties efficiently and effectively through collaborations among Group companies that lead to the joint development or mutual use of the broad spectrum of intellectual properties that the SEGA SAMMY Group owns. Further, the subcommittee will develop and foster new intellectual properties, acquire powerful intellectual properties from outside the Group, and reinforce tie-ups with business partners. Such efforts will give the subcommittee a major role in bedding down character-merchandising structures throughout the Group.

Members of the SEGA SAMMY Group Character Licensing Subcommittee

Sammy Corporation
Development/manufacturing/sale of pachinko and pachislot machines

SEGA CORPORATION
Development/manufacturing/sale of amusement arcade machines
Operation of amusement centers
Development/sale of game software

TMS ENTERTAINMENT, LTD.
Planning/production/sale of animation/animated movies



SEGA TOYS CO., LTD.
Development/manufacturing/sale of toys

Sammy NetWorks Co., Ltd.
Distribution of content for mobile phones

Role of the Subcommittee

1. Mutual use of existing intellectual properties among Group companies	2. Development / fostering of new intellectual properties	3. Discovery/acquisition of powerful intellectual properties outside the Group

We will consolidate character intellectual properties and strengthen collaboration within the Group.

A subcommittee meeting

Aiming to facilitate concerted efforts within the Group to maximize the value of character intellectual properties and develop and foster new character intellectual properties, SEGA SAMMY HOLDINGS and five mainstay Group companies established the SEGA SAMMY Group Character Licensing Subcommittee in April 2008.

The subcommittee plays a central role in enabling mutual use of Group companies' appealing character intellectual properties by encouraging collaboration among Group companies in planning, product commercialization, sales promotion, and marketing. The subcommittee's other tasks include developing and fostering new characters and discovering and acquiring character intellectual properties outside the Group or acquiring product commercialization rights.

Feature

BAKUGAN

Strengthening Operations in Japan—Bakugan LLP

BAKUGAN is a toy that SEGA TOYS CO., LTD., and Spin Master Ltd., a toy manufacturer headquartered in Canada, developed jointly. Our customers can watch animation and buy products related to *BAKUGAN* in roughly 120 countries. On its own, the toy is a major hit, with 180 million units sold since launch. In November 2009, seeking to tap the burgeoning potential of *BAKUGAN* content in Japan's market, five SEGA SAMMY Group companies jointly invested in and established Bakugan Limited Liability Partnership (Bakugan LLP). With overall control of production and merchandising for the *BAKUGAN* business in Japan, Bakugan LLP is forging collaborations among Group companies.

Multiplying Value through Cross-Media Strategies

For *BAKUGAN*, we are moving forward with a cross-media strategy covering toys that combine cards and *BAKUGAN*, animation, kids' card games, and a range of licensed products. As of June 18, 2010, we had granted licenses to 20 companies, and this number continues to grow. Also, we are creating synergies among these products. For example, licensed products are packaged with cards usable in the kids' card game machine *BAKUGAN Arcade Battlers*, released in July 2010, as well as with toys. At the same time, we are advancing various initiatives to expand the *BAKUGAN* fan base. These include familiarizing people with how to play *BAKUGAN* by holding teaching events and competitions throughout Japan.

Lil'Pri

Pursuing an Array of Profit-Making Opportunities

Lil'Pri is content for girls that SEGA and Shogakukan developed jointly. Deriving its name from an abbreviation of "little princess," *Lil'Pri* is a treasure trove of things little girls love, such as songs, dances, fashion, magic, and celebrities. We are optimizing the value of character intellectual properties through multifaceted development of content. Working in collaboration, the SEGA SAMMY Group and the Shogakukan Group are installing kids' card games at amusement centers, marketing toys, launching software for Nintendo DS, releasing serialized comics, producing animation, and creating tie-ups with celebrities.

Toys

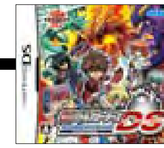
When playing *BAKUGAN*, players use their fingers to shoot *BAKUGAN* plastic balls over cards, which transform the balls into figures instantaneously. Players then compete for the cards. The player with the best shooting technique and card strategy wins. Because there are 120 types of *BAKUGAN* and 200 kinds of cards, players can develop unique playing styles and skills and enjoy an almost infinite variety of battles with opponents.

PC/Mobile Phone Content

A dedicated web site is packed with everything players need to know about *BAKUGAN*, including information on *BAKUGAN* playing methods, explanations of terminology, a blog by *BAKUGAN* master *Moetaro Honoo*, event information, and new product information.

Animation

At present, 25 TV stations, including TV TOKYO Corporation affiliates, air *Bakugan Battle Brawlers: New Vestroia*. Our multimedia roll-out strategy is a major reason why *BAKUGAN* captivates kids. In the same month as new characters appear in the animation series, we launch corresponding toys.



Games

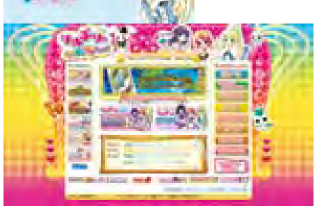
We unveiled *BAKUGAN* kids' card game machines in July. The cards that the machines pay out are not only usable in the kids' card game but also in *BAKUGAN* toy battles. Linking kids' card games and toys adds even more ways to enjoy *BAKUGAN*. Moreover, we plan to launch software for Nintendo DS in December.

Related Goods

Helping the popularity of *BAKUGAN* snowball, companies outside the Group market an extensive range of licensed products. Various goods tie in with *BAKUGAN* by including *BAKUGAN* cards usable in kids' card game amusement arcade machines and toys.

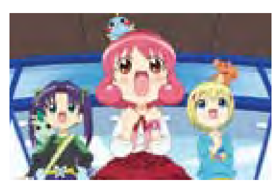
Toys

SEGA TOYS offers toys for dress-up games and role-playing games featuring the fashion items that the main characters wear in the animation series. The toys include original cards usable in kids' card game machines.



PC/Mobile Phone Content

We have launched an official web site that enables fans to the check latest information on *Lil'Pri* games, comics, and goods. In addition, a web site for mobile phones includes a rich lineup of content, ringtones, and wallpaper linked to kids' card game machines.



TV stations, including six TV TOKYO affiliates, are currently showing the *Hime Chen! Otogi Chikku Idol Lil'Pri* animation series.

Animation

Six TV TOKYO affiliates and other TV stations began broadcasting the *Hime Chen! Otogi Chikku Idol Lil'Pri* animation series from April 2010.

Games

Achieving high utilization rates, *Lil'Pri—Yubi Puru Hime Chen!* is a kids' card game machine featuring a dress-up game and a rhythm game. Impressive upper and lower monitors and panels that cause the screens to vibrate when players touch them differentiate this machine. August saw the debut of software for Nintendo DS, *Lil'Pri—DS Hime Chen! Apple Pink*, which enables players to enjoy original stories.

Bird's eye view

SEGA SAMMY Group in the Entertainment Industry

Net Sales [1]	Billions of yen
Nintendo	1,434.3
SEGA SAMMY	**384.6**
NAMCO BANDAI	378.5
KONAMI	262.1
SANKYO	222.6
SQUARE ENIX	192.2
CAPCOM	66.8
Heiwa	63.3

Operating Income [1]	Billions of yen
Nintendo	356.5
SANKYO	55.7
SEGA SAMMY	**36.7**
SQUARE ENIX	28.2
KONAMI	18.6
CAPCOM	5.5
Heiwa	3.7
NAMCO BANDAI	1.8

Operating Margin [1]	%
SANKYO	25.0
Nintendo	24.9
SQUARE ENIX	14.7
SEGA SAMMY	**9.5**
CAPCOM	8.4
KONAMI	7.1
Heiwa	5.9
NAMCO BANDAI	0.5

ROE [1]	%
Nintendo	17.7
Heiwa	13.0
SANKYO	9.1
SEGA SAMMY	**8.8**
KONAMI	7.3
SQUARE ENIX	6.3
CAPCOM	3.8
NAMCO BANDAI	–12.4

ROA [1, 2]	%
Nintendo	20.4
SANKYO	12.4
SQUARE ENIX	11.5
Heiwa	9.1
SEGA SAMMY	**8.5**
CAPCOM	5.7
KONAMI [3]	5.7
NAMCO BANDAI	0.6

Market Capitalization [4]	Billions of yen
Nintendo	4,434.2
SANKYO	451.3
SEGA SAMMY	**320.6**
KONAMI	258.7
SQUARE ENIX	235.8
NAMCO BANDAI	227.7
CAPCOM	119.5
Heiwa	95.9

Share of Pachinko Machine Unit Sales [5]	%
Company S	18.0
Company S	17.2
Company K	12.8
Company N	11.9
SEGA SAMMY	**10.8**
Company H	5.1
Company D	5.0
Company F	4.7

Share of Pachislot Machine Unit Sales [5]	%
SEGA SAMMY	**21.3**
Company S	13.6
Company U	13.1
Company Y	9.5
Company K	7.8
Company H	5.7
Company D	4.6
Company A	3.9

Amusement Machine Unit Sales [1]	Billions of yen
SEGA SAMMY	**45.1**
NAMCO BANDAI	44.0
KONAMI	32.8
CAPCOM	2.2

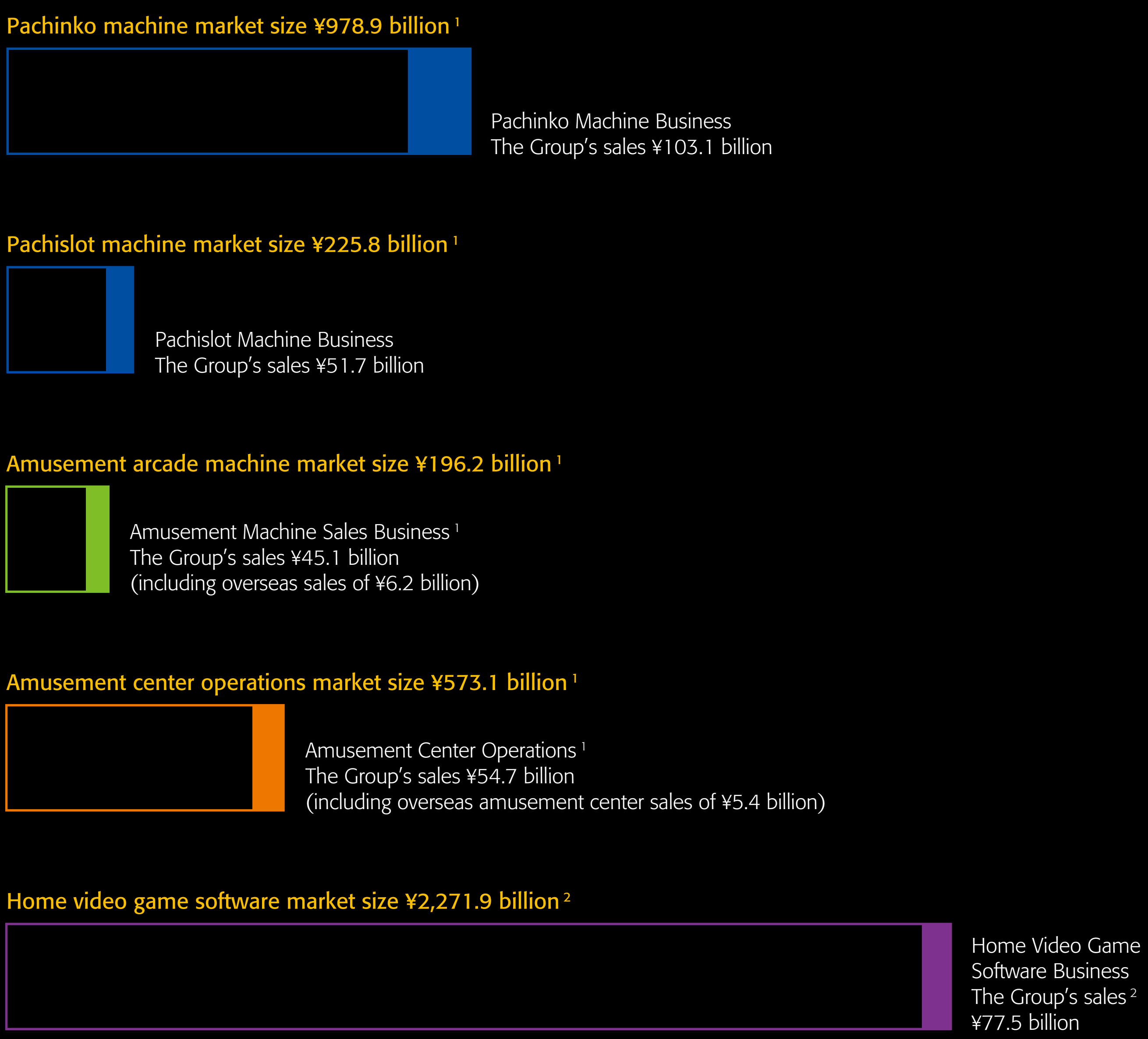
Amusement Center Operation Sales [1]	Billions of yen
ROUND ONE	82.1
NAMCO BANDAI	65.3
SEGA SAMMY	**54.7**
SQUARE ENIX [6]	52.2
AEON Fantasy	43.7
ADORES [7]	19.5
CAPCOM	11.9
TECMO KOEI	3.3

Unit Sales of Home Video Game Software (Global)	Millions of units
SEGA SAMMY	**26.7**
SQUARE ENIX	26.6
NAMCO BANDAI	22.7
KONAMI	20.2
CAPCOM	12.5
TECMO KOEI	5.7

Note: The above is intended to give an idea of the Group's position in the industry and only covers companies for which information can be obtained from published documents, such as listed companies or over-the-counter (OTC) companies. Because there are unlisted companies that do not disclose information, this is not a completely accurate industry ranking.
1 Respective companies' most recent settlement data. Source: Respective companies' published documents
2 ROA = Ordinary income ÷ Total assets
3 Calculated using net income before incomes taxes because KONAMI uses U.S. GAAP
4 Source: Calculated by the Company based on the closing prices at respective stock exchanges on March 31, 2010
5 2009. Source: Yano Research Institute Ltd.
6 "Amusement operations" including amusement centers and amusement arcade machines
7 Amusement center operations

Mainstay Businesses — Size of Related Markets and Our Position

The size of □ □ □ □ represents the size of the market and the Group's sales



1 Japan's market size
2 Global market size
Sources: Pachinko machine market size, pachislot machine market size (fiscal 2010): Yano Research Institute Ltd.
Amusement arcade machine market size, amusement centers operations market size (fiscal 2009): JAMMA, AOU, NSA, *Amusement Industry Survey 2008*
Home video game software market size (2009): *Famitsu Game White Paper 2010*

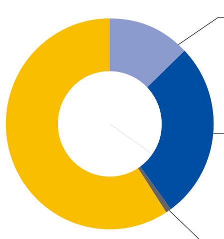
Overview by Business Segment

Pachinko and Pachislot Machine Business

Composition of Net Sales

¥160.3 billion

41.7%



Fiscal 2010 Business Results Overview

Net sales

¥160.3 billion

▼ Down 0.8% year on year

Operating income

¥29.5 billion

▲ Up 103.1% year on year

Pachislot machine unit sales

162,000 units

▲ Up 32.2% year on year

Pachinko machine unit sales

360,000 units

▼ Down 8.1% year on year

Pachinko board sales ratio

69.1%

▲ Up 58.6 percentage points

The pachislot machine business will concentrate efforts on developing machines with gameplay that will revitalize the market. In the pachinko machine business, we intend to heighten our presence by strengthening development capabilities and brand power even further.

For details on market trends, please refer to the supplementary "INFORMATION" document.

Basic Information

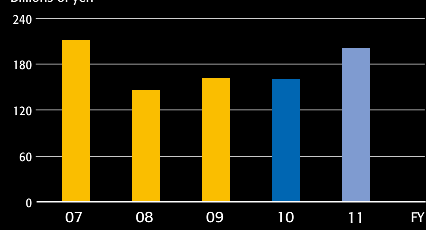
BUILDING A BUSINESS PLATFORM THAT GENERATES STABLE EARNINGS

Accounting for approximately 41% of consolidated net sales, the Pachinko and Pachislot Machine Business segment is the SEGA SAMMY Group's earnings driver. The business segment's core operating company, Sammy Corporation, maintains a solid position as a leader in the pachislot machine market. Released in 2004, the pachislot machine *Hokuto No Ken* shipped 620,000 units, setting an industry record for unit sales. Meanwhile, the pachinko machine business has built brand power and rapidly carved out one of the largest shares of the pachinko machine market.

Enabling these stable earnings, the strengths of this business segment are creativity and development capabilities that constantly generate fresh types of entertainment. At present, it is strengthening collaboration between development divisions and marketing divisions as well as introducing rigorous quality checking to development processes in order to further bolster development capabilities. Another distinctive feature of this business segment is its ability to cater to diversifying user needs through a multi-brand strategy based on Sammy, RODEO Co., Ltd., TAIYO ELEC Co., Ltd., and GINZA CORPORATION.

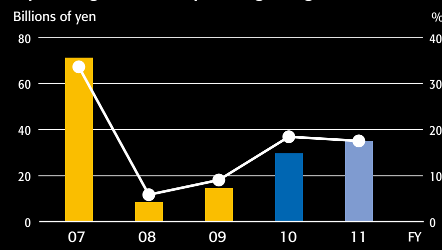
In the pachinko and pachislot machine market, earnings conditions are undergoing dramatic change due to regulatory revision. Therefore, we aim to build an earnings structure durable enough to function amid such change. To this end, we will establish a system in which the pachinko machine business and the pachislot machine business generate stable hit products as well as enhance cost competitiveness by reducing costs and shortening production lead times.

Net Sales



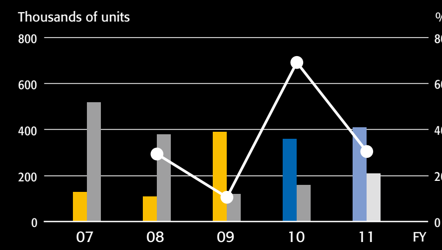
	10	11
Net sales	160.3	200.0
		Plan

Operating Income/Operating Margin



	10	11
Operating income (left)	29.5	35.0
Operating margin (right)	18.4	17.5
		Plan

Pachinko and Pachislot Machine Unit Sales



	10	11
Pachinko machines (left)	360	410
Pachinko board sales ratio (right)	69.1	30.4
Pachislot machines (left)	160	210
		Plan

FY 2010 Overview

EARNINGS RISE SIGNIFICANTLY THANKS TO AN INCREASE IN PACHISLOT MACHINE UNIT SALES, AN IMPROVEMENT IN PACHINKO BOARD SALES UP RATIO, AND COST REDUCTION

The pachinko machine business saw unit sales decline 8.1% year on year, to 360,000 units, which was partly attributable to the absence of the contribution to sales that the hit product *Pachinko CR Hokuto No Ken* made in the previous fiscal year. Consequently, the business recorded an 11.5% year-on-year decrease in net sales, to ¥103.1 billion. Nevertheless, sales of flagship titles remained solid. *Pachinko CR SOUTEN-NO-KEN* sold 94,000 units, while *Pachinko CR Sengoku Ranbu Aoki Dokugan* shipped more than 50,000 units. Ongoing strengthening of development capabilities is steadily raising the level of unit sales across a range of key titles.

Regarding the pachislot machine business, *Pachislot Psalms of Planets Eureka Seven*, which incorporates popular animation, recorded 56,000 unit sales and helped reactivate a market that has stagnated since the 2004 regulatory revision. Despite strategically postponing the release of certain major titles until the current fiscal year, the business posted year-on-year increases of 32.2% in total unit sales, to 162,000 units, and 53.0% in net sales, to ¥51.7 billion.

For 2009, the SEGA SAMMY Group accounted for 10.8% of the pachinko machine market, down from 11.7% for the previous year, and 21.3% of the pachislot machine market, up from 13.5% for the previous year.

In earnings, multifaceted initiatives improved the profit margin. These included reducing cost of sales and operating expenses by withdrawing from the unprofitable pachinko and pachislot machine peripheral business, lowering part procurement costs centered on LCDs, and revising pricing strategies for pachinko machines and pachislot machines. In particular, stepped-up sales efforts for pachinko boards, which reduce the capital investment burden on pachinko hall operators, contributed to improved profitability. As a percentage of pachinko machine business unit sales, pachinko board sales rose from the previous fiscal year's 10.5% to 69.1%.

Also, with our sights set on the current fiscal year and onward, we strategically reorganized businesses. For example, we merged with Sammy Rental Services Co., Ltd., following the ending of rental plans for pachislot machines. And, GINZA CORPORATION, responsible for one arm of our multibrand strategy, became a wholly owned subsidiary.

As a result of these efforts, although net sales edged down 0.8% year on year, to ¥160.3 billion, operating income was up 103.1% year on year, to ¥29.5 billion. The operating margin improved 9.4 percentage points from the previous fiscal year, to 18.4%.

Pachinko CR SOUTEN-NO-KEN
© 2001 Buronson & Tetsuo Hara
Approved No. SAG-309
© Sammy

Pachislot Psalms of Planets Eureka Seven
© 2005 BONES / Project EUREKA • MBS
© Sammy
© 2009 NBGI

Pachinko and Pachislot Machine Business

FY 2011 Outlook and Strategy

TARGET HIGHER REVENUES AND EARNINGS BY STEADILY BUILDING UP UNIT SALES AND REDUCING COSTS

The pachinko machine market is showing signs of slight deceleration. This is because casual players are leaving the market as installations of pachinko machines with a strong gambling element increase. At the same time, the growth of the "one yen pachinko" market, aimed at broadening customer bases, is reducing pachinko halls earnings and thereby curbing machine replacement. On the other hand, unit sales per title and utilization rates indicate that the pachislot machine market has bottomed out. Following the 2004 regulatory revision, this market slumped. However, products compliant with the current regulations and popular among customers are entering the market. In light of these market trends, for fiscal 2011 the Pachinko and Pachislot Machine Business segment is targeting year-on-year increases of 24.8% in net sales, to ¥200.0 billion, and 18.6% in operating income, to ¥35 billion.

Looking at individual businesses and strategies, in fiscal 2011 the pachinko machine business plans to introduce 12 titles, including the major Sammy-brand title *Pachinko CR Hokuto No Ken Raoh*. As a result, the business aims to grow unit sales 50,000 units, to 410,000 units, and achieve a 25.6% rise in net sales, to ¥129.5 billion. For the current fiscal year, although pachinko board sales as a percentage of pachinko machine business sales are likely to decline year on year due to the introduction of new-model pachinko frames from the launch of *Pachinko CR Hokuto No Ken Raoh* onward—in order to heighten quality and security—the business will maintain its profit margin by reducing part procurement costs and reusing parts rigorously.

The pachislot machine business is targeting a 47,000-unit increase in unit sales, to 210,000 units, and a 22.8% rise in net sales, to ¥63.5 billion. For fiscal 2011, the business has slated 13 titles for marketing, including the mainstay Sammy-brand title *Pachislot SOUTEN-NO-KEN*. In conjunction with these efforts, we intend to enhance the profit margin by reusing parts, particularly those related to LCDs, which account for a large proportion of costs.

Pachislot SOUTEN-NO-KEN
© 2001 Buronson & Tetsuo Hara
Approved No. SAH-310
© Sammy

Pachinko CR Hokuto No Ken Raoh
© Buronson & Tetsuo Hara/NSP 1983
© NSP 2006
Approved No. SAF-308
© Sammy

SEGASAMMY
Insight

Pachinko Machine Boards

Pachinko machines comprise two parts: frames and boards. Controlling the paying out of pachinko balls, the frame has attached to it a handle, a glass frame unit, and speakers. The board comprises LCDs, tulip-shaped devices, and numerous pins. The board incorporates many electronic components, such as boards and sensors that control gameplay, including images and win chances presented by the pachinko machine's LCDs, and payouts. The boards give pachinko machines their distinctive characteristics. Because frames can be used continuously for certain periods, pachinko hall operators can purchase pachinko boards and attach them to frames installed at pachinko halls. The price of a pachinko board is less than the price of an entire machine. This arrangement meets the needs of pachinko hall operators looking to hold down capital expenditures. For manufacturers, sales of pachinko boards not only offer higher profit margins than sales of machines, but also help maintain the manufacturer's share of machine installations. This is an efficient business model for both pachinko hall operators and pachinko machine manufacturers.

DETERMINATION

Leading Market Revitalization

Overview by Business Segment

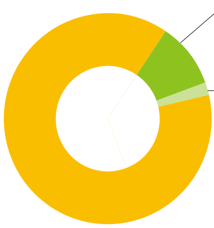
Amusement Machine Sales Business

BORDER BREAK
© SEGA

Composition of Net Sales

¥45.1 billion

11.7%



Fiscal 2010 Business Results Overview

Net sales

¥45.1 billion

▼ **Down 27.1% year on year**

Operating income

¥7.0 billion

▲ **Up 3.0% year on year**

R&D expenses/content production expenses

¥7.8 billion

▼ **Down 31.6% year on year**

We are committed to developing products that increase investment efficiency for amusement center operators, providing stable long-term earnings for the Group, and broadening user-base in the market.

For details on market trends, please refer to the supplementary "INFORMATION" document.

Basic Information

FOCUSING ON DEVELOPING PRODUCTS THAT EXPLOIT ADVANCED TECHNOLOGIES AND STIMULATE THE MARKET

Its considerable share of amusement arcade machine sales make this segment a major manufacturer. An unerring ability to develop novel products is its greatest strength. Over many years, it has generated demand by creating a spectrum of new genres. The business segment has a particularly large lead in the market for the development of large, high-value-added machines differentiated from home video game consoles. Another strength is an extensive lineup of products that not only cater to high-frequency players but also appeal to families and a broad base of other players.

Facing a flat amusement center market in recent years due to the downturn in consumer spending, we have turned to leading-edge technology to reactivate the market by improving amusement center operators' investment efficiency. At the same time, we have concentrated on building an earnings platform that will maintain and expand our customer base while stabilizing earnings over the long term. An example of initiatives to revitalize the market is our introduction of a revenue-sharing business model that uses the *ALL.Net* network service to link amusement centers. In a similar vein, we have been promoting standardized cabinets that enable amusement center operators to changeover to new products rapidly and at low cost.

FY 2010 Overview

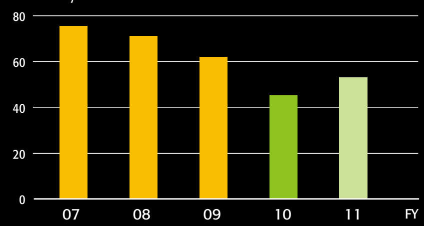
IMPROVING PROFITABILITY THROUGH A RANGE OF MEASURES TO REDUCE COSTS

In fiscal 2010, the segment's net sales declined 27.1%, to ¥45.1 billion, due to the absence of the previous fiscal year's major title launches. However, operating income rose 3.0% year on year, to ¥7.0 billion, and the operating margin improved 4.6 percentage points, to 15.7%. R&D expenses and content production expenses decreased from ¥11.4 billion for the previous fiscal year to ¥7.8 billion. Further, we reduced costs by adopting standardized cabinets, introducing new multipurpose computer graphics boards for arcade games—*RINGEDGE* and *RINGWIDE*, which reduce costs more than 30% compared with our previous computer graphics boards—and lowering part procurement costs.

In fiscal 2010, *BORDER BREAK*, which uses a revenue-sharing business model, enjoyed favorable utilization and grew revenues. By fiscal

Net Sales

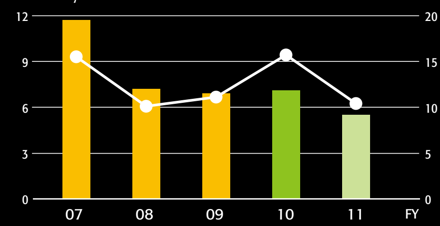
Billions of yen



	10	11
Net sales	45.1	53.0
		Plan

Operating Income/Operating Margin

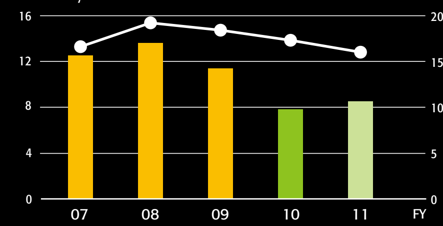
Billions of yen



	10	11
Operating income (left)	7.0	5.5
Operating margin (right)	15.7	10.4
		Plan

R&D and Content Production Expenses

Billions of yen



	10	11
R&D and content production expenses (left)	7.8	8.5
% of net sales (right)	17.3	16.0
		Plan

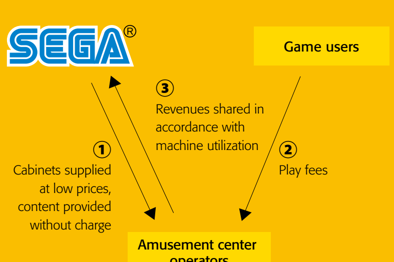
SEGASAMMY Insight

Reactivating the Amusement Market

SEGA is promoting revenue-sharing in which it provides cabinets at low prices and content without charge and then shares revenues from machine utilization with amusement center operators. This business model uses SEGA's *ALL.Net* network service. While this enables amusement center operators to introduce amusement arcade machines with a minimal initial investment, SEGA can secure a continuous flow of earnings by maintaining the market value of content, rather than only receiving revenues from machine sales.

We are energizing the industry. For example, we are furthering the penetration of standardized cabinets that allow the flexible, low-cost marketing of products as well as providing new multipurpose computer graphics boards for arcade games—*RINGEDGE* and *RINGWIDE*—which enable us to develop amusement arcade machines more efficiently.

Revenue-sharing business model focused on coexistence and coprosperity with amusement center operators



year-end, four amusement arcade machine titles were operating under the revenue-sharing business model. These titles are helping generate stable earnings. In addition, kits for upgrading such mainstay titles as *SEGA Network Mah-jong MJ4 Evolution* sold solidly.

FY 2011 Outlook and Strategy

TARGET FURTHER INCORPORATION OF REVENUE-SHARING BUSINESS MODEL

Challenging conditions are likely to persist in the amusement industry, due to the downturn in consumer spending since the emergence of confusion in financial markets as well as the continuing difficulty amusement center operators are having in raising funds. Therefore, this business segment views continuing to heighten investment efficiency for amusement center operators while stabilizing earnings over the long term as a key strategy going forward. In fiscal 2011, the business segment plans to market an amusement arcade machine version of *HATSUNE MIKU Project DIVA*, which was very well received in fiscal 2010. This new offering, *HATSUNE MIKU Project DIVA Arcade*, will use the same content and be based on a revenue-sharing business model. We intend to step up such initiatives that create synergies through the multiple deployment of content in collaboration with the Consumer Business segment. Also, in the fall the business segment plans to launch *SENGOKU TAISEN* as a major trading card game, an area where the Group has outstanding competitiveness. In fiscal 2011, the kids' card game business* will increase the utilization of the eight titles marketed in the previous fiscal year and market five new titles that exploit highly appealing content, including *BAKUGAN* and *Transformers*.

Amid the continuing severity of conditions in the Japanese market, strategies focused on Asian markets and China in particular are critical if this business segment is to grow earnings over the medium-to-long term.

Accordingly, we will bring to bear industry-leading development expertise accumulated over many years and brand power in overseas markets to develop products that reflect gameplay preferences and characteristics, and price competitiveness in each market. In these efforts, we will look at efficient and effective ways of joining forces with overseas local companies for product development, production, and sales.

For fiscal 2011, the business segment is targeting a 17.5% year-on-year increase in net sales, to ¥53.0 billion, due to the transfer of the kids' card game business from the Amusement Center Operations segment to the Amusement Machine Sales Business segment. Meanwhile, we anticipate a 21.4% year-on-year decline in operating income, to ¥5.5 billion, resulting from the equalization of R&D expenses and content production expenses recognition—due to the elimination of the effect of a change in the accounting standard relating to the expenses—and an increase in cost of sales and operating expenses. R&D expenses and content production expenses are expected to increase 9.0% year on year, to ¥8.5 billion.

* From fiscal 2011, the kids' card game business was transferred from the Amusement Center Operations segment to the Amusement Machine Sales Business segment.

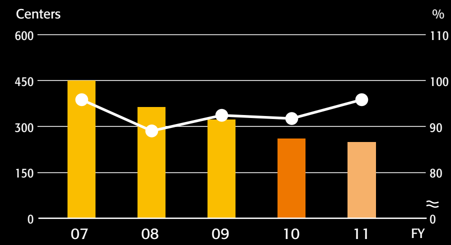
DETERMINATION

Strengthening Profit Structures

Overview by Business Segment

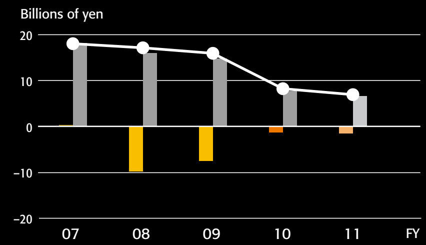
Amusement Center Operations

Number of Amusement Centers in Japan/ Net Sales from Existing Amusement Centers



	10	11
No. of amusement centers (left)	260	248
Existing amusement center sales (right)	91.7	95.8
		Plan

Operating Loss/Capital Expenditures and Depreciation and Amortization

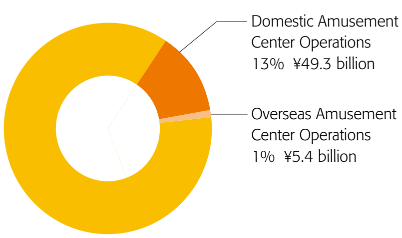


	10	11
Operating loss	−1.3	−1.5
Capital expenditures	7.7	6.6
Depreciation and amortization	8.2	6.9
		Plan

Composition of Net Sales

¥54.7 billion

14.2%



Fiscal 2010 Business Results Overview

Net sales

¥54.7 billion

Down 23.2% year on year

Operating income (loss)

¥−1.3 billion

Improved ¥6.1 billion year on year

Amusement centers in Japan

260 centers

Down 62 from previous fiscal year-end

TOKYO JOYPOLIS

Aiming to achieve profitability at an early stage by revising its amusement center portfolio and strengthening operations.

For details on market trends, please refer to the supplementary "INFORMATION" document.

Basic Information

VARIOUS AMUSEMENT CENTER FORMATS AND COLLABORATION WITH THE AMUSEMENT MACHINE SALES BUSINESS SEGMENT ARE THIS BUSINESS SEGMENT'S STRENGTHS

Nationwide, SEGA operates a diverse network of amusement center formats to suit different locations, including *TOKYO JOYPOLIS*, *SEGA WORLD*, and *CLUB SEGA*. Coordinating with the Amusement Machine Sales Business segment, this segment is trying to attract a wider customer base. Due to contraction of the market, it is revising its amusement centers portfolio and increasing efficiency to move into the black rapidly.

FY 2010 Overview

ENHANCING EARNINGS BY REFORMING OUR AMUSEMENT CENTER PORTFOLIO

Continuing from fiscal 2009, this business segment fortified earnings structures by closing or selling amusement centers in Japan with inadequate profitability or potential. In fiscal 2010, we opened four amusement centers and closed or sold 66. By fiscal year-end, we had 260 amusement centers in Japan, down 62 from the previous fiscal year-end. To boost profitability, we closed eight amusement centers in North America. Consequently, net sales declined 23.2%, to ¥54.7 billion. SEGA's existing amusement centers in Japan saw net sales decrease 8.3% as consumer spending slumped.

Although net sales of existing amusement centers were below the previous fiscal year, earnings began to improve. Operating loss contracted from ¥7.5 billion to ¥1.3 billion, due to the curbing of capital expenditures by revising our amusement center portfolio and limiting amusement center openings, lowering depreciation, reducing personnel expenses, and heightening operational efficiency.

FY 2011 Outlook and Strategy

CONTINUE AND INTENSIFY MEASURES TO IMPROVE PROFITABILITY

In fiscal 2011, despite some signs of bottoming, overall the industry will likely see harsh conditions continue. We project net sales will decline 19.6%, to ¥44.0 billion, while operating loss remains at ¥1.5 billion. We will continue closing or selling amusement centers with inadequate profitability or potential. The business segment plans to open five amusement centers and close 17. Amusement centers in Japan at fiscal year-end will be 248, down 12 from the previous fiscal year-end. We are targeting a 4.2% decrease in existing amusement center net sales. We aim to continue reforming our amusement center portfolio and reinforcing operations to improve earning capabilities.

Note: From fiscal 2011, the kids' card game business was transferred from the Amusement Center Operations segment to the Amusement Machine Sales Business segment.

Creating Entertainment with Unconventional Ideas

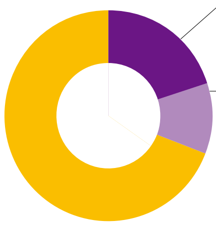
Overview by Business Segment

Consumer Business

Composition of Net Sales

¥121.5 billion

31.6%



Fiscal 2010 Business Results Overview

Net sales

¥121.5 billion

Down 7.4% year on year

Operating income

¥6.3 billion

Moved into the black

Home video game software unit sales

26.7 million

Down 9.2% year on year

R&D expenses/content production expenses

¥19.6 billion

Down 40.2% year on year

This business segment will improve profitability by increasing development efficiency in the home video game software business and advancing multimedia roll-outs of intellectual properties through Group companies.

For details on market trends, please refer to the supplementary "INFORMATION" document.

Basic Information

Home Video Game Software Business

SELECTING AND CONCENTRATING TITLES FOR DEVELOPMENT

SEGA CORPORATION's home video game software business accounts for 60% of the Consumer Business segment's net sales. This business is pursuing a multiplatform strategy that entails providing software for a wide range of platforms. Owning a large array of such intellectual properties as *Sonic the Hedgehog*, the business boasts particularly powerful brand appeal overseas. In the European market, the business includes the major development studio SPORTS INTERACTIVE Ltd., which develops the *Football Manager* series, and The Creative Assembly Ltd., responsible for the *Total War* series. By concentrating our management resources on titles that promise reliable returns, we are furthering development efficiency and improving earnings.

Network Games and Other Business

OPERATING COMPANIES ESTABLISHING UNIQUE POSITIONS IN THEIR BUSINESS AREAS

This business mainly comprises the online and mobile content business, the toy sales business, and the animation business.

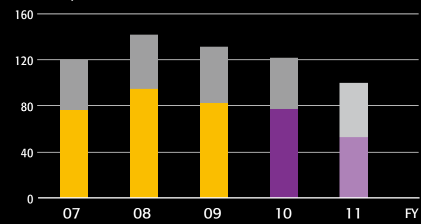
SEGA and Sammy NetWorks Co., Ltd., are responsible for the online and mobile content business. SEGA provides a diverse range of game content that is used for smartphones and other mobile phones and online through PCs. The mainstay services that Sammy NetWorks provides are the online game for PCs, *777 Town.net*, and content for mobile phones, *Sammy 777 Town*.

SEGA TOYS CO., LTD., operates the toy sales business. SEGA TOYS is a fabless company, meaning it does not have production facilities. It has built a distinctive position by developing and marketing unique products that go beyond the limits of the toy industry. In particular, *BAKUGAN*, which SEGA TOYS developed with the Canadian toy manufacturer Spin Master Ltd., is expanding its fan base. In the United States, *BAKUGAN* won the 2009 Toy of the Year Award and claimed the Boys Toy of the Year Award for two consecutive years. In around 120 countries, animation based on *BAKUGAN* is broadcast and related products are available.

The animation business' core operating company TMS ENTERTAINMENT, LTD., is engaged in the production of many major products that have

Net Sales

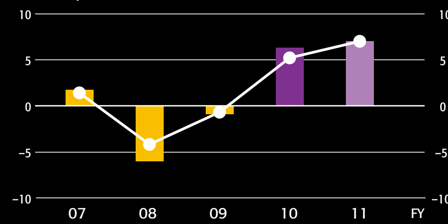
Billions of yen



	10	11
Home video game software business	77.5	52.9
Network games and other business	44.0	47.1
		Plan

Operating Income (loss)/Operating Margin

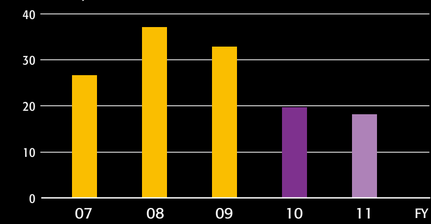
Billions of yen



	10	11
Operating income (loss) (left)	6.3	7.0
Operating margin (right)	5.2	7.0
		Plan

R&D and Content Production Expenses

Billions of yen



	10	11
R&D and content production expenses	19.6	18.1
		Plan

earned worldwide acclaim, including *Lupin the 3rd* and *Detective Conan*. This company is growing earnings by developing the licensing business in addition to the planning and production of quality animation. Further, we established SEGA SAMMY VISUAL ENTERTAINMENT INC. (which changed its name to MARZA ANIMATION PLANET INC. on July 1, 2010) as a subsidiary for the planning, production, and sales of CG animation around the world.

FY 2010 Overview

HOME VIDEO GAME SOFTWARE BUSINESS RETURNS TO PROFITABILITY BY STREAMLINING THE NUMBER OF TITLES

For fiscal 2010, the segment saw a 7.4% year-on-year decrease in net sales, to ¥121.5 billion. Within the business segment, the home video game software business recorded a 5.6% year-on-year decline in sales, to ¥77.5 billion, because it reduced titles for Japan's market and postponed the launch of some titles to the current fiscal year. Meanwhile, in the network games and other business sales were down 10.6% year on year, to ¥44.0 billion, mainly due to lackluster toy sales in Japan reflecting a slump in consumer spending.

In earnings, the business segment achieved operating income of ¥6.3 billion, compared with an operating loss of ¥0.9 billion for the previous fiscal year. This improvement was principally thanks to a 40.0% year-on-year reduction in R&D expenses and content production expenses that resulted from narrowing down the number of titles for Japan and improving development efficiency.

Home Video Game Software Business

EARNINGS IMPROVE IN JAPAN'S MARKET, BUT STRUGGLE OVERSEAS

The home video game software business sold 6.53 million units of *Mario & Sonic at the Olympic Winter Games*™ for the U.S. market and the European market, its mainstay title in fiscal 2010. In Japan, the latest edition of the popular *Ryu-Ga-Gotoku 4: Densetsu wo Tsugumono* series shipped 560,000 units. Further, marketed as a global title, *BAYONETTA* sold 1.35 million units.

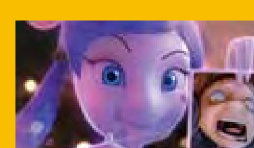
Detective Conan: The Raven Chaser
© 2009 Gosho Aoyama /
DETECTIVE CONAN COMMITTEE

BAYONETTA
© SEGA

SEGASAMMY
Insight

Establishing a CGI Animation Studio

Previously involved in the production of CGI animation for video games, the VE R&D Department has spun off from SEGA's R&D Division to establish MARZA ANIMATION PLANET INC. as a wholly subsidiary of SEGA SAMMY HOLDINGS INC. As a CGI animation film studio, MARZA ANIMATION PLANET has set out providing "The Best Stories for Children around the World" as its management vision. The new company will take advantage of technology, systems, and a pipeline fostered in its years as the VE R&D Department to streamline large-scale production. MARZA ANIMATION PLANET is committed to delivering memorable experiences through characters and imaginary worlds that exploit state-of-the-art CGI technologies.



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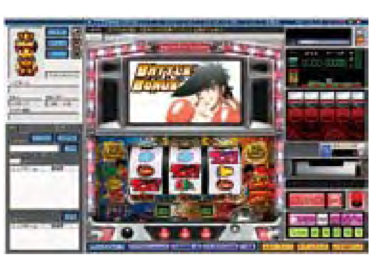
MARZA ANIMATION PLANET

Consumer Business

Mario & Sonic at the Olympic Winter Games™

Ryu ga Gotoku 4: Densetsu wo Tsugumono



777Town.net

For sales in Japan, aiming to balance earnings size and development expenses appropriately, we concentrated development and sales on titles likely to generate a certain level of unit sales and return. As a result, the business more than halved the number of titles sold in Japan to 17 titles. Consequently, the profitability of sales in Japan improved markedly because development efficiency increased and high-margin titles accounted for a larger share of sales. Overseas, however, sales struggled principally because new title sales slumped due to tough market conditions characterized by flat consumer spending. In response to this change in overseas market conditions, the business closed a North American development subsidiary, Secret Level, Inc., and reorganized businesses in North America and Europe. Through this reorganization, we expect to reduce the cost of sales and operating expenses roughly ¥2 billion for the current fiscal year.

Network Games and Other Business

SEGA TOYS TRANSFERS TO NEW BUSINESS MANAGEMENT SYSTEM, SAMMY NETWORKS POSTS RECORD EARNINGS

The core operating company of the toy sales business, SEGA TOYS CO., LTD., recorded solid sales overseas. In particular, sales of *BAKUGAN*-related products continued to grow worldwide. Meanwhile, continuing to face challenging conditions in Japan, SEGA TOYS closed an unprofitable subsidiary as part of efforts to select and concentrate businesses and products. Also, aiming to rightsize its workforce to suit the current level of earnings, the company introduced a voluntary early retirement plan and transferred to a new business management system. Further, Group companies led by SEGA TOYS established Bakugan Limited Liability Partnership (Bakugan LLP), which steadily advanced preparations for the reintroduction of *BAKUGAN* to Japan.

Operating online and mobile content business, Sammy NetWorks Co., Ltd., benefited from a major contribution to earnings from mainstay pachinko and pachislot PC online game *777Town.net.* Another boost to earnings came from the dramatically enhanced profitability of *Sammy 777 Town* content for mobile phones, which resulted from changing over to a pay-per-use business model. In addition, we withdrew from the solutions business, which was unprofitable, and built a system that concentrates management resources on core businesses. Viewing expansion of the content market for smartphones as a good opportunity to increase points of contact with customers, SEGA is stepping up efforts to cater to such growing demand by drawing on the high-quality assets and development capabilities that it has accumulated.

The animation business's core operating company, TMS ENTERTAINMENT, LTD., saw production revenues decline year on year due to its reduction of animated movies in accordance with initiatives to enhance profitability. Nevertheless, sales revenues remained firm due to higher royalty revenues stemming from the popularity of *BAKUGAN* overseas and an increase in box-office revenues due to the success of a movie-theater version of *Detective Conan*.

FY 2011 Outlook and Strategy

TARGETING LOWER REVENUES AND HIGHER EARNINGS BY STREAMLINING OVERSEAS TITLES

For fiscal 2011, the Consumer Business segment is targeting net sales of ¥100 billion, down 17.7% year on year. This decrease will mainly result from the home video game software business' consolidation of titles for overseas markets. This business segment aims to increases operating income 11.1%, to ¥7.0 billion, primarily by improving the profitability of the home video game software business through reduction of R&D expenses and content production expenses and enhancing the profitability of subsidiaries.

Home Video Game Software Business

DEVELOPMENT EFFICIENCY BY STREAMLINING GAME TITLES FOR OVERSEAS MARKETS

Conditions in the Japanese market will likely remain tough. We will market 18 titles in Japan, approximately the same number as in the previous fiscal year, and we hope to ship 3.38 million units, about 440,000 fewer than in fiscal 2010. We aim to reach this target based on such major titles as *HATSUNE MIKU –Project DIVA– 2nd*, the second installation of a series that has attracted fans. Due to downturns in consumer spending, overseas markets are also contracting. Therefore, plans call for narrowing down the number of titles for overseas markets from 49 for fiscal 2010 to 38 titles in the current fiscal year. This will cause a 9.36 million year-on-year decrease in unit sales, to 13.57 million units. While heightening development efficiency, we intend to release a new offering in the *SONIC* series as a major new title and bring *VANQUISH to* market as a global title.

Through these initiatives, for fiscal 2011 the home video game software business is targeting total unit sales of 16.96 million units, a 36.6% year-on-year decrease.

Network Games and Other Business

REINTRODUCE *BAKUGAN* TO THE JAPANESE MARKET

In the toy sales business, SEGA TOYS is expected to record lower revenues due to a change in the transaction format for *BAKUGAN*. However, the company is targeting improved profitability through the selection and concentration of businesses and the reduction of fixed costs. Bakugan LLP will lead a concerted effort by the Group to expand the *BAKUGAN* business in Japan. Also, we will grow sales of the 2010 U.S. Toy of the Year Award winner *Zhu Zhu Pets*, for which we have obtained exclusive marketing rights in Japan.

As for the online and mobile content business, Sammy NetWorks has its sights set on increasing earnings even further by introducing signature titles to its mainstay services *777Town.net* and *Sammy 777 Town*, extending pay-per-use, and commercializing a new content service in earnest. SEGA will proactively provide content for SNS and smartphones, markets that are likely to continue expanding.

In the animation business, TMS ENTERTAINMENT plans to increase earnings by expanding businesses related to *BAKUGAN* and advancing operations for the production of animation for pachinko and pachislot machines. Also, we will concentrate efforts on establishing new businesses engaged in such activities as brand management relating to an agreement concluded with Japan Post on the joint ownership of copyrights for its *Posties* image characters as well as licensing sales. In another effort to develop a future source of earnings, the segment will add infant medical treatment to its business areas. In this initiative, we intend to roll out the world's first preparation support terminal for infant medical treatment, *Smiletouch*, which will make effective use of our animation assets.

HATSUNE MIKU –Project DIVA– 2nd
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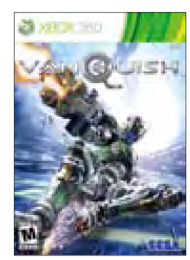
© Crypton Future Media, Inc.
VOCALOID is a trademark or a registered trademark of Yamaha Corporation, Japan.

VANQUISH
© SEGA



Zhu Zhu Pets
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Corporate Governance

As of June 23, 2010

Directors, Corporate Auditors, and Executive Officers

Directors

Hajime Satomi
Chairman of the Board and Chief Executive Officer

1980 President and Representative Director of Sammy Industry Co., Ltd. (currently Sammy Corporation)
2003 Chairman and Director of Sammy NetWorks Co., Ltd. (to present)
2004 Chairman and Representative Director of SEGA CORPORATION
Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation (to present)
Chairman, Representative Director, and Chief Executive Officer of SEGA CORPORATION
Chairman of the Board and Chief Executive Officer of the Company (to present)
2005 Chairman and Director of SEGA TOYS Co., LTD. (to present)
Chairman and Director of TMS ENTERTAINMENT, LTD. (to present)
2007 President, Representative Director, Chief Executive Officer, and Chief Operating Officer of SEGA CORPORATION
2008 Chairman, Representative Director, and Chief Executive Officer of SEGA CORPORATION (to present)

Takeshi Natsuno[1]
Director

2005 Executive Director, General Manager Multimedia Services Department of NTT DoCoMo, Inc.
2008 Guest Professor, Graduate School of Media and Governance of Keio University (to present)
Outside Director of the Company (to present)
Director of PIA CORPORATION (to present)
Outside Director of transcosmos inc. (to present)
Director of Liveware Inc. (to present)
Director of NTT Resonant Inc. (to present)
Director of SBI Holdings, Inc. (to present)
Director of DWANGO Co., Ltd. (to present)
2009 Director of DLE Inc. (to present)
Director of GREE, Inc. (to present)
2010 Director of bitWallet, Inc (to present)

Keishi Nakayama
Executive Vice President and Representative Director

1989 Entered into Sammy Industry Co., Ltd. (currently Sammy Corporation), as General Manager of the General Affairs Division
2004 Senior Managing Director of the Company
2005 Director of Sammy Corporation
Director of Sammy NetWorks Co., Ltd.
Director of SEGA TOYS Co., LTD.
Executive Vice President and Director of the Company
2007 Executive Vice President and Representative Director of the Company (to present)
2008 President, Representative Director, and Chief Operating Officer of Sammy Corporation (to present)

Okitane Usui
Director

1993 Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
1997 Director of SEGA CORPORATION
1999 Retired from SEGA CORPORATION
2007 Entered into SEGA CORPORATION, as Corporate Advisor
Senior Managing Director of SEGA CORPORATION
2008 Director of SEGA CORPORATION
President, Representative Director, and Chief Operating Officer of SEGA CORPORATION (to present)
Chief Executive Officer of Sega Holdings Europe Ltd. (to present)
Chairman of Sega Holdings U.S.A., Inc. (to present)
Director of the Company (to present)

Hisao Oguchi
Director and CCO (Chief Creative Officer)

1984 Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
2003 President and Representative Director of SEGA CORPORATION
2004 President, Representative Director, and Chief Operating Officer of SEGA CORPORATION
Vice Chairman and Director of the Company
2005 Chief Executive Officer of Sega Holdings Europe Ltd.
2006 Chairman of Sega Holdings U.S.A., Inc.
2007 Executive Vice President and Representative Director of SEGA CORPORATION
2008 Representative Director of SEGA CORPORATION
Director of SEGA CORPORATION, Director of Sammy Corporation
Director and Chief Creative Officer of SEGA CORPORATION
Director and Chief Creative Officer of the Company (to present)
Director and Chief Creative Officer of Sammy Company
2009 Senior Managing Director of Sammy Corporation (to present)

Yuji Iwanaga[1]
Director

1981 Registered with The Japan Federation of Bar Associations
1984 Partner of Lillick McHose and Charles Law Office (currently Pilsbury Winthrop Shaw Pittman LLP) (to present)
Registered with the State Bar of California
2003 Outside Director of Manufacturers Bank
2005 Outside Director of JMS North America Corporation (to present)
2006 Outside Director of TAIYO YUDEN Co., Ltd. (to present)
2007 Outside Director of the Company (to present)

1 Qualified external directors as provided in Paragraph 2, Clause 15 of the Corporate Law.
2 Qualified external auditors as provided in Paragraph 2, Clause 16 of the Corporate Law.

Auditors

Toshio Hirakawa[2]
Corporate Auditor

1994 Director of Marusan Securities Co., Ltd.
1996 Managing Director of Marusan Securities Co., Ltd.
2001 President and Representative Director of Marusan Finance Co., Ltd.
2004 Standing Corporate Auditor of Sammy Corporation (to present)
Corporate Auditor of the Company (to present)
2005 Corporate Auditor of TMS ENTERTAINMENT, LTD. (to present)

Hisashi Miyazaki
Corporate Auditor

1984 Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
2001 General Manager of Accounting Dept. of SEGA CORPORATION
2006 General Manager of Finance Dept. of SEGA CORPORATION
2007 Standing Corporate Auditor of SEGA CORPORATION (to present)
Corporate Auditor of the Company (to present)

Mineo Enomoto[2]
Corporate Auditor

1978 Registered with The Japan Federation of Bar Associations
2000 Established Enomoto Law Office (to present)
2004 Corporate Auditor of Sammy NetWorks Co., Ltd. (to present)
Corporate Auditor of SEGA CORPORATION (to present)
2005 Substitute Corporate Auditor of the Company
2006 Corporate Auditor of Nippon Koei Co., Ltd. (to present)
2007 Corporate Auditor of the Company (to present)

A Message from the Independent Director/Auditor

Tomio Kazashi[2]
Standing Corporate Auditor

1990	Director of Cosmo Securities Co., Ltd.
1996	Managing Director of Cosmo Securities Co., Ltd.
1999	Managing Director of Cosmo investment management Co., Ltd.
2005	Standing Corporate Auditor of Sammy NetWorks, Co., Ltd.
2008	Substitute Corporate Auditor of the Company
2009	Corporate Auditor of Sammy NetWorks Co., Ltd. (to present)
	Corporate Auditor of SEGA TOYS Co., LTD. (to present)
	Standing Corporate Auditor of the Company (to present)

While exercising authority as an outside corporate auditor of SEGA SAMMY HOLDINGS INC. appropriately, I endeavor to conduct my duties consistently in light of an awareness that the basic role of an independent director/auditor is to monitor business management from an independent position.

In my view, an important duty of an independent director/auditor is to check that business management does not sacrifice medium-to-long-term improvement of corporate value by focusing excessively on the short-term acquisition of earnings. Another important duty is preventing actions that incur risk beyond the level of risk the Company has been permitted to assume. Also, preventing corporate misconduct is one of the basic roles of an independent director/auditor.

SEGA SAMMY HOLDINGS has many shareholders, most of whom are individual shareholders with small equity holdings, known as general shareholders. These general shareholders are indispensable to the Company. Further, the Company's earnings are the joint earnings of shareholders. Accordingly, I always encourage corporate management in which business management decisions give consideration to shareholders' earnings.

I monitor carefully to ensure that there are no breaches of fiduciary duty. In other words, I check that decision making on a range of business management matters is based on adequate and reliable information, that the duty of care is fulfilled, and that the Company's interests are not sacrificed.

Further, from an objective standpoint, I believe in evaluating corporate behavior rigorously to ensure it is fair, justifiable, and accountable.

SEGA SAMMY HOLDINGS is a holding company that has many operating companies, which conduct business activities across a wide range of areas. Each business has distinctive customer bases, regulatory conditions, and product lifecycles. Therefore, I monitor whether the Company is deploying management resources in a way that reflects these differences while optimizing the Group as a whole.

In corporate governance, which underpins the continuous advancement of corporate value, I think whether or not systems are sufficiently practical is more important than the extent to which a company has established systems. I believe the Board of Directors of SEGA SAMMY HOLDINGS functions adequately in regard to holding lively discussions and reflecting input from outside directors and outside corporate auditors based on their expertise and business experience in business management decisions.

I intend to fulfil my duties in order to contribute to the sustained development of SEGA SAMMY HOLDINGS and meet the expectations of its stakeholders.

Executive Officers

Hideo Yoshizawa
Senior Executive Officer

Koichi Fukazawa
Senior Executive Officer

Tetsushi Ikeda
Executive Officer

Takatoshi Akiba
Executive Officer

Corporate Governance System

Basic Stance on Corporate Governance

The SEGA SAMMY Group regards corporate governance as the key foundation for its corporate activities. The fundamental principles of the Group's corporate governance policy are to enhance efficiency, secure a sound corporate organization, and enhance transparency. This policy is the basis for addressing such important management issues as selecting candidates for directorships, deciding compensation for directors, implementing management oversight, and determining compensation for corporate auditors.

Enhancing Efficiency: The Group will strive to maximize corporate value by establishing expeditious, appropriate decision-making processes and by increasing the efficiency of corporate management. We will work to return the benefits of these efforts to our shareholders and other stakeholders.

Securing a Sound Corporate Organization: To maximize corporate value in volatile business conditions, the Group will identify and manage the range of risks that it faces. At the same time, we will secure a sound corporate organization through the reinforcement of compliance systems focused on strict adherence to social norms as well as laws and regulations.

Enhancing Transparency: In light of the growing importance of disclosure by companies, the Group will increase management transparency by fulfilling its responsibility to explain corporate actions to shareholders and other stakeholders and by realizing enhanced disclosure through proactive investor relations (IR) activities.

Execution and Oversight System

The SEGA SAMMY Group has adopted a corporate auditor system in consideration of its objective of enabling directors, who have abundant knowledge and experience of industry, market trends, products, merchandise, and services, to make quick and optimal management decisions in a rapidly changing management environment. At the same time, we have appointed outside directors and strengthened our executive officer and internal control systems, reinforcing our corporate governance organization from the aspects of business execution and organizational oversight.

Systems for Ensuring Business Management Objectivity

The Company has six directors, two of whom are outside directors, as well as four corporate auditors, three of whom are outside corporate auditors. The Company has elected outside directors and outside corporate auditors that do not have conflicts of interest with general shareholders. At the various meetings that they attend, outside directors and outside corporate auditors provide guidance and advice based on their abundant experience and specialized knowledge.

- Attendance of outside directors at meetings of the Company's Board of Directors in fiscal 2010
  Yuji Iwanaga: Attended 10 of 11 meetings (including attendance at 8 of 9 ordinary meetings of the Board of Directors)
  Takeshi Natsuno: Attended 11 of 11 meetings (including attendance at 9 of 9 ordinary meetings of the Board of Directors)
- Attendance of outside corporate auditors at meetings of the Company's Board of Directors in fiscal 2010
  Tomio Kazashi: Attended 8 of 8 meetings (including attendance at 7 of 7 ordinary meetings of the Board of Directors)
  Toshio Hirakawa: Attended 11 of 11 meetings (including attendance at 9 of 9 ordinary meetings of the Board of Directors)
  Mineo Enomoto: Attended 9 of 11 meetings (including attendance at 8 of 9 ordinary meetings of the Board of Directors)
  The attendance of Tomio Kazashi is for the period of service following the Ordinary General Meeting of Shareholders held in June 2009.
- Independent Director/Auditor
  Name: Tomio Kazashi

Based on the fundamental principles of the Group's corporate governance policy and pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc., the Company has designated Tomio Kazashi as its independent director/auditor with an independent position that makes conflicts of interest with general shareholders unlikely.

Compensation of Directors

Compensation of directors of SEGA SAMMY HOLDINGS for fiscal 2010 was as follows.

Total compensation for fiscal 2010: ¥489 million for five directors (including ¥32 million for two outside directors)

Notes 1. The Ordinary General Meeting of Shareholders convened in June 2008 approved a compensation limit of ¥600 million for directors.
2. In addition to the abovementioned, the Ordinary General Meeting of Shareholders convened in June 2009 approved a final payment of retirement benefits to directors and corporate auditors in accordance with the termination of the system of retirement benefits for directors and corporate auditors. As of the end of fiscal 2010, total final payments were ¥276 million for two directors, to be paid to them upon retirement.

Enhancing Business Execution, Auditing, and Oversight through Collaboration among Boards and Committees

The Board of Directors, the Board of Corporate Auditors, and six committees are tasked with further improving business execution, auditing, and oversight by coordinating efforts throughout the Group.

Board of Directors: Comprising six directors, the Board of Directors convenes once a month and as required and implements responsive management. Further, the Board of Directors undertakes decision making and reporting for certain significant management issues of Group companies.

Board of Corporate Auditors: The Board of Corporate Auditors, consisting of four corporate auditors, meets once a month and as required in order to deliberate on and analyze specific issues thoroughly.

Group Management Liaison Committee: Meeting as required, the Group Management Liaison Committee aims to cultivate consensus in the Group through information sharing and rigorous debate.

Holdings Audit Liaison Committee: The Holdings Audit Liaison Committee consists of standing corporate auditors from the Company, SEGA, and Sammy; responsible directors from accounting divisions; and representatives of the Company's independent auditors, KPMG AZSA & Co. At monthly meetings, committee members exchange opinions from their respective standpoints and seek to enhance accounting compliance.

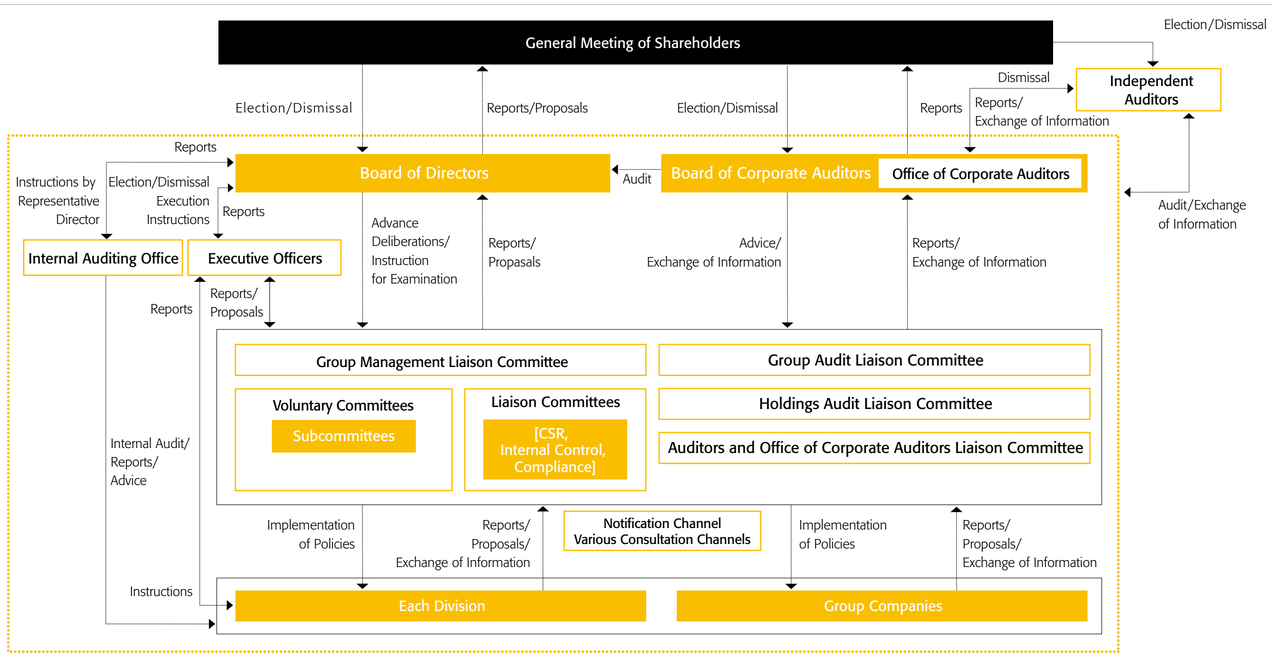
Group Audit Liaison Committee: The Group Audit Liaison Committee comprises standing corporate auditors from Group companies. They convene as required to share information on such timely issues for the Company and the Group as revisions in laws and regulations and to build close working relationships among the standing corporate auditors.

Auditors and Office of Corporate Auditors Liaison Committee: The Auditors and Office of Corporate Auditors Liaison Committee consists of standing corporate auditors from the Company, SEGA, and Sammy as well as members of the Company's Office of Corporate Auditors. The committee meets every month with the purpose of ensuring the soundness of management by sharing information.

Voluntary Committees: Voluntary committees discuss and check specific issues related to Group management that the Board of Directors refers to them and report or present the results to the Board of Directors.

Liaison Committees: Liaison committees are bodies that discuss and check the Group's corporate governance policies. The Group Internal Control Liaison Committee and the Group CSR Liaison Committee comprise managers responsible for internal control and CSR at the Company, SEGA, and Sammy. These committees meet quarterly. Further, a Group compliance liaison meeting comprises the compliance officers of SEGA SAMMY HOLDINGS, SEGA, Sammy, and the Group's listed subsidiaries and convenes every six months.

Corporate Governance System



Basic Policies for Strengthening Internal Control Systems

In accordance with the Corporate Law, the Company has formulated and is working to implement the following basic policies for strengthening its internal control systems.

(1) Systems to ensure that directors perform their duties in conformance with laws, regulations, and the Articles of Incorporation

To ensure a thorough understanding that compliance is a prerequisite to all corporate activities, we have formulated the Group CSR Charter and Group Code of Conduct, which are the foundation of our social responsibility policies for filling our role as a member of society, including the establishment of a compliance system. The President and Representative Director will repeatedly take steps to convey the spirit of these policies to all officers and employees. Furthermore, to ensure appropriate and sound execution of the Company's operations overall, the Board of Directors is striving to establish effective internal control systems and a system to ensure compliance by the Company with laws, regulations, and the Articles of Incorporation from the perspective of further strengthening corporate governance. In addition, the Board of Corporate Auditors is working to find and correct any problems at an early stage by auditing the effectiveness and functions of the internal control systems and verifying them periodically.

(2) Systems to store and control information on the performance of duties by directors

The President and Representative Director has appointed the Director in charge of the Administration Divisions as the person responsible for the storage and control of information on the performance of duties by directors. In accordance with internal rules, this information is recorded in documents or electronic media and stored and controlled in easily searchable formats that facilitate adequate, accurate inspection by the directors and corporate auditors.

(3) Rules and other systems concerning management of exposures to loss

With regard to risks related to the execution of business by the Company, each relevant division analyzes and identifies individual foreseeable risks and clarifies the risk management system. In addition, the internal audit department and the internal control department audits and monitors the status of risk management by each division and each department and periodically reports the results of audits to management decision-making, execution, and oversight bodies.

(4) Systems to ensure efficient performance of duties by directors

To ensure efficient performance of duties by directors, we employ a system of corporate auditors to enable internal officers familiar with the business of the Group to make decisions swiftly and properly. At the same time, in accordance with the regulations of the Board of Directors and other regulations, we have established a system to ensure appropriate and efficient performance of duties by directors through rules on authority and decision making.

(5) Systems to ensure that employees perform their duties in conformance with laws, regulations, and the Articles of Incorporation

1) The internal control department has been given overall responsibility for compliance for the Company and the Group. Group compliance policies are promoted to ensure that all employees act in compliance with laws, regulations, the Articles of Incorporation, and other internal rules as well as social norms.

2) We have established a system to enable employees to make reports if they become aware of any contravention of laws, regulations, the Articles of Incorporation, other internal rules, or social norms. In addition, we have established a system to ensure that responsible personnel report any important cases to the Board of Directors and the Board of Corporate Auditors without delay. Moreover, as a system to protect such whistle-blowers and to ensure appropriate handling while maintaining transparency, we have established reporting channels that include not only regular reporting channels but also an internal department in charge of compliance and outside attorneys.

(6) Systems to ensure proper execution of business by the corporate Group, including the Company and its parent company and subsidiaries

We have established the Group Management Liaison Committee, the Group Audit Liaison Committee, and other committees to discuss various problems involving the Group and matters involving significant risks that should be controlled. At the same time, the Office of Corporate Auditors conducts audits from the perspectives of the Groupwide interest, and we are doing our utmost to share information within the Group and ensure appropriate business execution.

(7) Matters concerning employees appointed by request of the corporate auditors to assist the corporate auditors in the performance of their duties

We have established the Office of Corporate Auditors under the direct control of the Board of Corporate Auditors. Employees assigned to the Office of Corporate Auditors assist the corporate auditors in the performance of their duties in compliance with their directions and orders.

(8) Matters concerning the independence from the directors of the employees described in item

1) Employees assigned to assist the corporate auditors in the performance of their duties are supervised directly by the corporate auditors and are not subject to orders or supervision from the directors.

2) In regard to the employees described above, such matters as appointment, dismissal, transfer, evaluation, disciplinary disposition, and wage revision require prior consent from the Board of Corporate Auditors.

(9) Systems for ensuring directors and employees provide reports to corporate auditors and other systems for ensuring the provision of reports to corporate auditors

1) If directors or employees become aware of any material violation of laws, regulations, the Articles of Incorporation, or of any misconduct with regard to the performance of duties, or of any fact that may cause material damage to the Company, they must report the situation to the Board of Corporate Auditors without delay.

2) Directors and employees must report any decisions that could have a material effect on business or the organization and the results of any internal audits to the Board of Corporate Auditors without delay.

(10) Other systems to ensure effective audits by corporate auditors

1) The representative directors must meet with the corporate auditors periodically to exchange opinions on the administration of the Company, in addition to reports on operations, and must otherwise work to foster mutual communication.

2) The Board of Directors must ensure that corporate auditors attend business execution meetings as needed to ensure appropriate operations.

3) Whenever necessary, the Board of Corporate Auditors must be given opportunities to receive advice on their duties by independently engaging attorneys, certified public accountants, and other third-party advisors.

Other Initiatives Relating to the Corporate Governance System

In order to increase and improve corporate governance in the Company and the Group, the Company has established the Group Internal Control Liaison Committee, the Group CSR Liaison Committee, and the Group Compliance Liaison Committee as well as specialist departments—the Group Internal Control Office and the Group CSR Office—which collaborate and coordinate with each other and respond to the needs of the committees. Through these committees and offices, the Company deliberates and checks problems and progress relating to the building of internal control systems for Group management and takes steps to maintain and improve these systems.

Further, the Group established the Group Internal Control Project in fiscal 2006, ended March 31, 2006, and moved forward with the establishment of a framework for evaluating and reporting on internal control systems in response to the Financial Instruments and Exchange Law, commonly known as J-SOX, which stipulates a system for evaluation and auditing standards for internal control for financial reports. Consequently, initiatives targeting reliability in financial reporting have been established, and internal control for the Group's financial reports for fiscal 2010 has been judged to be effective.

In the future, the Group will continuously ensure the reliability of financial reporting and, at the same time, with consideration for efficiency and soundness, will work to maintain and develop its internal control systems.

IR Activities

The Company works to achieve fair and timely disclosures to shareholders and investors. Accordingly, it holds briefings for institutional investors and analysts on full-year and interim financial results. Also, we distribute information on these briefings via the Internet. When releasing first-quarter and third-quarter financial results, we hold telephone conferences. In addition, we continuously take measures to further understanding of our business activities. For example, we are increasing and improving the IR-related materials available on our web site. Moreover, the web site has a section for individual investors that includes readily understandable explanations of the Group.

Further, the Company strives to further heighten the objectivity of its business management by reflecting valuable opinions and requests received from shareholders and investors in its business management.

Our Main IR Activities in Fiscal 2010

Financial results briefings	Twice
Quarterly financial results briefings (telephone conferences)	Twice
Small-scale meetings	Twice
Meetings with individuals	242 times
Factory study tours	Once
Overseas conferences	Once

Business Report

IR page of the SEGA SAMMY HOLDINGS web site

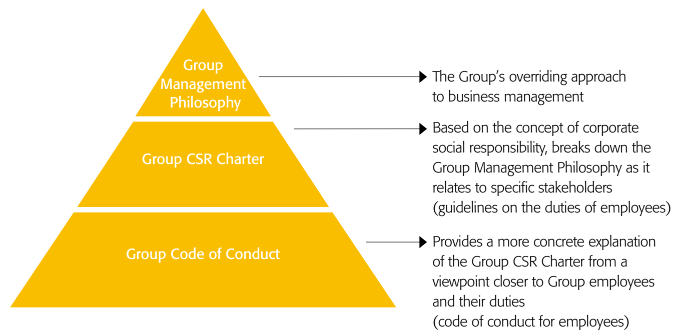
A financial results briefing

Corporate Social Responsibility

Basic Policy

By building better relationships with its stakeholders, the SEGA SAMMY Group will achieve sound business management and meet its obligations to society. Furthermore, we aim to create corporate value continuously and contribute to the sustained development of society.

In order to advance corporate social responsibility (CSR) initiatives, the SEGA SAMMY Group calls on all executives and other employees to adhere to the Group Management Philosophy, the Group CSR Charter, and the Group Code of Conduct and takes measures to encourage adherence throughout the Group.



The SEGA SAMMY Group CSR Charter

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

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

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

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

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

Fiscal 2010 Initiatives

Heightening Awareness of Compliance (SEGA SAMMY Group)

With a view to fostering and spreading compliance awareness, along with easy-to-carry notebooks that we give to all employees, we distribute a pamphlet that includes the Group Management Philosophy, the Group CSR Charter, and the Group Code of Conduct. We hope that as a result employees will always be mindful that they are SEGA SAMMY Group employees and act accordingly as they carry out duties or visit business partners. In fiscal 2010, SEGA SAMMY established the Group Compliance Liaison Committee, which will further strengthen initiatives across the Group. Convened twice in fiscal 2010, the new committee exchanged information among Group companies and prepared future polices. Going forward, the Group will raise its level of compliance even further by creating synergies among Group companies, strengthening compliance advancement systems, and monitoring these systems continuously.

The Group Compliance Liaison Committee

Taking Part in the Picture Books Project (SEGA SAMMY Group)

We have participated in the Shanti Volunteer Association's Picture Books Project since 2008. This initiative delivers Japanese children's picture books with translations pasted over the text to Cambodia and Laos, which publish very few children's books. In fiscal 2010, eight Group companies participated and prepared 87 picture books. The SEGA SAMMY Group intends to encourage more Group employees to take part in this project.

A secretariat meeting

Supporting the Adopt-A-Forest Promotion Program, SEGA no Mori (SEGA)

To support Nagano Prefecture's Adopt-A-Forest Promotion Program, SEGA concluded a 10-year "forest adoption" contract with the village of Minami-Aiki in Minami Saku, Nagano Prefecture, in April 2008. The contract covers roughly 3,633 hectares of private forest. The property has been named "SEGA no Mori," which means SEGA's forest. SEGA uses the forest to educate employees about the environment. In October 2009, a third group of forest development volunteers visited the forest. In this latest visit, SEGA employees and some volunteers from Group companies experienced forest-thinning and farming work. Consequently, the event gave employees a chance to meet employees from other parts of the Group. In addition to continuing efforts to curb the CO_2 its operations generate, SEGA is reducing CO_2 emissions by using green power and undertaking forestation to absorb CO_2. The company will also move forward with plans for a certain amount of carbon offsetting.

SEGA no Mori forest development volunteers

Opening Showrooms to the Public (Sammy)

Since June 2006, we have frequently opened our headquarters showroom so that senior citizens can enjoy playing pachinko and pachislot. In this initiative, we collaborate with the Social Welfare Council of Toshima Ward, Tokyo, which introduces us to its welfare facilities for senior citizens. By the end of fiscal 2010, Sammy had opened its showroom 108 times and received 591 visitors. Moreover, Sammy is preparing to introduce similar initiatives in stages through tie-ups with local social welfare facilities at eight of its sales bases around Japan. Branches in Sendai, Sapporo, Tokyo, and Hiroshima have already begun initiatives. As well as enabling Sammy to entertain a wide range of age groups, by emphasizing the value of contact with local residents, such activities will build a stronger awareness within the Group of the importance of social contributions.

One of Sammy's showrooms opens its doors to the public

Holding SEGA SAMMY Baseball Club Clinics for Children (SEGA SAMMY Group)

Aiming to help establish a vibrant, healthy society through sports, SEGA SAMMY holds baseball clinics for children around Japan. Since 2006, SEGA SAMMY Baseball Club clinics have taught more than 2,555 children batting, catching, and fielding. Further, the club conducts training sessions for instructors. These efforts enrich communication with local communities and support the next generation's development. Also, we have sponsored the Tokyo Kids Baseball Academy of the Tokyo Shimbun and Tokyo Chunichi Sports newspapers since 2006. Players and employees of the SEGA SAMMY Baseball Club help out at the academy. These volunteers instruct children belonging to youth baseball teams based in Tokyo or its surrounding prefectures and help them pick up trash from baseball grounds after events. Through baseball clinics, we continue to promote sports and initiate exchanges with society at large.

Players of the SEGA SAMMY Baseball Club providing instruction enthusiastically

Donating Toys (SEGA SAMMY HOLDINGS, SEGA TOYS, SEGA Logistics Service)

Through a specified nonprofit organization, the Japan NPO Canter, we donate toys to three groups that a have a particular need for them: the specified nonprofit organization Family House, the Omocha No Toshokan Zenkoku Renrakukai (toy library nationwide liaison meeting), and the specified nonprofit organization Niigata Saigai (disaster) Volunteer Network.

The SEGA SAMMY Group will maintain exchanges with various groups and take advantage of its businesses to help solve social problems.

Letters of thanks from toy libraries nationwide

Organizing Concerts Performed by Affiliated Artists (Wavemaster)

Hoping to give comfort and enjoyment to many people through music, the SEGA SAMMY Group organizes charity concerts performed by Seasons, an ensemble of musicians affiliated with the Group. By continuing to submit proposals to welfare councils across Japan relating to concerts for hospitals or social welfare facilities, we have built an impressive track record of visits.

Seasons perform at a charity concert

Participating in Game Day Events (SEGA)

To coincide with the week of Game Day, which is on November 23 every year, the All Nippon Amusement Machine Operators' Union (AOU) organizes social contribution events just prior to or following Game Day. As a member of the AOU, SEGA actively participates in the AOU's initiatives to invite to amusement centers people that have few opportunities to visit them, such as those with disabilities or children from orphanages, or to deliver games to orphanages and senior citizens' welfare facilities.

For further details, please see the SEGA SAMMY Group CSR Report 2010.

SEGA SAMMY Group CSR Report 2010

FINANCIAL SECTION

Contents

MD&A

Business Conditions

Because the SEGA SAMMY Group operates businesses in a wide range of entertainment areas, a variety of changes in outside conditions affect its business segments.

Pachinko and Pachislot Machine Business

Regulatory revision is the main factor affecting the market conditions of the Pachinko and Pachislot Machine Business segment. In recent years, the July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law has significantly affected market conditions. Although the pachinko machine market has seen steady replacement of machines with machines offering a greater variety of gameplay, an expanding market based on low ball-rental charges has raised concern that market conditions, which have been comparatively favorable, will suffer a reversal and slow down. On the other hand, the pachislot machine market, which had been in a prolonged slump, is trending toward recovery as manufacturers begin shipping pachislot machines with innovative gameplay.

Amusement Machine Sales Business

The business management situation of amusement center operators is the key factor determining the market conditions of the Amusement Machine Sales Business segment. In the past several years, the market for amusement arcade machines has shrunk because amusement center operators facing tough business conditions have curbed capital expenditures and closed amusement centers. As a result, developing and supplying innovative amusement arcade machines that cater to diverse customer needs is critical.

Amusement Center Operations

Sluggish consumer spending is affecting the Amusement Center Operations segment. Further, the number of customers visiting amusement centers is declining as the functions of home video game consoles become increasingly sophisticated and gameplay diversifies. Consequently, amusement centers are closing and sales at existing amusement centers continue to edge down year on year.

Consumer Business

In the Consumer Business segment, the home video game software business is experiencing a slump in demand in the United States and Europe, markets which had grown continuously. By contrast, the markets for new content for SNS and smartphones are expanding.

Forfurther information, please see "Market Conditions of the Group's Business Segments" in "INFORMATION" at the beginning of this report.

Fiscal 2010 Business Results Analysis

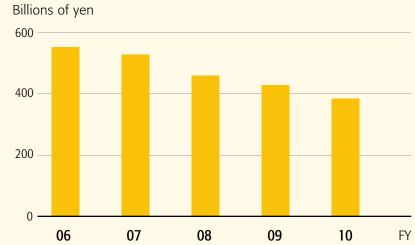
Statement of Operations Analysis

Net Sales: Net sales for fiscal 2010, ended March 31, 2010, decreased 10.4%, to ¥384.6 billion. By business segment, the Company recorded year-on-year declines in net sales of 0.8% in the Pachinko and Pachislot Machine Business segment, 27.1% in the Amusement Machine Sales Business segment, 23.2% in the Amusement Center Operations segment, and 7.4% in the Consumer Business segment. Overseas sales were down 14.2% year on year, to ¥79.7 billion, which represented 20.7% of net sales.

Cost of Sales: Cost of sales declined a significant 20.7% year on year, to ¥245.8 billion, due to lower net sales, curbed R&D expenses and content production expenses in the Amusement Machine Sales Business segment and the Consumer Business segment, reduction of part procurement costs, and an increase in pachinko board sales as a percentage of pachinko machine sales in the pachinko machine business. The cost of sales ratio improved 8.4 percentage points, to 63.9%. As a result, gross profit rose 16.6% year on year, to ¥138.8 billion.

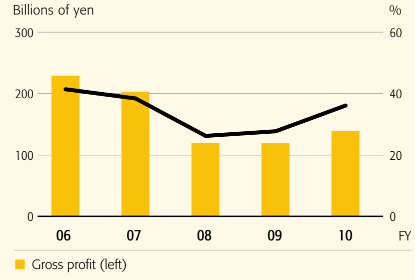
Net Sales

Billions of yen



Gross Profit/Gross Profit Margin

Billions of yen %



(Change in accounting treatment) Previously, the Company recognized production expenses for game software and content for amusement arcade machines, which are mainly associated with the subsidiary SEGA, as cost of sales when these expenses arose. (The Company recognized outsourced production work as advance payments, recognizing it as cost of sales when the Company had received and inspected the production work.) From the fiscal year ended March 31, 2010, however, the Company recognizes products approved for commercialization as inventories or non-current assets. For inventories, at fiscal year-ends the Company recognizes as cost of sales an amount equivalent to the projected sales volume of products approved for commercialization net of the actual sales volume. For non-current assets, the Company recognizes as cost of sales an amount equivalent to depreciation and amortization based on the number of years of service life.

The Company undertook this change in accounting treatment in order to reflect a reorganization that enables the Company to clarify decision-making processes at the development stage of each project and that enables the Company to evaluate the likelihood of achieving earnings more appropriately. This reorganization resulted from revision and strengthening of the Company's development system

The change in accounting treatment directly links content production expenses, which have been trending upward in recent years, to earnings as well as enabling accurate presentation of income and expenses for fiscal periods. As a result of this change in accounting treatment, for the fiscal year ended March 31, 2010, the Company recorded decreases in cost of sales and operating expenses of ¥1,643 million ($17,662,000) in the Amusement Machine Sales Business segment, ¥174 million ($1,880,000) in the Amusement Center Operations segment, and ¥3,980 million ($42,782,000) in the Consumer Business segment.

Consequently, the operating incomes of the Amusement Machine Sales Business segment and the Consumer Business segment increased by the above amounts, and the operating loss of the Amusement Center Operations segment decreased by the above amount.

SG&A Expenses: SG&A expenses declined 7.7% year on year, to ¥102.1 billion, thanks to efforts to reduce expenses by withdrawing from unprofitable businesses and lower personnel expenses and depreciation by revising the amusement center portfolio. SG&A expenses as a percentage of net sales edged up 0.8 percentage point, to 26.6%.

Operating Income: Operating income rose a sharp 339.0% year on year, to ¥36.7 billion, reflecting cost reductions and improved earnings from the Pachinko and Pachislot Machine Business segment. As a result, the operating income margin increased from the previous fiscal year's 1.9% to 9.5%. By business segment, the Pachinko and Pachislot Machine Business segment's operating income was up from ¥14.5 billion for the previous fiscal year to ¥29.5 billion. The Amusement Center Operations segment achieved a major improvement in operating loss, and the Consumer Business segment realized operating income compared with operating loss for the previous fiscal year.

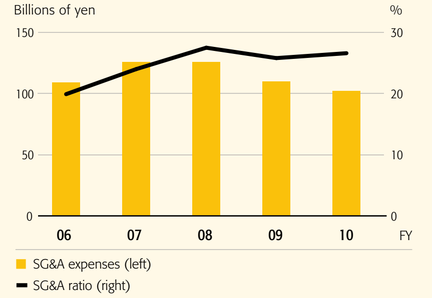
Non-Operating Income (Expenses), Ordinary Income: Other income declined 40.4% year on year, to ¥2.0 billion, due to decreases in gain on investments in partnership and interest on tax refund. Other expenses decreased 45.2% year on year, to ¥2.7 billion, mainly because of lower foreign exchange losses and the absence of loss on valuation of derivatives and loss on disposal of development work in progress, which arose in the previous fiscal year. As a result, ordinary income was up 441.4% year on year, to ¥35.9 billion.

Extraordinary Gain and Extraordinary Loss: Extraordinary gain was down 13.1% year on year, to ¥3.1 billion. Extraordinary loss decreased 60.4% year on year, to ¥12.0 billion. This decline was principally the result of a substantial year-on-year decrease in business restructuring expenses—including impairment loss on amusement centers, loss on the closure of amusement centers, loss on the cancellation of game content development in the Consumer Business segment—and loss on withdrawal from unprofitable businesses and voluntary retirement plan expenses.

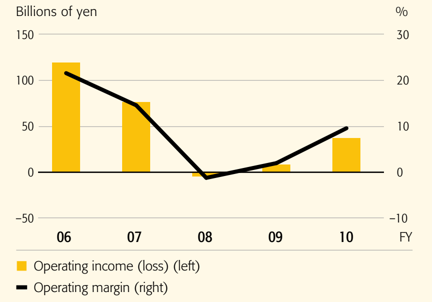
Income Taxes and Net Income: Income taxes rose 204.2% year on year, to ¥5.6 billion, as a consequence of higher earnings. Net income after minority interests was ¥20.2 billion, compared with net loss of ¥22.9 billion for the previous fiscal year. As a result, net income per share of common stock was ¥80.46 for fiscal 2010, compared with net loss per share of common stock of ¥90.83 for the previous fiscal year. Further, ROE was 8.8%, an improvement from a loss on equity of 9.5% for the previous fiscal year.

Capital Expenditures and Depreciation and Amortization: Capital expenditures were ¥16.1 billion, a steep decline from ¥26.6 billion for the previous fiscal year. Depreciation and amortization also decreased considerably, from ¥26.6 billion for the previous fiscal year to ¥17.1 billion. These decreases principally stemmed from a reduction in the number of amusement centers in the Amusement Center Operations segment and lower capital expenditures due to the limited opening of amusement centers.

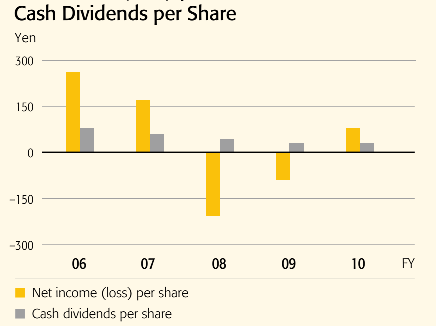
SG&A Expenses/SG&A Ratio



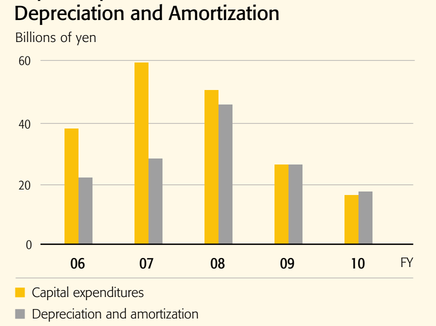
Operating Income (Loss)/Operating Margin



Net Income (Loss) per Share/Cash Dividends per Share



Capital Expenditures/Depreciation and Amortization



MD&A

R&D Expenses, Content Production Expenses*: R&D expenses and content production expenses, included in SG&A expenses and production expenses, decreased 30.5% year on year, to ¥41.5 billion, mainly due to lower expenditures in the Consumer Business segment and the Amusement Machine Sales Business segment as well as the deferred recognition of expenses accompanying postponement of certain mainstay title sales launches in the Consumer Business segment. Further, R&D expenses as a percentage of net sales was 10.8%, down from 13.9% for the previous fiscal year.

Major Expenses

Millions of yen

	2009	2010	% Change
Advertising expenses	20,804	20,774	–0.1%
R&D expenses, content production expenses*	59,676	41,502	–30.5%
Depreciation and amortization	26,644	17,175	–35.5%
Capital expenditures	26,610	16,164	–39.3%

* From fiscal 2010, in order to directly link content production expenses, which have been trending upward in recent years, to earnings and enable appropriate presentation of income and expenses for fiscal periods, the Company changed its accounting policy for the treatment of cost of sales from recognition when production expenses arise to recognition at time of sale.

Business Segment Analysis

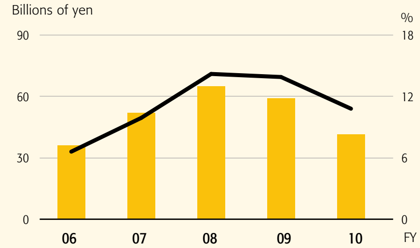
Pachinko and Pachislot Machine Business: The Pachinko and Pachislot Machine Business segment recorded a 0.8% year-on-year decrease in net sales, to ¥160.3 billion, and a 103.1% increase in operating income, to ¥29.5 billion. In the pachinko machine business, the profit margin improved because higher pachinko board sales as a percentage of pachinko machine sales and reduction of part procurement costs offset a year-on-year decline in unit sales. Meanwhile, in the pachislot machine business, unit sales increased year on year and the business posted a 53.0% year-on-year rise in net sales. The operating income margin was 18.4%, a significant improvement from 9.0% for the previous fiscal year.

Amusement Machine Sales Business: The Amusement Machine Sales Business segment saw net sales decrease 27.1% year on year, to ¥45.1 billion. Operating income was up 3.0% year on year, to ¥7.0 billion. The profit margin improved thanks to reductions in R&D expenses and content production expenses as well as favorable utilization of mainstay titles sold based on a revenue-sharing business model, which counteracted lower revenues due to the comparative absence of the previous fiscal year's sales launches of major titles. The operating income margin improved year on year from 11.1% to 15.7%.

Amusement Center Operations: The Amusement Center Operations segment posted a 23.2% year-on-year decline in net sales, to ¥54.7 billion. Operating loss contracted from the previous fiscal year's ¥7.5 billion to ¥1.3 billion. In Japan, the business segment continued closing or selling of amusement centers with inadequate profitability or potential. Also, in overseas amusement center operations the business segment closed eight amusement centers in North America with a view to improving profitability.

R&D Expenses, Content Production Expenses, and % of Net Sales

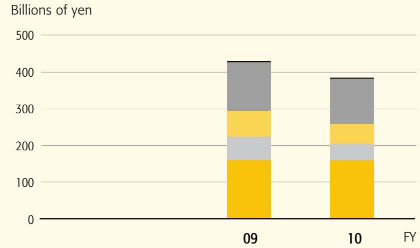
Billions of yen



■ R&D expenses, content production expenses (left)
▬ % of net sales (right)

Net Sales by Segment

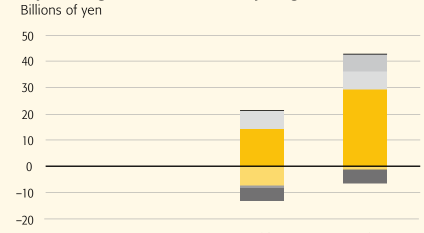
Billions of yen



	09	10
Pachinko and Pachislot Business	161.6	160.3
Amusement Machine Business	61.9	45.1
Amusement Center Operations	71.3	54.7
Consumer Business	131.3	121.5
Others	2.9	2.8

Operating Income (Loss) by Segment

Billions of yen



	09	10
Pachinko and Pachislot Business	14.5	29.5
Amusement Machine Business	6.8	7.0
Amusement Center Operations	–7.5	–1.3
Consumer Business	–0.9	6.3
Others	0.3	0.3
Corporate and eliminations	–4.9	–5.2

Consumer Business: The Consumer Business segment's net sales were down 7.4% year on year, to ¥121.5 billion. However, the business segment posted operating income of ¥6.3 billion, compared with the previous fiscal year's operating loss of ¥0.9 billion. In the home video game software business, sales in Japan were solid overall, but new title sales were lackluster overseas. In the toy sales business, sales trends were steady overseas, while sales were sluggish in Japan. In the content for PCs and mobile phones business and the animation business earnings were firm on the whole.

Balance Sheet Analysis

Total Assets: Total assets at the March 31, 2010 fiscal year-end stood at ¥423.1 billion, down ¥0.8 billion from the previous fiscal year-end. This decrease was attributable to a ¥12.8 billion decline in total non-current assets, due to impairment of property, plant and equipment and a decrease in lease deposits, which cancelled the effect of a ¥12.0 billion increase in total current assets, resulting from higher marketable securities due to purchases of negotiable certificates of deposit.

Total Current Assets and Total Current Liabilities: Total current assets at fiscal year-end amounted to ¥298.7 billion, up ¥12.0 billion from the previous fiscal year-end. This increase primarily stemmed from a significant rise in marketable securities, offsetting a decrease in notes and accounts receivable—trade. Total current liabilities declined ¥4.4 billion from the previous fiscal year-end, to ¥92.8 billion. This decline mainly reflected decreases in notes and accounts payable—trade and accrued expenses, which absorbed an increase in the current portion of bonds. As a result, the Company maintained a high level of liquidity, with a current ratio of 321.8%, up 26.8 percentage points from 295.0% at the previous fiscal year-end.

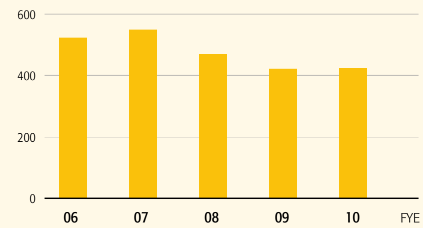
Total Property, Plant and Equipment: Total property, plant and equipment at fiscal year-end stood at ¥59.0 billion, a decline of ¥6.1 billion from the previous fiscal year-end that resulted from decreases in buildings and structures and amusement machines and facilities due to impairment.

Total Investments and Other Assets: Total investments and other assets were down ¥6.8 billion from the previous fiscal year-end, to ¥52.0 billion, due to lower lease and guarantee deposits.

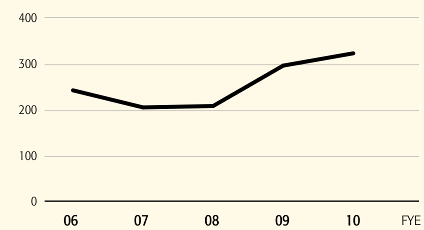
Total Non-Current Liabilities: Total non-current liabilities at fiscal year-end totaled ¥73.5 billion, a decline of ¥10.6 billion from the previous fiscal year-end. This contraction primarily stemmed from a ¥11.9 billion decrease in long-term debt from the previous fiscal year-end, to ¥47.6 billion.

Total Net Assets: Total net assets stood at ¥256.7 billion at fiscal year-end, up ¥14.2 billion from the previous fiscal year-end. This increase mainly reflected a ¥12.7 billion rise in retained earnings. As a result of the increase in total net assets, the equity ratio at fiscal year-end was 55.8%, an improvement of 3.4 percentage points from the previous fiscal year-end. Further, net assets per share amounted to ¥937.80 at fiscal year-end, up ¥55.33 from the previous fiscal year-end.

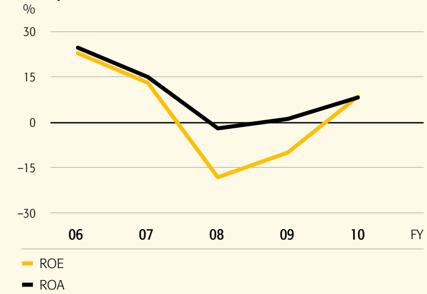
Total Assets
Billions of yen



Current Ratio
%

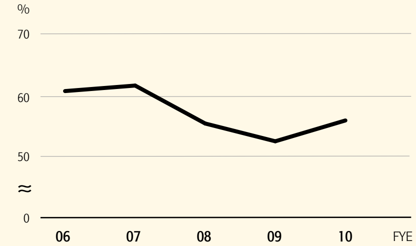


ROE/ROA*
%



* ROA = Ordinary income ÷ Total assets

Total Net Assets Ratio
%



MD&A

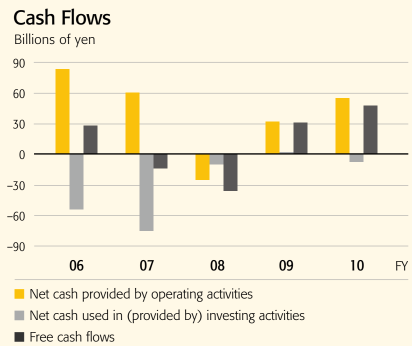
Cash Flows Analysis

Net Cash Provided by Operating Activities: Net cash provided by operating activities increased ¥22.8 billion year on year, to ¥54.9 billion. This was primarily due to income before income taxes and minority interests of ¥27.0 billion and an ¥11.4 billion decrease in notes and accounts receivable—trade, which offset a ¥13.0 billion decrease in notes and accounts payable—trade.

Net Cash Used in Investing Activities: Net cash used in investing activities was ¥7.6 billion, compared with net cash provided by investing activities of ¥0.9 billion for the previous fiscal year. This was because proceeds from sales of property, plant and equipment decreased from the previous fiscal year's ¥21.4 billion to ¥0.7 billion, counteracting a decline in payment for purchase of property, plant and equipment from the previous fiscal year's ¥14.4 billion to ¥8.6 billion.

Net Cash Used in Financing Activities: Net cash used in financing activities decreased from ¥7.6 billion for the previous fiscal year to ¥3.4 billion. This was because proceeds from issuance of bonds of ¥10.7 billion partially offset cash dividends paid (including cash dividends paid to minority Shareholders) of ¥7.8 billion and payment for redemption of corporate bond of ¥5.0 billion.

As a result of the above, cash and cash equivalents at end of year amounted to ¥167.0 billion, up ¥43.6 billion from the previous fiscal year-end.



Operational Risks

Risks that could affect the performance or operations of the SEGA SAMMY Group are given below. Further, these risks are not a comprehensive list of the operational risks faced by the Group. However, based on an awareness of the following risks, the Group implements measures to prevent the occurrence of incidents arising from those risks and to respond to such incidents in the event of their occurrence. In addition, forward-looking statements in the following text are the judgments of the Group as of March 31, 2010.

Statutory Regulations Affecting the Pachislot and Pachinko Machine Business: Among the Group's mainstay operations, the Pachislot and Pachinko Machine Business accounts for a significant portion of net sales and income. In particular, this segment generates the greater part of the Group's total operating income. Further, the segment's sales are substantially influenced by user preferences. As a result, the segment tends to rely on the sales of specific machine models. In addition, products sold must conform to the technical specifications stipulated by Public Safety Commission rules (regulations for the verification of licenses, formats, and other aspects of pachislot and pachinko machines), which are based on the amended Entertainment Establishments Control Law of Japan enacted on February 13, 1985.

Also, in July 2004 revisions were enacted to regulations pertaining to the Entertainment Establishments Control Law that mainly curb the volatility characteristics and prevent the improper use of pachislot and pachinko machines. Such regulatory revisions, the progress of new-machine development, the requirements of format examinations and official licenses, product malfunctions, user preferences, and the sales trends of competitors' products could have a significant impact on the Group's performance or operations.

Shortness of Product Life Cycles: Due to the short time required for the production of pachislot and pachinko machines, the Group usually produces machines in response to order trends. Because the marketing period is generally short, product shipments are concentrated in the initial period after product launches. Accordingly, the Group procures certain raw materials in advance. However, the Group may not be able to procure sufficient raw materials for production in response to large order volumes in the initial period after product launches.

Comparatively, the time required for the production of amusement machines is long. Consequently, the Group produces those machines based on demand estimates. However, demand for products could change due to shifts in user preferences.

Home video game software is susceptible to changes in seasonal demand, which focuses on such periods as the year-end shopping season. If the Group is unable to supply new products during such selling periods, surplus inventory could result. To mitigate risks associated with such inventories, the Group takes measures that include the use of common components, the shortening of lead times for component procurement, and the strengthening of inventory asset management. However, losses stemming from the disposal of inventory assets could result due to sales results that fall short of projections.

SBUs Recording Operating Losses: In regard to the operating results of the Group's SBUs, the Amusement Center Operations segment and the Consumer Business segment recorded operating losses for the second consecutive year. The Amusement Center Operations segment is taking steps to improve profitability, such as closing or selling centers with low profitability or potential and improving center operational capabilities. However, these operations are significantly influenced by trends in consumer spending, and due to such factors as the status of the introduction of amusement machines that meet diverse user needs, some time could be required for revenues/profits to improve.

The Consumer Business segment faces a continual need for substantial up-front production expenses and advertising expenses, and according to the unit sales of home video game software, etc., some time could be required for revenues/profits to improve.

Entry into Overseas Markets: The Group conducts operations in overseas markets, including markets in North America, Europe, and Asia, including China. The Group plans to increase sales in overseas markets centered on the Amusement Machine Sales Business, Amusement Center Operations, and the Consumer Business segments. As a result, fluctuation in foreign currency exchange rates could affect the Group's performance or operations. Further, the Group could be affected by deterioration in the international geopolitical situation related to such factors as overseas wars, conflicts, and terrorist incidents.

Adoption of Asset-Impairment Accounting: In the fiscal year ended March 31, 2006, the Company adopted asset-impairment accounting. Depending on shifts in business conditions and future cash flows, the Company may be unable to recoup the value of certain investments and would be required to record a loss. If such a case were to occur, it could have a material adverse effect on the Company's operating results.

Investment Securities: The Group holds investment securities for such purposes as building business relationships and earning an investment return. In the fiscal year under review, due to write-downs of securities, a substantial loss on revaluation of investment securities was recorded. The valuation of investment securities is made in accordance with such factors as stock market trends and the financial positions and results of operations of the issuers. Accordingly, in the future, in the event that impairment processing is implemented due to declines in market prices or declines in effective prices, the Company's operating results could be affected by the recording of a loss on reevaluation of investment securities.

Management of Personal Information: The Group holds personal information relating to the users of its products and services due to such activities as the operation of membership-based web sites. In light of the enactment of the Act for Protection of Computer Processed Personal Data Held by Administrative Organs, the Group is strengthening the rigor of its personal information management. However, in the unlikely event of a leakage of personal information or the misuse of such personal information, the resulting loss of trust or lawsuits filed against the Group could affect its performance or operations.

Lawsuits: The Group implements measures to minimize the risk of having claims for damages and other lawsuits filed against the Group by strengthening its compliance systems and by exercising sufficient care to avoid the infringement of the intellectual property of third parties. However, lawsuits could be filed against the Group claiming that products manufactured and sold by the Group infringe upon certain rights.

Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2010**	**2009**	**2010**
Current assets			
Cash and deposits (Note 4 (1))	¥101,324	¥106,436	$1,088,927
Notes and accounts receivable–trade (Note 4 (1))	67,027	80,468	720,340
Allowance for doubtful accounts	(712)	(698)	(7,660)
Short-term investment securities	73,400	26,798	788,824
Merchandise and finished goods	6,500	7,656	69,857
Work in process	7,914	2,914	85,055
Raw materials and supplies	22,358	30,971	240,282
Income taxes receivable	2,534	7,013	27,238
Deferred tax assets	3,219	3,382	34,600
Other	15,163	21,795	162,958
Total current assets	298,730	286,740	3,210,425
Non-current assets			
Property, plant and equipment			
Buildings and structures (Note 4 (1))	49,461	54,398	531,558
Accumulated depreciation	(26,974)	(28,748)	(289,889)
Buildings and structures, net	22,487	25,649	241,669
Amusement machines and facilities	54,832	64,985	589,279
Accumulated depreciation	(48,495)	(54,040)	(521,181)
Amusement machines and facilities, net	6,336	10,944	68,097
Land (Note 4 (1) and (4))	22,632	22,590	243,228
Construction in progress	171	494	1,843
Other	42,035	39,635	451,754
Accumulated depreciation	(34,632)	(34,198)	(372,194)
Other, net	7,403	5,436	79,559
Total property, plant and equipment	59,030	65,116	634,399
Intangible assets			
Goodwill	6,767	6,949	72,729
Other	6,592	6,292	70,852
Total intangible assets	13,360	13,242	143,582
Investments and other assets			
Investment securities (Note 4 (2))	28,605	27,732	307,418
Long-term loans receivable	1,638	2,715	17,604
Lease and guarantee deposits	13,493	18,721	145,016
Deferred tax assets	3,871	6,470	41,605
Other	7,593	7,559	81,609
Allowance for doubtful accounts	(3,162)	(4,360)	(33,981)
Total investments and other assets	52,040	58,838	559,272
Total non-current assets	124,431	137,197	1,337,254
Total assets	¥423,161	¥423,938	$4,547,680

See accompanying notes.

LIABILITIES	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 1) 2010
Current liabilities			
Notes and accounts payable–trade (Note 4 (1))	¥ 37,387	¥ 51,298	$ 401,803
Short-term loans payable (Note 4 (1))	3,489	5,467	37,501
Current portion of corporate bonds	20,600	3,294	221,391
Income taxes payable	2,449	3,131	26,319
Accrued expenses (Note 4 (1))	16,528	22,464	177,634
Provision for bonuses	2,539	2,295	27,288
Provision for directors' bonuses	656	473	7,051
Provision for point card certificates	161	136	1,738
Other	9,004	8,631	96,770
Total current liabilities	92,817	97,194	997,499
Non-current liabilities			
Corporate bonds payable	41,501	52,834	446,010
Long-term loans payable (Note 4 (1))	6,173	6,740	66,346
Provision for retirement benefits	12,218	10,873	131,313
Provision for directors' retirement benefits	1,096	2,152	11,783
Deferred tax liabilities	399	233	4,289
Deferred tax liabilities for revaluation of land	960	960	10,325
Other	11,223	10,415	120,619
Total non-current liabilities	73,573	84,211	790,688
Total liabilities	166,390	181,405	1,788,188
NET ASSETS			
Shareholders' equity			
Common stock	29,953	29,953	321,903
Capital surplus	171,080	171,082	1,838,587
Retained earnings	132,128	119,417	1,419,975
Treasury stock	(73,694)	(73,685)	(791,986)
Total shareholders' equity	259,468	246,767	2,788,479
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	346	(1,619)	3,721
Deferred gains/(losses) on hedges	24	–	259
Revaluation reserve for land (Note 4 (4))	(5,966)	(5,966)	(64,117)
Foreign currency translation adjustment	(17,626)	(16,865)	(189,429)
Total valuation and translation adjustments	(23,222)	(24,451)	(249,566)
Subscription rights to shares	1,188	1,222	12,777
Minority interests	19,335	18,994	207,801
Total net assets	256,770	242,532	2,759,492
Total liabilities and net assets	¥423,161	¥423,938	$4,547,680

Consolidated Statements of Operations

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales	¥384,679	¥429,194	$4,134,116
Cost of sales (Note 5 (1) and (2))	245,811	310,101	2,641,719
Gross profit	138,867	119,092	1,492,397
Selling, general and administrative expenses (Note 5 (2))	102,154	110,728	1,097,846
Operating income	36,712	8,363	394,550
Other income/(expenses):			
Interest income	511	681	5,495
Dividends income	454	225	4,885
Equity in earnings of affiliates	37	–	407
Gain on investments in partnership	114	633	1,230
Income from operation of lease asset	188	281	2,022
Gain on valuation of derivatives	46	–	504
Interest on tax refund	–	517	–
Interest expenses	(782)	(900)	(8,413)
Equity in losses of affiliates	–	(191)	–
Sales discounts	(21)	(93)	(231)
Commission fee	(74)	(338)	(802)
Provision of allowance for doubtful accounts	(2)	(65)	(30)
Loss on investments in partnership	(235)	(145)	(2,527)
Foreign exchange losses	(265)	(1,060)	(2,848)
Penalty payment for cancellation of game center lease agreement	(477)	–	(5,136)
Loss on valuation of derivatives	–	(511)	–
Loss on disposal of development work in progress	–	(789)	–
Gain on sales of non-current assets	528	580	5,679
Reversal of allowance for doubtful accounts	166	61	1,791
Gain on sales of shares in subsidiaries and affiliates	29	466	318
Gain on sales of investment securities	258	3	2,773
Gain on change in equity	20	2	224
Gain on liquidation of subsidiaries and affiliates	–	94	–
Reversal of recovery costs of video game arcades	1,043	583	11,219
Settlement money for the cancellation of the stock transfer contract	–	240	–
Reversal of cost of voluntary recall for the products	–	279	–
Gain on outlawed debt (Note 5 (3))	377	833	4,060
Gain on compensation payment	427	–	4,596
Loss on retirement of non-current assets	(497)	(783)	(5,343)
Loss on sales of non-current assets	(121)	(41)	(1,302)
Impairment loss (Note 5 (5))	(3,857)	(6,465)	(41,456)
Loss on valuation of investment securities	(2,465)	(4,304)	(26,493)
Amortization of goodwill	–	(2,434)	–
Premium allowance of retirement	(184)	(4,423)	(1,986)
Loss on closing of stores (Note 5 (4))	(844)	(2,994)	(9,076)
Loss on cancellation of game contents under development	–	(3,465)	–
Loss on business withdrawal	–	(2,066)	–
Loss on litigation	(371)	–	(3,991)
Loss on sales of shares in subsidiaries and affiliates	(653)	–	(7,027)
Loss on liquidation of subsidiaries	(1,682)	–	(18,085)
Other–net	(1,282)	(2,749)	(13,786)
Subtotal	(9,615)	(28,340)	(103,332)
Income/(loss) before income taxes and minority interests	27,097	(19,976)	291,218
Income taxes–current	3,067	2,904	32,969
Income taxes–deferred	2,559	(186)	27,510
Refund of income taxes	–	(867)	–
Income taxes (Note 14 (2))	5,627	1,850	60,480
Minority interests in net income/(loss) of consolidated subsidiaries	1,200	1,055	12,905
Net income/(loss)	¥ 20,269	¥ (22,882)	$ 217,832

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Shareholders' equity			
Common stock			
Balance at end of previous fiscal year	¥ 29,953	¥ 29,953	$ 321,903
Changes in items during the period			
Total changes in items during the period	–	–	–
Balance at end of current fiscal year	29,953	29,953	321,903
Capital surplus			
Balance at end of previous fiscal year	171,082	171,092	1,838,610
Changes in items during the period			
Disposal of treasury stock	(2)	(10)	(23)
Total changes in items during the period	(2)	(10)	(23)
Balance at end of current fiscal year	171,080	171,082	1,838,587
Retained earnings			
Balance at end of previous fiscal year	119,417	150,888	1,283,364
Changes in items during the period			
Dividends from surplus	(7,557)	(7,558)	(81,221)
Net income/(loss)	20,269	(22,882)	217,832
Change of scope of consolidation	–	(16)	–
Reversal of revaluation reserve for land	–	(1,014)	–
Total changes in items during the period	12,711	(31,471)	136,610
Balance at end of current fiscal year	132,128	119,417	1,419,975
Treasury stock			
Balance at end of previous fiscal year	(73,685)	(73,680)	(791,890)
Changes in items during the period			
Purchase of treasury stock	(12)	(21)	(138)
Disposal of treasury stock	3	16	41
Total changes in items during the period	(8)	(4)	(96)
Balance at end of current fiscal year	(73,694)	(73,685)	(791,986)
Total shareholders' equity			
Balance at end of previous fiscal year	246,767	278,253	2,651,988
Changes in items during the period			
Dividends from surplus	(7,557)	(7,558)	(81,221)
Net income/(loss)	20,269	(22,882)	217,832
Purchase of treasury stock	(12)	(21)	(138)
Disposal of treasury stock	1	6	18
Change of scope of consolidation	–	(16)	–
Reversal of revaluation reserve for land	–	(1,014)	–
Total changes in items during the period	12,700	(31,485)	136,491
Balance at end of current fiscal year	259,468	246,767	2,788,479
Valuation and translation adjustments			
Valuation difference on available-for-sale securities			
Balance at end of previous fiscal year	(1,619)	597	(17,407)
Changes in items during the period			
Net changes in items other than shareholders' equity	1,966	(2,217)	21,128
Total changes in items during the period	1,966	(2,217)	21,128
Balance at end of current fiscal year	346	(1,619)	3,721

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Deferred gains/(losses) on hedges			
Balance at end of previous fiscal year	–	(2)	–
Changes in items during the period			
Net changes in items other than shareholders' equity	24	2	259
Total changes in items during the period	24	2	259
Balance at end of current fiscal year	24	–	259
Revaluation reserve for land			
Balance at end of previous fiscal year	(5,966)	(6,980)	(64,117)
Changes in items during the period			
Reversal of revaluation reserve for land	–	1,014	–
Total changes in items during the period	–	1,014	–
Balance at end of current fiscal year	(5,966)	(5,966)	(64,117)
Foreign currency translation adjustment			
Balance at end of previous fiscal year	(16,865)	(12,347)	(181,252)
Changes in items during the period			
Net changes in items other than shareholders' equity	(760)	(4,517)	(8,176)
Total changes in items during the period	(760)	(4,517)	(8,176)
Balance at end of current fiscal year	(17,626)	(16,865)	(189,429)
Total valuation and translation adjustments			
Balance at end of previous fiscal year	(24,451)	(18,733)	(262,777)
Changes in items during the period			
Reversal of revaluation reserve for land	–	1,014	–
Net changes in items other than shareholders' equity	1,229	(6,732)	13,211
Total changes in items during the period	1,229	(5,717)	13,211
Balance at end of current fiscal year	(23,222)	(24,451)	(249,566)
Subscription rights to shares			
Balance at end of previous fiscal year	1,222	1,070	13,137
Changes in items during the period			
Net changes in items other than shareholders' equity	(33)	152	(360)
Total changes in items during the period	(33)	152	(360)
Balance at end of current fiscal year	1,188	1,222	12,777
Minority interests			
Balance at end of previous fiscal year	18,994	21,038	204,131
Changes in items during the period			
Net changes in items other than shareholders' equity	341	(2,043)	3,669
Total changes in items during the period	341	(2,043)	3,669
Balance at end of current fiscal year	19,335	18,994	207,801
Net assets			
Balance at end of previous fiscal year	242,532	281,627	2,606,480
Changes in items during the period			
Dividends from surplus	(7,557)	(7,558)	(81,221)
Net income/(loss)	20,269	(22,882)	217,832
Purchase of treasury stock	(12)	(21)	(138)
Disposal of treasury stock	1	6	18
Change of scope of consolidation	–	(16)	–
Reversal of revaluation reserve for land	–	–	–
Net changes in items other than shareholders' equity	1,537	(8,623)	16,520
Total changes in items during the period	14,237	(39,094)	153,011
Balance at end of current fiscal year	¥256,770	¥242,532	$2,759,492

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries

Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from operating activities:			
Income/(loss) before income taxes and minority interests	¥ 27,097	¥ (19,976)	$ 291,218
Depreciation and amortization	17,175	26,644	184,584
Impairment loss	3,857	6,465	41,456
Transfer of amusement center operation equipment	(4,344)	(6,146)	(46,692)
Transfer of pachislot and pachinko rental equipment	(12)	(59)	(134)
Loss/(gain) on sales of non-current assets	(407)	(538)	(4,376)
Loss on retirement of non-current assets	497	783	5,343
Loss/(gain) on sales of shares in subsidiaries and affiliates	624	(466)	6,709
Loss on liquidation of subsidiaries	1,682	–	18,085
Loss/(gain) on sales of investment securities	(222)	(3)	(2,389)
Loss/(gain) on valuation of investment securities	2,465	4,304	26,493
Loss/(gain) on investments in partnership	120	(487)	1,297
Amortization of goodwill	1,004	4,144	10,792
Increase/(decrease) in allowance for doubtful accounts	(156)	(2,670)	(1,680)
Increase/(decrease) in provision for directors' bonuses	178	382	1,922
Increase/(decrease) in provision for point card certificates	24	7	267
Increase/(decrease) in provision for retirement benefits	1,344	1,659	14,448
Increase/(decrease) in provision for directors' retirement benefits	(1,055)	88	(11,344)
Increase/(decrease) in provision for bonuses	265	(197)	2,856
Interest and dividends income	(965)	(907)	(10,380)
Interest expenses	782	900	8,413
Foreign exchange losses/(gains)	2	870	29
Equity in (earnings)/losses of affiliates	(37)	191	(407)
Loss/(gain) on change in equity	(20)	(2)	(224)
Decrease/(increase) in notes and accounts receivable–trade	11,493	(13,641)	123,516
Decrease/(increase) in inventories	2,862	9,086	30,768
Increase/(decrease) in notes and accounts payable–trade	(13,061)	13,278	(140,365)
Increase/(decrease) in guarantee deposits received	(751)	(405)	(8,072)
Other, net	3,925	8,713	42,183
Subtotal	54,370	32,019	584,318
Interest and dividends income received	843	1,008	9,066
Interest expenses paid	(753)	(916)	(8,101)
Income taxes paid	(16,572)	(13,147)	(178,101)
Income taxes refund	17,110	13,236	183,880
Net cash provided by operating activities	54,998	32,199	591,062
Cash flows from investing activities:			
Payments into time deposits	(1,720)	(5,511)	(18,484)
Proceeds from withdrawal of time deposits	4,169	2,834	44,807
Purchase of short-term investment securities	(5,395)	(1,099)	(57,979)
Proceeds from redemption of securities	4,000	1,800	42,987
Purchase of trust beneficiary right	(6,163)	(5,810)	(66,238)
Proceeds from sales of trust beneficiary right	5,185	6,271	55,732
Purchase of property, plant and equipment	(8,608)	(14,440)	(92,512)
Proceeds from sales of property, plant and equipment	758	21,497	8,154
Purchase of intangible assets	(2,042)	(3,143)	(21,954)
Proceeds from sales of intangible assets	8	109	92
Purchase of investment securities	(3,323)	(2,258)	(35,716)
Proceeds from sales of investment securities	1,874	52	20,141
Proceeds from redemption of investment securities	–	2,505	–
Payments for investment in partnerships	(12)	(800)	(134)
Proceeds from distribution of investment in partnerships	564	1,201	6,063
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	219	–	2,358
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(220)	(4,192)	(2,368)
Purchase of shares in subsidiaries and affiliates	(996)	(800)	(10,709)
Payments of loans receivable	(1,178)	(2,657)	(12,664)
Repayment of loans receivable	535	2,996	5,755
Payments for lease deposits	(381)	(948)	(4,103)
Repayment of lease deposits	2,845	3,578	30,578
Proceeds from transfer of business	2,018	–	21,690
Other, net	222	(246)	2,395
Net cash (used in)/provided by investing activities	(7,640)	936	(82,108)
Cash flows from financing activities:			
Net increase/(decrease) in short-term loans payable	(2,503)	(21,579)	(26,909)
Increase in long-term loans payable	1,120	1,050	12,036
Repayment of long-term loans payable	(1,211)	(613)	(13,022)
Proceeds from issuance of bonds	10,783	30,462	115,890
Redemption of corporate bond	(5,027)	(6,216)	(54,027)
Proceeds from share issue to minority shareholders	–	11	–
Cash dividends paid	(7,571)	(7,579)	(81,367)
Cash dividends paid to minority shareholders	(305)	(2,384)	(3,282)
Purchase of treasury stock	(12)	(21)	(138)
Other, net	1,327	(783)	14,270
Net cash used in financing activities	(3,401)	(7,653)	(36,550)
Exchange difference on cash and cash equivalents	(342)	(2,081)	(3,682)
Net increase/(decrease) in cash and cash equivalents	43,614	23,401	468,721
Cash and cash equivalents at beginning of period	123,385	99,975	1,326,017
Increase in cash and cash equivalents from newly consolidated subsidiary	–	9	–
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	–	(0)	–
Cash and cash equivalents at end of period (Note 7)	¥167,000	¥123,385	$1,794,738

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

NOTE 1

Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation for 2010 and 2009. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2009 consolidated financial statements to conform to the classifications used in 2010. These changes had no impact on previously reported results of operations or shareholders' equity.

The translation of the Japanese yen amounts into U.S. dollars is rounded down to the nearest unit amount, and is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.05 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

NOTE 2

Summary of Significant Accounting Policies

(1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant inter-company balances, transactions and unrealized profits have been eliminated. The number of consolidated subsidiaries is 65 and 68 in 2010 and 2009, respectively.

From the year ended March 31, 2010, the following companies became the Company's consolidated subsidiaries; SEGA SAMMY VISUAL ENTERTAINMENT INC., because of incorporation-type company splits, GINZA CORPORATION, because of the Company's acquisition of the shareholdings; Bakugan Limited Liability Partnership and two other companies, which were newly established by the Company.

From the year ended March 31, 2010, the following companies were excluded from the scope of consolidation: Sammy Systems Co., Ltd. and Media-Trust Co., Ltd., because of the sale of the group companies' shareholdings, Sammy Europe Limited, Sega Amusements Singapore Pte. Ltd. and three other companies, due to corporate liquidation, and Sammy Rental Service Co., Ltd., due to merger with a consolidated subsidiary.

The number of non-consolidated subsidiaries is 14 and 12 in 2010 and 2009, respectively.

Main non-consolidated subsidiaries: United Source International Ltd., SEGA (Shanghai) Software Co., Ltd. etc.

All non-consolidated subsidiaries are excluded from the scope of consolidation because the combined amounts in assets, net sales, net income, and retained earnings applicable to the equity interest of the Company are not material.

(2) Equity method

Investments in affiliated companies over which the Company has the ability to exercise significant influence over their operation and financial policies are accounted for by the equity method. The number of companies accounted for under the equity method is 10 both in 2010 and 2009.

Main equity-method affiliates: Nissho Inter Life Co., Ltd., CRI Middleware Co., Ltd., etc.

As a result of the Company's share acquisition, ELTEX, Inc. became an equity-method affiliate from the year ended March 31, 2010.

Also, as a result of the sale of the Company's shareholding, mPoria Inc. was excluded from an equity-method affiliate effective from the year ended March 31, 2010.

The number of non-consolidated subsidiaries and affiliated companies which are not applied to equity method is 19 and 18 in 2010 and 2009, respectively.

Main non-consolidated subsidiaries and affiliates not accounted for by the equity method:

Liverpool Co., Ltd., Micott & Basara Inc., etc.

The equity method was not applied to non-consolidated subsidiaries and affiliates because the combined amounts of these companies in net income and retained earnings applicable to the equity interest of the Company are not material.

(3) Valuation and accounting treatment for important assets

a. Held-to-maturity debt securities are stated at amortized cost (the straight-line method).

b. Other marketable securities

Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains or losses on securities in net assets, with cost of sales determined by the moving-average method.

c. Other securities without quoted market prices are carried at cost, which is determined by the moving-average method.

The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under Article 2-2 of the Financial Instruments and Exchange Law of Japan, is calculated based on the relevant financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

d. Derivatives

Derivatives are stated at fair market value.

e. Inventories

Inventories are stated at cost, cost being determined mainly by the gross-average method (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

Also, work in process is stated at cost, cost being determined mainly by the specific identification method (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

Prior to April 1, 2008, inventories of the Company and domestic consolidated subsidiaries are stated at cost determined by the gross-average method. Effective April 1, 2008, the Company and domestic consolidated subsidiaries adopted a new accounting standard for measurement of inventories, "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued July 5, 2006), and stated the inventories at the lower of gross-average cost or net realizable value at March 31, 2009.

The adoption had minor impact on the consolidated statement of operations for the year ended March 31, 2009.

(4) Depreciation and amortization for important assets

a. Property, plant and equipment (excluding lease assets):

Depreciation is computed primarily using the declining-balance method.

However, buildings (excluding attached equipment) acquired after April 1, 1998 are depreciated using the straight-line method.

Range of useful life for the assets is as follows:

Buildings and structures: 2-50 years

Amusement game machines: 2-5 years

Regarding buildings and structures built on land leased under term leasehold contracts, the straight-line method is used with the remaining lease period as the useful life and the residual value as zero.

Regarding property, plant and equipment acquired on or before March 31, 2007, the residual values are depreciated in accordance with the revised Corporation Tax Law. When the depreciated value of a property, plant and equipment reaches residual values in a certain fiscal year, the residual values of the asset is depreciated in an equal amount over five years from the following fiscal year.

(Additional information)

Effective from the year ended March 31, 2009, the revision of useful life of some machinery and equipment was made following the revision of the useful life defined under the revised Corporation Tax Law of Japan.

The adoption had minor impact on the consolidated statement of operations for the year ended March 31, 2009.

b. Intangible assets (excluding lease assets):

Depreciation is computed using the straight-line method. The straight-line method is adopted over the useful life of within 5 years for software for internal use.

c. Lease assets

Lease assets involving finance lease transactions of which the ownership is transferred to lessees:

Depreciation method for such assets is the same as that applies to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions of which the ownership is not transferred to lessees:

Depreciation method is the straight line method with their residual values being zero over their leased periods used as the number of years for useful life.

(5) Allowances and provisions

a. Allowance for doubtful accounts

The reserve for doubtful accounts is provided in the amount sufficient to cover possible losses based on a historical write-off of general receivables. Allowance for doubtful accounts and bankrupt receivables are calculated based on an individual assessment of the possibility of collection.

b. Provision for bonuses
Accrued employees' bonuses are provided based on the estimated amount to be paid.
c. Provision for directors' bonuses
The estimated amount of bonuses for the fiscal year under review was recorded to meet the bonus payments to directors and corporate auditors.
d. Provision for point card certificates
In order to prepare for expenses associated with the redemption of points earned by customers, an estimated amount related to future redemption is posted in the fiscal year under review.
e. Provision for retirement benefits
The Company and its consolidated subsidiaries provide provision for retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service cost is charged to income when incurred except for SEGA CORPORATION and three other subsidiaries that recognize prior service cost as expenses using the straight-line method over ten years. Actuarial gains and losses are charged to income in the succeeding period except for SEGA CORPORATION and three other subsidiaries that recognize actuarial gains and losses as expenses using the straight-line method over ten years commencing from the succeeding period. Straight-line method is used for allocation of projected benefit obligations.
(Change in significant accounting policies used in preparation of consolidated financial statements)
Effective from the fiscal year ended March 31, 2010, the Company and its domestic consolidated subsidiaries adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration of fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no impact on the consolidated financial statements for the year ended March 31, 2010.
f. Provision for directors' retirement benefits
The Company and certain domestic consolidated subsidiaries provide provision for directors' retirement benefits to adequately cover payment of such benefits at the end of the applicable period in accordance with internal regulations.

(Additional information)
At the Ordinary General Meeting of the Company and Sammy Corporation, a consolidated subsidiary, held in June 2009, it was resolved to grant final retirement benefits to directors and corporate auditors in conjunction with the abolishment of the existing retirement benefits scheme for them. Due to this change, allowance for retirement benefits for directors and corporate auditors was reversed and unpaid portion of final retirement benefits is recognized in "Other" of non-current liabilities.

(6) Accounting for significant hedge

a. Hedge accounting
The Company adopts deferred hedge accounting. However, special treatment (under special treatment, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed) is used for qualifying interest rate swap transactions. Moreover, allocation hedge accounting is applied to qualifying forward exchange contracts.
b. Hedging instruments and hedged items
Hedging instruments: Interest rate swaps, forward exchange contracts
Hedged items: Interest on loans payable, receivables and payables denominated in foreign currencies.
c. Hedge policy
Derivative instruments are used to mitigate risks associated with foreign exchange and interest rate fluctuations.

As a rule, hedging is only used for items in which actual demand exists, and not for speculative purposes.
d. Evaluation of hedge effectiveness
Hedge effectiveness is evaluated through comparative analysis of the cumulative fluctuations in the market between the hedged item and the hedging instrument. For interest rate swaps applied to special treatment, hedge effectiveness is not evaluated.

(7) Consumption taxes

Consumption taxes and local consumption taxes are accounted using the net-of-tax method.

(8) Valuation of assets and liabilities of consolidated subsidiaries

The assets and liabilities of consolidated subsidiaries are evaluated using the fair value including the portion attributable to minority shareholders at the time of the acquisition.

(9) Amortization of goodwill and negative goodwill

If the duration of the effect of goodwill can be rationally estimated, amortization is made over the estimated number of years, in other cases, amortization is made over the five-year-period by the straight line method.

(10) Cash and cash equivalents in the consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

NOTE 3

Changes in Accounting Policies

(1) Adoption of accounting standards for construction contracts

Prior to the year ended March 31, 2010, the Company and domestic consolidated subsidiaries (the "domestic companies") recognized revenues and costs of construction contracts using the completed-contract method. Effective from the year ended March 31, 2010, the domestic companies adopted the "Accounting Standard for Construction Contracts" (ASBJ Statement No.15, issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, issued on December 27, 2007). Accordingly, when the outcome of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method to work commencing during the year ended March 31, 2010, otherwise the completed-contract method is applied. The percentage/stage of completion at the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost.

The change had no impact on the consolidated financial statements.

(2) Change in accounting treatment for content production expenses

Content production expenses related to game software and amusement machines conducted primarily by the consolidated subsidiary of SEGA CORPORATION was accounted for as cost of sales at the time that such expenses are incurred (when production work is outsourced, these expenses are first posted as advance payments, and later treated as cost of sales at the time that production work is inspected). However, from the fiscal year ended March 31, 2010, if the production is authorized to be commercialized, the costs are capitalized as inventories and non-current assets. With opting to treat the amount of such expenses for the inventories equivalent to the actual sales volume recorded as of the fiscal year-end among projected sales volume as cost of sales, and treat the amount of such expenses for the non-current assets equivalent to the depreciation calculated based on their respective useful lives as cost of sales.

The rationale for this change is to redeploy a framework capable of properly evaluating the certainty of realizing earnings by clarifying decision-making processes at the development stages of each project in line with efforts to review and enhance the development structure. This change will enable the appropriate disclosure of income for a given fiscal period by directly matching content production expenses, which tend to grow sharply in recent years, with corresponding earnings.

As a consequence of this change, work in process under inventories increased by ¥6,671 million ($71,694 thousand), amusement machines under property, plant and equipment increased by ¥43 million ($464 thousand), construction in progress increased by ¥6 million ($66 thousand), other under intangible assets increased by ¥796 million ($8,558 thousand), other under current assets decreased by ¥1,724 million ($18,530 thousand), foreign currency translation adjustment decreased by ¥6 million ($73 thousand), while operating income and income before income taxes and minority interests each increased by ¥5,799 million ($62,325 thousand).

The effect on the segment information is disclosed in the relevant note.

NOTE 4

Notes to Consolidated Balance Sheets

(1) Assets pledged

Millions of yen

Assets Pledged	2010	Liabilities to be covered	2010
Time deposits	¥ 5	Accounts payable—trade	¥ 1
Buildings and structures	1,327	Accrued expenses	0
Land	2,433	Short-term loans payable	900
Total	¥3,766	Long-term loans payable	2,300

Thousands of U.S. dollars (Note 1)

Assets Pledged	2010	Liabilities to be covered	2010
Time deposits	$ 53	Accounts payable—trade	$ 20
Buildings and structures	14,266	Accrued expenses	0
Land	26,157	Short-term loans payable	9,672
Total	$40,477	Long-term loans payable	24,717

Millions of yen

Assets Pledged	2009	Liabilities to be covered	2009
Time deposits	¥ 25	Accounts payable—trade	¥ 15
Notes receivable–trade	341	Accrued expenses	0
Buildings and structures	1,400	Short-term loans payable	1,455
Land	2,433	Long-term loans payable	2,500
Total	¥4,201		

(2) Loan securities

Loan securities of ¥279 million ($3,002 thousand) and ¥171 million are included in investment securities as of March 31, 2010 and 2009, respectively.

(3) Guarantee

Guarantee to the companies as of March 31, 2010 and 2009 is as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
Guarantee	Description	2010	2009	2010
Dimps Corporation	Guarantee to bank loan	¥10	¥ 133	$107
Orix Premium Ltd.	Lease obligation	43	100	472
Electronic Approval System Council	Lease obligation	–	0	–
GINZA CORPORATION	Guarantee to accounts receivable	–	2,285	–
Sega Shanghai & Co., Ltd.	Joint and several guarantee to bank loan	–	71	–
Sega Games Holding Ltd.	Guarantee to accounts payable	8	–	90

(4) Revaluation reserve for land

SEGA CORPORATION, a consolidated subsidiary of the Company, revalues land for its business in accordance with the Land Revaluation Law, and records the entire difference between the carrying amount and revalued amount as revaluation reserve for land in a separate component of net assets.

Revaluation of land was performed by making a reasonable adjustment on the land based on the market value estimated in accordance with relevant provisions of the Land Revaluation Law.

Date of revaluation: March 31, 2002

(5) Contingent liability

It was discovered that a former employee of SEGA TOYS, CO., LTD., a consolidated subsidiary of the Company, had been forging company's documents such as order forms, and conducting inappropriate transactions without ever going through the accounting records, with multiple business partners. There would be a possibility that the payment will be required on the claims from the ones who acquired fictitious accounts receivable (approximately ¥380 million, $4,083 thousand) occurred through the inappropriate transactions.

NOTE 5

Notes to Consolidated Statements of Operations

(1) Devaluation of inventories

The book value devaluation of inventories held for normal sales purpose based on decline in profitability included in cost of sales amounted to ¥4,664 million ($50,128 thousand) and ¥2,886 million for the years ended March 31, 2010 and 2009, respectively.

(2) Research and development expenses

Expenses relating to research and development activities have been charged to income as incurred amounted to ¥41,502 million ($446,023 thousand) and ¥59,676 million for the years ended March 31, 2010 and 2009, respectively.

(3) Gain on outlawed debt

Gain on outlawed debt was recognized by being released from the debt booked as accrued expenses, due to being outlawed.

(4) Loss on closing of stores

Loss on closing of stores is the expenses such as restoration recognized due to closing of amusement arcades.

(5) Impairment loss

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under other expenses in the consolidated financial statements.

The recoverable value is calculated using the fair value less cost to sell based on the current market price.

Impairment loss for the year ended March 31, 2010 consists of the following:

			Impairment Loss	
Use	Location	Type	Millions of yen	Thousands of U.S. dollars (Note 1)
Amusement facilities	U.S.	Buildings and structures	¥ 231	$ 2,489
		Amusement game machines	165	1,778
		Other property, plant and equipment	88	952
	Ishioka-shi, Ibaraki and 15 other locations	Buildings and structures	629	6,763
		Amusement game machines	182	1,965
		Other property, plant and equipment	14	158
		Other intangible assets	77	837
Assets for rent	Chuo-ku, Osaka	Buildings and structures	1,613	17,344
		Land	580	6,233
Assets for business, etc.	Ota-ku, Tokyo and 4 other locations	Buildings and structures	25	279
		Other property, plant and equipment	153	1,653
		Other intangible assets	93	1,001
Total			¥3,857	$41,456

Impairment loss for the year ended March 31, 2009 consisted of the following:

Use	Location	Type	Impairment Loss Millions of yen
Amusement facilities	Shibuya-ku, Tokyo	Buildings and structures	¥ 203
		Amusement game machines	48
		Other property, plant and equipment	2
	Kawagoe-shi, Saitama	Buildings and structures	165
		Amusement game machines	63
		Other property, plant and equipment	2
	Chuo-ku, Saitama	Buildings and structures	86
		Amusement game machines	51
		Other property, plant and equipment	5
	Higashi Osaka-shi, Osaka	Buildings and structures	94
		Amusement game machines	41
		Other property, plant and equipment	2
	Tsuzuki-ku, Yokohama	Buildings and structures	93
		Amusement game machines	32
		Other property, plant and equipment	4
	Kokurakita-ku, Kitakyusyu	Buildings and structures	115
		Other property, plant and equipment	8
	Hachioji-shi, Tokyo	Buildings and structures	82
		Amusement game machines	36
		Other property, plant and equipment	2
	Izumi-shi, Osaka	Buildings and structures	75
		Amusement game machines	39
		Other property, plant and equipment	1
	U.S.	Buildings and structures	204
		Amusement game machines	54
		Other property, plant and equipment	23
		Other intangible assets	1
	Ogaki-shi, Gifu and 82 other locations	Buildings and structures	1,023
		Amusement game machines	2,471
		Other property, plant and equipment	24
Assets for business, etc.	Midori-ku, Chiba and 15 other locations	Buildings and structures	442
		Land	232
		Other property, plant and equipment	183
		Other intangible assets	544
Total			¥6,465

NOTE 6

Notes to Consolidated Statements of Changes in Net Assets

(1) Number of outstanding common stock:

	2010	2009
Balance at beginning of the year	283,229,476	283,229,476
Balance at end of the year	283,229,476	283,229,476

(2) Number of outstanding treasury stock:

	2010	2009
Balance at beginning of the year	31,305,733	31,292,007
Increase due to purchase of odd stock	11,718	20,892
Decrease due to sale of odd stock	1,650	7,166
Balance at end of the year	31,315,801	31,305,733

(3) Dividends

Year ended March 31, 2010

1 Dividend

Resolution	Type of stock	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' Meeting on May 15, 2009	Common stock	¥3,778	¥15	March 31, 2009	June 3, 2009
Board of Directors' Meeting on October 30, 2009	Common stock	3,778	15	September 30, 2009	December 2, 2009

Resolution	Type of stock	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' Meeting on May 15, 2009	Common stock	$40,611	$0.16	March 31, 2009	June 3, 2009
Board of Directors' Meeting on October 30, 2009	Common stock	40,610	0.16	September 30, 2009	December 2, 2009

2 Of the dividends of which the record date is in the fiscal year under review, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' Meeting on May 14, 2010	Common stock	Retained earnings	¥3,778	¥15	March 31, 2010	June 1, 2010

Resolution	Type of stock	Resource of dividend	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' Meeting on May 14, 2010	Common stock	Retained earnings	$40,609	$0.16	March 31, 2010	June 1, 2010

Year ended March 31, 2009

1 Dividend

Resolution	Type of stock	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' Meeting on May 15, 2008	Common stock	¥3,779	¥15	March 31, 2008	June 3, 2008
Board of Directors' Meeting on October 31, 2008	Common stock	3,778	15	September 30, 2008	December 2, 2008

2 Of the dividends of which the record date is in the fiscal year under review, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' Meeting on May 15, 2009	Common stock	Retained earnings	¥3,778	¥15	March 31, 2009	June 3, 2009

NOTE 7

Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at March 31, 2010 and 2009 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2010	2010
Cash and deposits	¥101,324	$1,088,927
Short-term investment securities	73,400	788,824
Total	174,724	1,877,751
Time deposits with maturities of more than three months	(4,530)	(48,683)
Short-term investments securities excluding commercial papers maturing within three months from the acquisition date	(3,194)	(34,329)
Cash and cash equivalents	¥167,000	$1,794,738

	Millions of yen
	2009
Cash and deposits	¥106,436
Short-term investment securities	26,798
Total	133,235
Time deposits with maturities of more than three months	(8,050)
Short-term investment securities excluding commercial papers maturing within three months from the acquisition date	(1,799)
Cash and cash equivalents	¥123,385

NOTE 8

Information for Certain Leases

A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment losses and net book value for the years ended March 31, 2010 and 2009 with respect to the finance leases accounted for in the same manner as operating leases is as follows:

	Millions of yen			
March 31, 2010:	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Structures	¥ 255	¥ 182	¥ –	¥ 73
Tools, furniture and fixtures	781	645	7	128
Machinery and equipment	174	127	–	46
Amusement machines	358	314	–	43
Software	76	70	5	0
Total	¥1,645	¥1,339	¥13	¥292

	Thousands of U.S. dollars (Note 1)			
March 31, 2010:	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Structures	$ 2,744	$ 1,957	$ –	$ 786
Tools, furniture and fixtures	8,393	6,932	78	1,383
Machinery and equipment	1,874	1,374	–	500
Amusement machines	3,847	3,374	–	472
Software	825	760	64	1
Total	$17,686	$14,398	$142	$3,144

	Millions of yen			
March 31, 2009:	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Structures	¥ 255	¥ 145	¥ –	¥ 109
Tools, furniture and fixtures	1,427	920	62	445
Machinery and equipment	174	101	–	72
Amusement machines	1,175	900	–	274
Software	466	295	5	165
Total	¥3,499	¥2,364	¥68	¥1,067

Finance lease transaction:
Lease assets mainly consist of followings: Property, plant and equipment that are mainly facilities for amusement center operations, such as buildings and structures, amusement game machines, and intangible assets that are mainly software for amusement machine sales.

The methods of depreciation for lease assets are as follows: Lease assets involving finance lease transactions under which the ownership of the lease assets is transferred to lessees are depreciated using the method to calculate depreciation expenses for such assets is the same as that applied to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions under which the ownership of the lease assets is not transferred to lessees are depreciated using the method to calculate depreciation for such assets is the straight line method with their residual values being zero over their leased periods used as the number of years for useful life.

Future lease payments under the finance leases that are accounted for in the same manner as operating leases as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Due within one year	¥230	¥ 685	$2,473
Due after one year	77	421	834
Total	¥307	¥1,106	$3,307
Liability of impairment loss for lease assets	¥ 0	¥ 21	$ 9

There was other liability of impairment loss for lease assets recorded but not required to disclose due to its immateriality for the year ended March 31, 2009.

A summary of assumed amounts of lease payments, assumed depreciation, and interest expenses for the years ended March 31, 2010 and 2009 with respect to the finance leases accounted for in the same manner as operating leases are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Lease payments	¥672	¥1,183	$7,230
Reversal of liability of impairment loss for lease assets	20	53	220
Depreciation	638	1,119	6,859
Interest expenses	18	50	199

Future lease payments for operating lease transaction which cannot be canceled as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Due within one year	¥1,487	¥ 1,940	$15,987
Due after one year	5,971	9,992	64,171
Total	¥7,458	¥11,932	$80,158

NOTE 9

Financial Instruments

(Additional information)

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised accounting standard, "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, revised on March 10, 2008). Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is as follows.

1. Outline of financial instruments

(1) Policy for financial instruments

The Group signed an agreement concerning commitment line by the syndicated method, such as securing medium-term fund liquidity at the Company as the holding company, as a safety net for the entire group. In addition, funds for each business are procured for what is necessary in accordance with the fund plan for each business company through bank loans and issuance of bonds. Funds are invested in low-risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described later.

(2) Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable-trade are exposed to customer credit risks. In addition, foreign currency-denominated trade receivables are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contract. Short-term investment securities and investment securities are mainly held-to-maturity debt securities and the stocks acquired for business collaborations with business partners, and they are exposed to the risk of market price fluctuations.

Of the payables such as notes and accounts payable–trade, trade payables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Loans and bonds payable are for the purpose of procurement of funds necessary for operating funds and capital investment, and parts of them have floating interest rates. For this reason, they are exposed to interest rate fluctuation risks.

Derivative transactions consist of forward exchange contracts intended to hedge foreign currency exchange fluctuation risks for trade receivables and payables denominated in foreign currencies, as well as loan receivables denominated in foreign currencies, and interest swap transactions intended to hedge fluctuation risks of interests on loans and bonds payable. For details of hedging instruments, hedging items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to the aforementioned "Note 2-Summary of Significant Accounting Policies, (6) Accounting for significant hedge".

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

With respect to trade receivables, departments in charge regularly monitor the situations of major customers in compliance with each company's management regulations for receivables, to control payment terms and balances of customers, in order to detect collection concerns such as worsening of financial conditions early and lessen the possibilities for collection problems.

The credit risk for held-to-maturity debt securities is minimal because the investments of these financial assets are limited to high credit rating issuers in accordance with the fund operation management rules.

Customers of derivative transactions are in principle limited to correspondent financial institutions.

The amount of maximum risk as of the consolidated settlement date is expressed by the amounts of financial assets exposed to credit risks in the balance sheet.

2) Market risk management (foreign currency exchange and interest rate fluctuation risks)

Certain consolidated subsidiaries use forward exchange contracts to hedge foreign currency exchange fluctuation risks identified by currency and by month, in parts of trade receivables and payables and loan receivables denominated in foreign currencies, and trade receivables and payables which are expected to certainly occur due to exports and imports (forecasted transactions). In addition, certain consolidated subsidiaries use interest rate swap transactions intended to hedge fluctuation risks of interests on variable interest-loans and bonds payable.

With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. In addition, holding of short-term investment securities and investment securities other than held-to-maturity debt securities are continuously reviewed in consideration of relationships with the counterparties.

With regards to derivative transactions, the financial department or the accounting department executes and manages transactions upon obtaining internal approvals in compliance with the regulations approved by each company's Board of Directors' meetings. In addition, reports on the situations of derivative transactions are made to each company's Board of Directors' meeting when and where appropriate.

3) Liquidity risk management on fund raising (risk for delinquency)

Trade payables and loans are exposed to liquidity risk. In the Group, liquidity risk is managed by setting appropriate fund balance for each company, and by each company's updating fund plans monthly to maintain the balance that exceeds the set fund balance, and by the Company's confirming each company's cash position.

(4) Supplementary explanations concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in computing the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in the "Note11-Derivative Transactions" do not indicate the amounts of market risk exposed to derivative transactions.

2. Matters concerning the fair value of financial instruments

The consolidated balance sheet amount and fair value of financial instruments as of March 31, 2010 as well as the differences between these values are described below. Financial instruments whose fair values are not readily determinable are not included in the table. (See Note 2, below)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥101,324	¥101,324	¥ –
(2) Notes and accounts receivable–trade	67,027	66,872	(154)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	1,803	1,808	5
2) Available-for-sale securities *1	90,263	90,263	–
3) Equity securities issued by affiliated companies	511	198	(312)
Total assets	260,930	260,468	(461)
(1) Notes and accounts payable–trade	37,387	37,387	–
(2) Short-term loans payable	3,489	3,489	–
(3) Long-term loans payable	6,173	6,205	(31)
(4) Current portion of Corporate bonds	20,600	20,600	–
(5) Corporate bonds payable	41,501	41,040	460
Total liabilities	109,152	108,723	428
Derivative transactions *2			
1) Derivative transactions to which hedge accounting is not applied	92	92	–
2) Derivative transactions to which hedge accounting is applied	111	111	–
Total derivative transactions	¥ 203	¥ 203	¥ –

	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	$1,088,927	$1,088,927	$ –
(2) Notes and accounts receivable–trade	720,340	718,674	(1,665)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	19,377	19,440	62
2) Available-for-sale securities *1	970,049	970,049	–
3) Equity securities issued by affiliated companies	5,497	2,138	(3,359)
Total assets	2,804,192	2,799,230	(4,962)
(1) Notes and accounts payable–trade	401,803	401,803	–
(2) Short-term loans payable	37,501	37,501	–
(3) Long-term loans payable	66,346	66,689	(343)
(4) Current portion of Corporate bonds	221,391	221,391	–
(5) Corporate bonds payable	446,010	441,057	4,952
Total liabilities	1,173,053	1,168,444	4,609
Derivative transactions *2			
1) Derivative transactions to which hedge accounting is not applied	991	991	–
2) Derivative transactions to which hedge accounting is applied	1,193	1,193	–
Total derivative transactions	$ 2,185	$ 2,185	$ –

*1. Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire composite financial instruments are evaluated, and included in investment securities.
*2. Receivables and payables incurred by derivative transactions are presented in net.

Note 1: Calculation method of fair values of financial instruments and securities and derivative transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable–trade

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable–trade, those which have more than a year to the payment date from March 31, 2010 are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.

(3) Short-term investment securities and investment securities

The fair values of stocks are determined using the quoted price at the stock exchange, and those of bonds are determined using the quoted price at the exchange or the quoted price obtained from the financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. Notes concerning securities by holding purpose are listed in the "Note10 - Investment Securities."

Liabilities

(1) Notes and accounts payable—trade (2) Short-term loans payable and (4) Current portion of Corporate bonds

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

(3) Long-term loans payable and (5) Corporate bonds payable

These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

Derivative transactions

Notes concerning derivatives are listed in the "Note11-Derivative Transactions".

Note 2: Financial instruments whose fair values are not readily determinable

Item	Millions of yen Consolidated balance sheet amount
Unlisted equity securities	¥1,645
Investment in investment limited partnerships, etc.	3,952
Equity securities issued by non-consolidated subsidiaries	2,403
Equity securities issued by affiliated companies	1,205
Investments in capital of affiliated companies	220

Item	Thousands of U.S. dollars (Note 1) Consolidated balance sheet amount
Unlisted equity securities	$17,682
Investment in investment limited partnerships, etc.	42,481
Equity securities issued by non-consolidated subsidiaries	25,831
Equity securities issued by affiliated companies	12,957
Investments in capital of affiliated companies	2,365

These items are not included in "(3) Short-term investment securities and investment securities," because there is no market price, future cash flows cannot be estimated and it is very difficult to identify fair values.

Note 3: Redemption schedule of monetary assets and securities with contractual maturities

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥101,324	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	65,232	1,795	–	–
Short-term investment securities and investment securities				
Held-to-maturity debt securities	195	1,405	200	–
Available-for-sale securities with maturities*	73,205	800	–	3,000
Total	¥239,958	¥4,000	¥200	¥3,000

	Thousands of U.S. dollars (Note 1)			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	$1,088,927	$ –	$ –	$ –
Notes and accounts receivable-trade	701,049	19,291	–	–
Short-term investment securities and investment securities				
Held-to-maturity debt securities	2,095	15,099	2,149	–
Available-for-sale securities with maturities*	786,735	8,597	–	32,240
Total	$2,578,807	$42,988	$2,149	$32,240

* With respect to bonds with early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Note 4: For redemption supplemental schedule of corporate bonds payable, long-term loans payable, lease obligations and other interest-bearing liabilities after March 31, 2010, refer to "Supplemental Schedule of Corporate bonds" and "Supplemental schedule of borrowings" in "Note19-Supplemental Schedule of Corporate Bonds and Borrowings."

NOTE 10

Investment Securities

Year ended March 31, 2010

1. Held-to-maturity debt securities (as of March 31, 2010)

(1) Securities whose market value exceeds the consolidated balance sheet amount

	Millions of yen		
Category	Consolidated balance sheet amount	Fair value	Valuation gains
a. Government/municipal bonds	¥ –	¥ –	¥ –
b. Corporate bonds	804	815	10
c. Other	–	–	–
Total	¥804	¥815	¥10

	Thousands of U.S. dollars (Note 1)		
Category	Consolidated balance sheet amount	Fair value	Valuation gains
a. Government/municipal bonds	$ –	$ –	$ –
b. Corporate bonds	8,645	8,762	116
c. Other	–	–	–
Total	$8,645	$8,762	$116

(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

	Millions of yen		
Category	Consolidated balance sheet amount	Fair value	Valuation losses
a. Government/municipal bonds	¥ –	¥ –	¥ –
b. Corporate bonds	998	993	(5)
c. Other	–	–	–
Total	¥998	¥993	¥(5)

	Thousands of U.S. dollars (Note 1)		
Category	Consolidated balance sheet amount	Fair value	Valuation losses
a. Government/municipal bonds	$ –	$ –	$ –
b. Corporate bonds	10,732	10,678	(53)
c. Other	–	–	–
Total	$10,732	$10,678	$(53)

2. Available-for-sale securities (as of March 31, 2010)

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

	Millions of yen		
Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains
a. Shares	¥12,190	¥11,056	¥1,133
b. Bonds	1,006	1,000	6
c. Other	–	–	–
Total	¥13,196	¥12,056	¥1,140

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains
	Thousands of U.S. dollars (Note 1)		
a. Shares	$131,005	$118,821	$12,184
b. Bonds	10,818	10,746	72
c. Other	–	–	–
Total	$141,824	$129,568	$12,256

(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost

Category	Consolidated balance sheet amount	Acquisition cost	Valuation losses
	Millions of yen		
a. Shares	¥ 1,480	¥ 1,619	¥(139)
b. Bonds	2,379	2,797	(417)
c. Other	73,205	73,205	–
Total	¥77,066	¥77,622	¥(556)

Category	Consolidated balance sheet amount	Acquisition cost	Valuation losses
	Thousands of U.S. dollars (Note 1)		
a. Shares	$ 15,911	$ 17,408	$(1,496)
b. Bonds	25,577	30,062	(4,485)
c. Other	786,735	786,735	–
Total	$828,224	$834,207	$(5,982)

Note: "Bonds" in "Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost" include composite financial instruments, and the valuation losses of ¥2 million ($28 thousand) are posted in the Other expenses.

3. Available-for-sale securities sold during the year ended March 31, 2010 (from April 1, 2009 to March 31, 2010)

Category	Amount of proceeds	Total gains on sales	Total losses on sales
	Millions of yen		
a. Shares	¥ 863	¥255	¥(35)
b. Bonds	1,011	2	–
c. Other	–	–	–
Total	¥1,874	¥258	¥(35)

Category	Amount of proceeds	Total gains on sales	Total losses on sales
	Thousands of U.S. dollars (Note 1)		
a. Shares	$ 9,284	$2,745	$(384)
b. Bonds	10,865	27	–
c. Other	–	–	–
Total	$20,149	$2,773	$(384)

4. Impairment loss on securities (from April 1, 2009 to March 31, 2010)

During the year ended March 31, 2010, the Company recognized impairment loss on available-for-sale-securities in an amount of ¥2,465 million ($26,493 thousand).

Year ended March 31, 2009

Balance sheet amounts, fair values and valuation losses of held-to-maturity debt securities with available fair values as of March 31, 2009 were as follows:

	Millions of yen		
	Balance sheet amount	Fair value	Valuation losses
Securities whose market value is equal to or lower than the balance sheet amount:			
Corporate bonds	¥1,899	¥1,728	¥(171)

Acquisition costs, balance sheet amounts and valuation gains or losses of available-for-sale securities with available fair values as of March 31, 2009 were as follows:

	Millions of yen		
	Acquisition cost	Balance sheet amount	Valuation gains /(losses)
Securities whose market value exceeds the balance sheet amount:			
Shares	¥ 590	¥ 998	¥ 407
Securities whose market value is equal to or lower than the balance sheet amount:			
Shares	11,839	10,261	(1,577)
Bonds and debenture	3,000	2,562	(437)

Available-for-sale securities sold in the year ended March 31, 2009 amounted to ¥52 million and the related gains amounted to ¥3 million.

NOTE 11

Derivative Transactions

Year ended March 31, 2010

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

		Millions of yen			
	Category	Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	UK pound	¥1,785	¥–	¥30	¥30
	Euro	1,441	–	68	68
	Buying				
	U.S. dollar	174	–	(8)	(8)
	Euro	79	–	2	2
Total		¥3,481	¥–	¥92	¥92

	Category	Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
		Thousands of U.S. dollars (Note 1)			
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	UK pound	$19,190	$–	$325	$325
	Euro	15,495	–	731	731
	Buying				
	U.S. dollar	1,870	–	(88)	(88)
	Euro	853	–	23	23
Total		$37,410	$–	$991	$991

Note: Fair values are calculated using prices quoted by financial institutions.

(2) Composite financial instruments

With respect to composite financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire composite financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in the "Note10- Investment Securities."

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
			Millions of yen		
Primary method	Forward exchange contracts	Accounts receivable—trade			
	Selling				
	UK pound		¥2,020	¥–	¥125
	U.S. dollar		1,506	–	(28)
	Buying	Accounts payable—trade			
	UK pound		1,076	–	(10)
	U.S. dollar		904	–	24
	Total		¥5,506	¥–	¥111
Receivables or payables are translated using forward exchange contract rates	Forward exchange contracts	Accounts payable—trade			
	Buying				
	U.S. dollar		¥ 57	¥–	Note 2

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
			Thousands of U.S. dollars (Note 1)		
Primary method	Forward exchange contracts	Accounts receivable—trade			
	Selling				
	UK pound		$21,710	$–	$1,347
	U.S. dollar		16,186	–	(311)
	Buying	Accounts payable—trade			
	UK pound		11,566	–	(108)
	U.S. dollar		9,716	–	265
	Total		$59,179	$–	$1,193
Receivables or payables are translated using forward exchange contract rates	Forward exchange contracts	Accounts payable—trade			
	Buying				
	U.S. dollar		$ 621	$–	Note 2

Notes: 1. Fair values are calculated using prices quoted by financial institutions.
2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable-trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable-trade, since they are used for recording accounts payable-trade as hedged items.

(2) Interest rates

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
			Millions of yen		
Interest rate swaps meeting certain conditions	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥3,834	¥3,502	Note
Total			¥3,834	¥3,502	¥–

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
			Thousands of U.S. dollars (Note 1)		
Interest rate swaps meeting certain conditions	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	$41,203	$37,635	Note
Total			$41,203	$37,635	$–

Note: With respect to interest rate swap contracts which meet certain conditions, fair values of the interest rate swap contracts are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

Year ended March 31, 2009
To avoid adverse effects of fluctuation of the market risk associated with financial activities and fluctuation in exchange rate, the interest rate swap contracts and forward exchange contracts are used as derivative transactions in the Group. The derivative financial instruments are used only for hedging purpose and are not used for speculative trading purpose.

The interest rate swap contracts and forward exchange contracts are executed with creditworthy financial institutions, and the Group believes the risk of default by counterparties is currently low.

Based on the regulation approved by the Board of Directors' meeting, the accounting and finance department manages derivative transactions after internal authorizations.

NOTE 12

Retirement Benefits

Overview of retirement benefits plans

Domestic consolidated subsidiaries offer, based on the retirement benefit regulations, the employees' pension plans, the approved retirement pension plans, and the lump-sum retirement benefit plans. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer the defined contribution pension plans.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2010 and 2009 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
1) Projected benefit obligation	¥(25,432)	¥(24,924)	$(273,321)
2) Pension assets	11,786	10,256	126,670
3) Unrecognized projected benefit obligation	(13,645)	(14,668)	(146,650)
4) Unrecognized actuarial differences	1,597	3,933	17,162
5) Unrecognized prior service cost	(63)	(127)	(687)
Difference	(12,112)	(10,862)	(130,175)
6) Prepaid pension cost	105	11	1,137
7) Provision for retirement benefits	¥(12,218)	¥(10,873)	$(131,313)

Note: Some consolidated subsidiaries use the simplified method for calculating projected benefit obligations.

Included in the consolidated statements of operations for the years ended March 31, 2010 and 2009, severance and retirement benefit expenses comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Service costs–benefits earned during the year	¥2,052	¥2,251	$22,053
Interest cost on projected benefit obligation	435	428	4,684
Expected return on plan assets	(306)	(280)	(3,290)
Amortization of actuarial difference	922	1,615	9,909
Amortization of prior service cost	(63)	(144)	(687)
Additional interim benefit	413	4,801	4,447
Other	346	344	3,721
Severance and retirement benefit expenses	¥3,800	¥9,016	$40,839

Notes: 1. Retirement benefit expenses of consolidated subsidiaries using the simplified method are added up in "Service costs."
2. "Other" is a premium paid to the defined contribution pension plan.

	2010	2009
Discount rate	1.5~2.0%	1.5~2.5%
Rate of expected return on plan assets	1.0~2.5%	1.0~2.5%

NOTE 13

Stock Option Plan

The following tables summarize contents of stock options as of March 31, 2010.

Company name	The Company	The Company	The Company
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006
Position and number of grantees	The Company's employees and subsidiaries' employees: 944	The Company's directors: 4	The Company's employees, executive officers and subsidiaries' directors, executive officers and employees: 1,086
Class and number of stock	Common stock 2,534,000	Common stock 43,000	Common stock 2,701,500
Date of issue	July 29, 2005	August 14, 2006	August 14, 2006
Condition of settlement of rights	Continue to work from July 29, 2005 to July 30, 2007	Continue to work from August 14, 2006 to August 14, 2008	Continue to work from August 14, 2006 to August 14, 2008
Period grantees provide service in return for stock options	July 29, 2005 to July 30, 2007	August 14, 2006 to August 14, 2008	August 14, 2006 to August 14, 2008
Period subscription rights are to be exercised	July 31, 2007 to July 30, 2009	August 15, 2008 to July 30, 2010	August 15, 2008 to August 13, 2010

Company name	Sammy Networks Co., Ltd.	Sammy Networks Co., Ltd.	SEGA TOYS CO., LTD.
Date of the annual shareholders' meeting	June 22, 2005	June 22, 2005	June 16, 2008
Position and number of grantees	Sammy Networks Co., Ltd.'s employees: 18	Sammy Networks Co., Ltd.'s directors: 5 Sammy Networks Co., Ltd.'s corporate auditors: 1 Sammy Networks Co., Ltd.'s employees: 77	SEGA TOYS CO., LTD.'s employees: 127 SEGA TOYS CO., LTD.'s subsidiaries' directors: 4 SEGA TOYS CO., LTD.'s subsidiaries' employees: 36
Class and number of stock	Common stock 18	Common stock 353	Common stock 751,500
Date of issue	August 30, 2005	April 28, 2006	September 5, 2008
Condition of settlement of rights	Continue to work through exercise of right	Continue to work through exercise of right	The holder of stock acquisition rights needs to be in the position of an employee of SEGA TOYS CO., LTD. or a director or an employee of a subsidiary of SEGA TOYS CO., LTD. at the time of exercise of the rights. This excludes a decision of SEGA TOYS CO., LTD.'s Board of Directors that allows continuous holding of stock acquisition rights when justifiable reasons exist, such as retirement upon expiry of terms for directors and age-limit retirement for employees. Other terms and conditions shall be stipulated in the Agreement on Stock Acquisition Rights signed by SEGA TOYS CO., LTD. and holders of stock acquisition rights.
Period grantees provide service in return for stock options	August 30, 2005 to July 30, 2007	April 28, 2006 to July 30, 2007	September 5, 2008 to June 30, 2010
Period subscription rights are to be exercised	July 31, 2007 to July 30, 2012	July 31, 2007 to July 30, 2012	July 1, 2010 to June 30, 2013

Company name	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 28, 2006	June 28, 2006	June 28, 2006
Position and number of grantees	TMS ENTERTAINMENT, LTD.'s directors: 6 TMS ENTERTAINMENT, LTD.'s employees and subsidiaries' directors: 93	TMS ENTERTAINMENT, LTD.'s directors: 5	TMS ENTERTAINMENT, LTD.'s directors: 5
Class and number of stock	Common stock 598,000	Common stock 240,000	Common stock 240,000
Date of issue	August 21, 2006	August 28, 2008	August 27, 2009
Condition of settlement of rights	Continue to work from August 21, 2006 to June 30, 2008	Continue to work from August 28, 2008 to August 31, 2011	Continue to work from August 27, 2009 to August 31, 2012
Period grantees provide service in return for stock options	August 21, 2006 to June 30, 2008	August 28, 2008 to August 31, 2011	August 27, 2009 to August 31, 2012
Period subscription rights are to be exercised	July 1, 2008 to June 30, 2011	September 1, 2011 to August 31, 2016	September 1, 2012 to August 31, 2017

Company name	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 16, 2009
Position and number of grantees	TMS ENTERTAINMENT, LTD.'s employees: 100 Subsidiaries' directors: 7
Class and number of stock	Common stock 888,000
Date of issue	August 27, 2009
Condition of settlement of rights	Continue to work from August 27, 2009 to August 31, 2012
Period grantees provide service in return for stock options	August 27, 2009 to August 31, 2012
Period subscription rights are to be exercised	September 1, 2012 to August 31, 2017

The following tables summarize scale and movement of stock as of March 31, 2010

Company name	The Company	The Company	The Company	Sammy Networks Co., Ltd.	Sammy Networks Co., Ltd.	SEGA TOYS CO., LTD.
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006	June 22, 2005	June 22, 2005	June 16, 2008
Not exercisable stock options						
Stock options outstanding at April 1, 2009	–	–	–	–	–	738,100
Stock options granted	–	–	–	–	–	–
Forfeitures	–	–	–	–	–	290,600
Conversion to exercisable stock options	–	–	–	–	–	–
Stock options outstanding at March 31, 2010	–	–	–	–	–	447,500
Exercisable stock options						
Stock options outstanding at April 1, 2009	2,046,400	43,000	2,172,000	10	273	–
Conversion from not exercisable stock options	–	–	–	–	–	–
Stock options exercised	–	–	–	–	–	–
Forfeitures	2,046,400	–	121,800	1	12	–
Stock options outstanding at March 31, 2010	–	43,000	2,050,200	9	261	–

Company name	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 28, 2006	June 28, 2006	June 28, 2006	June 16, 2009
Not exercisable stock options				
Stock options outstanding at April 1, 2009	–	240,000	–	–
Stock options granted	–	–	240,000	888,000
Forfeitures	–	–	–	20,000
Conversion to exercisable stock options	–	–	–	–
Stock options outstanding at March 31, 2010	–	240,000	240,000	868,000
Exercisable stock options				
Stock options outstanding at April 1, 2009	563,000	–	–	–
Conversion from not exercisable stock options	–	–	–	–
Stock options exercised	–	–	–	–
Forfeitures	12,000	–	–	–
Stock options outstanding at March 31, 2010	551,000	–	–	–

The following tables summarize price information of stock options as of March 31, 2010

Yen

Company name	The Company	The Company	The Company	Sammy Networks Co., Ltd.	Sammy Networks Co., Ltd.	SEGA TOYS CO., LTD.
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006	June 22, 2005	June 22, 2005	June 16, 2008
Exercise price	¥3,470	¥4,235	¥4,235	¥1,700,000	¥1,053,914	¥280
Average market price of the stock at the time of exercise	–	–	–	–	–	–
Fair value of the stock option at the date of grant	–	510	509	–	–	90

Company name	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 28, 2006	June 28, 2006	June 28, 2006	June 16, 2009
Exercise price	¥472	¥268	¥237	¥237
Average market price of the stock at the time of exercise	–	–	–	–
Fair value of the stock option at the date of grant	126	62	52	52

U.S. dollars (Note 1)

Company name	The Company	The Company	The Company	Sammy Networks Co., Ltd.	Sammy Networks Co., Ltd.	SEGA TOYS CO., LTD.
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006	June 22, 2005	June 22, 2005	June 16, 2008
Exercise price	$37	$45	$45	$18,269	$11,326	$3
Average market price of the stock at the time of exercise	–	–	–	–	–	–
Fair value of the stock option at the date of grant	–	5	5	–	–	0

Company name	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 28, 2006	June 28, 2006	June 28, 2006	June 16, 2009
Exercise price	$5	$2	$2	$2
Average market price of the stock at the time of exercise	–	–	–	–
Fair value of the stock option at the date of grant	1	0	0	0

NOTE 14

Income Taxes

(1) Significant components of deferred tax assets and liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Deferred tax assets:			
Allowance for doubtful accounts	¥ 1,009	¥ 6,558	$ 10,843
Loss on valuation of inventories	2,077	2,244	22,324
Provision for bonuses	1,480	1,260	15,910
Provision for retirement benefits	4,965	4,422	53,367
Depreciation expense	17,774	22,432	191,022
Loss on valuation of investment securities	4,250	9,408	45,680
Impairment loss	2,807	2,064	30,170
Others	11,561	18,308	124,252
Tax loss carry forward	51,517	48,687	553,658
Total	97,444	115,388	1,047,231
Valuation allowance	(89,776)	(105,084)	(964,821)
Net deferred tax assets	7,668	10,303	82,409
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(631)	(335)	(6,783)
Others	(1,305)	(1,318)	(14,034)
Total	(1,937)	(1,654)	(20,817)
Recorded deferred tax assets	¥ 5,731	¥ 8,649	$ 61,591

(2) Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the year ended March 31, 2010.

	(%)
Statutory tax rate	40.7
(Adjustment)	
Amount of excluded income such as dividends income	(8.1)
Deducted amount of inherited tax loss carry forward at merged companies	(13.9)
Changes in valuation allowance	4.0
Other	(1.9)
Effective tax rate for financial statement purposes	20.8

The difference between the statutory tax rate and the effective tax rate for financial statement purposes is not listed because net loss before income taxes and minority interests was posted for the year ended March 31, 2009.

NOTE 15

Investment and Rental Property

(Additional information)

Effective from the fiscal year ended March 31, 2010, the Company adopted the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No.20, issued on November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No.23, issued on November 28, 2008) for the years ending on or after March 31, 2010.

This disclosure is omitted due to the immateriality of the total amount of the investment and rental property.

NOTE 16

Segment Information

A. Industry segment information

Industry segment information for the year ended March 31, 2010 is as follows:

								Millions of yen
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and eliminations	Consolidated
Net sales;								
(1) Outside customers	¥160,376	¥45,117	¥54,788	¥121,575	¥2,821	¥384,679	¥ –	¥384,679
(2) Inter-segment	322	2,807	46	262	911	4,351	(4,351)	–
Total	160,698	47,925	54,835	121,838	3,732	389,030	(4,351)	384,679
Cost of sales and operating expenses	131,196	40,831	56,173	115,505	3,396	347,103	862	347,966
Operating income/(loss)	¥ 29,502	¥ 7,094	¥ (1,338)	¥ 6,332	¥ 336	¥ 41,926	¥ (5,213)	¥ 36,712
Total assets	¥108,353	¥27,835	¥37,909	¥ 96,412	¥3,982	¥274,493	¥148,668	¥423,161
Depreciation and amortization	¥ 4,305	¥ 1,288	¥ 8,212	¥ 3,173	¥ 148	¥ 17,129	¥ 46	¥ 17,175
Impairment loss	¥ 93	¥ 15	¥ 3,584	¥ 137	¥ 26	¥ 3,857	¥ –	¥ 3,857
Capital expenditures	¥ 3,297	¥ 974	¥ 7,796	¥ 3,952	¥ 189	¥ 16,210	¥ (46)	¥ 16,164

								Thousands of U.S. dollars (Note 1)
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and eliminations	Consolidated
Net sales;								
(1) Outside customers	$1,723,552	$484,875	$588,808	$1,306,561	$30,318	$4,134,116	$ –	$4,134,116
(2) Inter-segment	3,463	30,176	499	2,824	9,796	46,760	(46,760)	–
Total	1,727,015	515,051	589,307	1,309,386	40,115	4,180,876	(46,760)	4,134,116
Cost of sales and operating expenses	1,409,956	438,808	603,692	1,241,332	36,504	3,730,294	9,271	3,739,565
Operating income/(loss)	$ 317,059	$ 76,242	$ (14,384)	$ 68,053	$ 3,611	$ 450,582	$ (56,031)	$ 394,550
Total assets	$1,164,467	$299,145	$407,405	$1,036,131	$42,801	$2,949,951	$1,597,728	$4,547,680
Depreciation and amortization	$ 46,275	$ 13,849	$ 88,262	$ 34,103	$ 1,596	$ 184,087	$ 496	$ 184,584
Impairment loss	$ 1,005	$ 169	$ 38,522	$ 1,475	$ 283	$ 41,456	$ –	$ 41,456
Capital expenditures	$ 35,437	$ 10,474	$ 83,790	$ 42,476	$ 2,033	$ 174,211	$ (495)	$ 173,716

Notes: 1. The Company has five operating segments based on its management control structure and the nature of products and markets.
2. Main products and line of business by segment:

(1) Pachislot Pachinko	Development, manufacture and sale of pachinko and pachislot machines and design parlors
(2) Amusement Machine Sales	Development, manufacture and sale of game machines used in amusement arcades
(3) Amusement Center Operations	Development, operation, rent and maintenance of amusement centers
(4) Consumer Business	Development and sale of home video game software, development, manufacture, and sale of toys, planning and production of entertainment contents for cellular phones, etc, planning, production and sale of animated movies
(5) Others	Information provider services, etc.

3. General corporate expenses of ¥4,965 million ($53,362 thousand), which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and eliminations."
4. Corporate assets of ¥149,052 million ($1,601,855 thousand), which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and eliminations."

5. (Change of accounting policy)
Content production expenses related to game software and amusement machines conducted primarily by the consolidated subsidiary, SEGA CORPORATION, have previously been accounted for as cost of sales at the time that such expenses are incurred (when production work is outsourced, these expenses are first posted as advance payments, and later treated as cost of sales at the time that production work is inspected). However, from the fiscal year ended March 31, 2010, goods recognized as products for commercialization are posted under inventories and non-current assets, with opting to treat the amount of such expenses for the inventories equivalent to the actual sales volume recorded as of the fiscal year end among projected sales volume as cost of sales, and treat the amount of such expenses for the non-current assets equivalent to the depreciation calculated based on their respective useful lives as cost of sales. The rationale for this change is to redeploy a framework capable of properly evaluating the certainty of realizing earnings by clarifying decision-making processes at the development stages of each project in line with efforts to review and enhance the development structure. This change will enable the appropriate disclosure of income for a given fiscal period by directly matching content production expenses, which have tended to grow sharply in recent years, with commensurate earnings.

As a consequence of this change, cost and expenses decreased by ¥1,643 million ($17,662 thousand), in Amusement machine sales, ¥174 million ($1,880 thousand), in Amusement center operations, ¥3,980 million ($42,782 thousand), in Consumer business, also each operating income increased in Amusement machine sales, and Consumer business by the same amount respectively, and operating loss decreased in Amusement center operations by the same amount.

Industry segment information for the year ended March 31, 2009 is as follows:

								Millions of yen
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and eliminations	Consolidated
Net sales;								
(1) Outside customers	¥161,691	¥61,926	¥71,310	¥131,361	¥2,904	¥429,194	¥ –	¥429,194
(2) Inter-segment	799	3,504	19	303	1,055	5,681	(5,681)	–
Total	162,490	65,430	71,330	131,664	3,959	434,876	(5,681)	429,194
Cost of sales and operating expenses	147,962	58,540	78,851	132,606	3,605	421,565	(734)	420,830
Operating income/(loss)	¥ 14,528	¥ 6,890	¥ (7,520)	¥ (941)	¥ 353	¥ 13,311	¥ (4,947)	¥ 8,363
Total assets	¥133,900	¥25,896	¥51,319	¥ 88,885	¥3,893	¥303,894	¥120,044	¥423,938
Depreciation and amortization	¥ 5,301	¥ 2,081	¥15,908	¥ 3,475	¥ 178	¥ 26,946	¥ (301)	¥ 26,644
Impairment loss	¥ 286	¥ 80	¥ 5,221	¥ 877	¥ –	¥ 6,465	¥ –	¥ 6,465
Capital expenditures	¥ 4,516	¥ 1,099	¥14,893	¥ 4,823	¥ 97	¥ 25,431	¥ 1,179	¥ 26,610

Notes: 1. The Company has five operating segments based on its management control structure, and the nature of products and markets.
2. Main products and line of business by segment:

(1) Pachislot Pachinko	Development, manufacture and sale of pachinko and pachislot machines, pachinko and pachislot machines' peripherals and design of parlors
(2) Amusement Machine Sales	Development, manufacture and sale of game machines used in amusement arcades
(3) Amusement Center Operations	Development, operation, rent and maintenance of amusement centers
(4) Consumer Business	Development and sale of home video game software, development, manufacture, and sale of toys, planning and production of entertainment contents for cellular phones, etc, planning, production and sale of animated movies
(5) Others	Information provider services, etc.

3. General corporate expenses of ¥4,748 million, which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and eliminations."
4. Corporate assets of ¥119,364 million, which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and eliminations."

B. Geographical segment information

Geographical segment information for the year ended March 31, 2010 is as follows:

Millions of yen	Japan	North America	Europe	Others	Total	Corporate and eliminations	Consolidated
I. Net sales –							
(1) Outside customers	¥322,012	¥27,079	¥31,985	¥3,602	¥384,679	¥ –	¥384,679
(2) Inter segment	18,741	3,188	1,615	1,106	24,651	(24,651)	–
Total	340,754	30,268	33,600	4,708	409,331	(24,651)	384,679
Cost of sales and operating expenses	305,140	30,236	31,996	4,546	371,921	(23,954)	347,966
Operating income	¥ 35,614	¥ 31	¥ 1,603	¥ 161	¥ 37,410	¥ (697)	¥ 36,712
II. Total Assets	¥270,584	¥21,026	¥18,242	¥1,323	¥311,176	¥111,985	¥423,161

Thousands of U.S. dollars (Note 1)	Japan	North America	Europe	Others	Total	Corporate and eliminations	Consolidated
I. Net sales –							
(1) Outside customers	$3,460,639	$291,024	$343,740	$38,710	$4,134,116	$ –	$4,134,116
(2) Inter segment	201,418	34,264	17,356	11,891	264,931	(264,931)	–
Total	3,662,058	325,289	361,097	50,602	4,399,047	(264,931)	4,134,116
Cost of sales and operating expenses	3,279,317	324,953	343,867	48,865	3,997,003	(257,437)	3,739,565
Operating income	$ 382,740	$ 335	$ 17,230	$ 1,737	$ 402,044	$ (7,493)	$ 394,550
II. Total Assets	$2,907,945	$225,967	$196,047	$14,221	$3,344,181	$1,203,498	$4,547,680

Notes: 1. Segmentation of countries and regions is based on geographical proximity.
2. Major countries and regions are as follows.
(1) North America ... United States.
(2) Europe ... United Kingdom, France, Germany, etc.
(3) Other ... Australia, China, Taiwan, etc.
3. General corporate expenses of ¥4,965 million ($53,362 thousand), which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and eliminations."
4. Corporate assets of ¥149,052 million ($1,601,855 thousand), which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and eliminations."

Geographical segment information for the year ended March 31, 2009 is as follows:

Millions of yen	Japan	North America	Europe	Others	Total	Corporate and eliminations	Consolidated
I. Net sales –							
(1) Outside customers	¥357,236	¥35,315	¥32,857	¥3,784	¥429,194	¥ –	¥429,194
(2) Inter segment	20,615	3,965	3,366	838	28,785	(28,785)	–
Total	377,851	39,281	36,223	4,623	457,979	(28,785)	429,194
Cost of sales and operating expenses	369,493	38,897	34,902	4,503	447,797	(26,966)	420,830
Operating income	¥ 8,358	¥ 383	¥ 1,321	¥ 119	¥ 10,182	¥ (1,818)	¥ 8,363
II. Total Assets	¥312,909	¥21,409	¥14,717	¥1,511	¥350,548	¥ 73,389	¥423,938

Notes: 1. Segmentation of countries and regions is based on geographical proximity.
2. Major countries and regions are as follows.
(1) North America ... United States.
(2) Europe … United Kingdom, France, Germany, etc.
(3) Other … Australia, China, Taiwan, etc
3. General corporate expenses of ¥4,748 million, which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination."
4. Corporate assets of ¥119,364 million, which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and eliminations."

C. Overseas sales

Overseas sales for the year ended March 31, 2010 are as follows:

	Millions of yen			
	North America	Europe	Other	Total
Total overseas sales	¥35,810	¥34,165	¥9,815	¥ 79,790
Consolidated net sales				¥384,679
Percentage of overseas sales to consolidated net sales	9.3%	8.9%	2.5%	20.7%

	Thousands of U.S. dollars (Note 1)			
	North America	Europe	Other	Total
Total overseas sales	$384,847	$367,172	$105,484	$ 857,504
Consolidated net sales				$4,134,116
Percentage of overseas sales to consolidated net sales	9.3%	8.9%	2.5%	20.7%

Notes: 1. Segmentation of countries and regions is based on geographical proximity.
2. Major countries and regions are as follows.
(1) North America ... United States.
(2) Europe ... United Kingdom, Italy, France, Germany, etc.
(3) Other ... China, Korea, Taiwan, etc.
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and regions outside Japan.

Overseas sales for the year ended March 31, 2009 are as follows:

	Millions of yen			
	North America	Europe	Other	Total
Total overseas sales	¥46,294	¥35,113	¥11,598	¥ 93,007
Consolidated net sales				¥429,194
Percentage of overseas sales to consolidated net sales	10.8%	8.2%	2.7%	21.7%

Notes: 1. Segmentation of countries and regions is based on geographical proximity.
2. Major countries and regions are as follows.
(1) North America ... United States.
(2) Europe ... United Kingdom, Italy, France, Germany, etc.
(3) Other ... China, Korea, Taiwan, etc.
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and regions outside Japan.

NOTE 17

Related Party Transactions

Information on related party transactions for the years ended March 31, 2010 and 2009 and the related amounts as of those dates is summarized as follows.

Material transactions of the Company with related individuals or companies for the year ended March 31, 2010 are as follows:

					Millions of yen
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	2010	Account	2010
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	¥240	–	¥–
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	7	Prepaid expense	3
		Payment of outsourcing fee	10	–	–

					Thousands of U.S. dollars (Note 1)
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	2010	Account	2010
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	$2,579	–	$ –
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	85	Prepaid expense	39
		Payment of outsourcing fee	113	–	–

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% shares directly in FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

Material transactions of the Company's consolidated subsidiaries with related individuals or companies for the year ended March 31, 2010 are as follows:

					Millions of yen
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	2010	Account	2010
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	¥34	Prepaid expense	¥16
				Long-term prepaid expense	2
		Settle up insurance	3	–	–
		Payment of welfare expenses	2	–	–

					Thousands of U.S. dollars (Note 1)
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	2010	Account	2010
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	$366	Prepaid expense	$175
				Long-term prepaid expense	24
		Settle up insurance	32	–	–
		Payment of welfare expenses	21	–	–

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% shares directly in FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

Material transactions of the Company with related individuals or companies for the year ended March 31, 2009 are as follows:

					Millions of yen
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	2009	Account	2009
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	¥240	–	¥–
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	9	Prepaid expense	3
		Payment of outsourcing fee	10	–	–

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% shares directly in FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

Material transactions of the Company's consolidated subsidiaries with related individuals or companies for the year ended March 31, 2009 are as follows:

					Millions of yen
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	2009	Account	2009
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Provision of loan	¥2,500	–	¥ –
		Collection of loan	2,500	–	–
		Receipt of interest	31	–	–
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	35	Prepaid expense	23
				Long-term prepaid expense	4
		Payment of welfare expenses	2	–	–

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% shares directly in FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

(Additional information) ASBJ Statement No.11, "Accounting Standard for Related Party Disclosures" and ASBJ Guidance No.13, "Guidance on Accounting Standard for Related Party Disclosures" issued by the Accounting Standards Board of Japan on October 17, 2006, require certain additional related party disclosures effective for years beginning on or after April 1, 2008. Pursuant to the new accounting standards, information on material transactions of the Company's consolidated subsidiaries with related individuals or companies is disclosed for the year ended March 31, 2009.

NOTE 18

Per Share Data

Net income per share is computed by dividing income available to common stockholders by the weighted-average number of common stock outstanding during the period. Diluted net income per share is similar to net income per share except that the weighted-average number of common stock outstanding is increased by the number of additional common stock that would have been outstanding if the potential common stock had been issued.

Per share data is as follows;

	Yen		U.S. dollars (Note 1)
	2010	2009	2010
Per share data			
Net assets per share	¥937.80	¥882.47	$10.07
Net income (loss) per share	80.46	(90.83)	0.86
Net income per share (diluted)	–	–	–

Diluted net income per share is not disclosed, because there are no residual securities that do not dilute the Company's net income per share for the year ended March 31, 2010. Also, diluted net income per share is not disclosed, because net loss is recorded, and there are no residual securities that do not dilute the Company's net income per share for the year ended March 31, 2009.

NOTE 19

Supplemental Schedule of Corporate Bonds and Borrowings

Supplemental schedule of corporate bonds

Company	Name of bond	Issuance date	Balance as of March 31, 2009 (Millions of yen)	Balance as of March 31, 2010 (Millions of yen)	Balance as of March 31, 2010 (Thousands of U.S. dollars (Note 1))	Interest rate (%)	Type	Date of maturity
Sammy Corporation	1st unsecured bonds	June 26, 2003	¥10,000	¥ 10,000 (10,000)	$ 107,469 (107,469)	0.41	Unsecured	June 25, 2010
	3rd unsecured bonds	August 27, 2008	15,000	13,125 (3,750)	141,053 (40,300)	Note 2	Unsecured	August 27, 2013
	4th unsecured bonds	September 25, 2008	10,000	10,000 (1,670)	107,469 (17,947)	Note 3	Unsecured	September 25, 2013
SEGA CORPORATION	8th unsecured bonds	December 28, 2007	10,000	10,000	107,469	1.22	Unsecured	December 28, 2012
	9th unsecured bonds	December 28, 2007	2,000	2,000	21,493	1.34	Unsecured	December 28, 2012
	10th unsecured bonds	March 25, 2008	3,000	3,000	32,240	1.30	Unsecured	March 25, 2013
	11th unsecured bonds	September 30, 2008	4,500	3,500 (1,000)	37,614 (10,746)	1.21	Unsecured	September 30, 2013
	12th unsecured bonds	June 30, 2009	–	8,350 (3,300)	89,736 (35,464)	Note 4	Unsecured	June 30, 2012
SEGA TOYS, CO., LTD.	4th unsecured bonds	March 31, 2008	469	238 (238)	2,557 (2,557)	0.92	Unsecured	March 31, 2011
	5th unsecured bonds	September 25, 2008	500	437 (125)	4,701 (1,343)	0.62 Note 5	Unsecured	September 25, 2013
	6th unsecured bonds	September 30, 2008	450	393 (112)	4,231 (1,209)	1.36	Unsecured	September 30, 2013
	7th unsecured bonds	June 30, 2009	–	417 (165)	4,486 (1,773)	0.83	Unsecured	June 29, 2012
	8th unsecured bonds	March 31, 2010	–	500 (100)	5,373 (1,074)	0.74	Unsecured	March 31, 2015
OASIS PARK Co., Ltd.	1st unsecured bonds	November 25, 2003	140	140 (140)	1,504 (1,504)	1.47	Unsecured	November 25, 2010
	2nd unsecured bonds	November 25, 2003	70	–	–	1.30	Unsecured	November 25, 2009
Total	–	–	¥56,129	¥ 62,101 ¥ (20,600)	$ 667,401 $ (221,391)	–	–	–

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2010" represent the current portion of corporate bonds.
2. The interest on Sammy Corporation's third debenture is a variable rate that uses six-month Japanese yen TIBOR.
3. The interest on Sammy Corporation's fourth debenture is a variable rate six-month Japanese yen TIBOR added with its 0.10%.
4. The interest on SEGA CORPORATION's twelfth debenture is a variable rate that uses six-month Japanese yen TIBOR.
5. The interest on SEGA TOYS CO., LTD.'s fifth debenture is a variable rate that is 1.00% less than the standard interest set for each interest-bearing period. The interest rate listed above is the rate as of March 31, 2010.
6. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2010 is as follows:

				Millions of yen
Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
¥20,600	¥11,892	¥25,265	¥4,243	¥100

				Thousands of U.S. dollars (Note 1)
Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
$221,391	$127,807	$271,520	$45,607	$1,074

Supplemental schedule of borrowings

Category	Balance as of March 31, 2009 (Millions of yen)	Balance as of March 31, 2010 (Millions of yen)	Balance as of March 31, 2010 (Thousands of U.S. dollars (Note 1))	Average interest rate (%)	Repayment terms
Short-term borrowings	¥ 4,460	¥ 1,995	$ 21,440	1.3	–
Current portion of long-term borrowings due within one year	1,006	1,494	16,061	1.6	–
Current portion of lease obligations	299	351	3,777	Note 2	–
Long-term borrowings (Excluding current portion)	6,740	6,173	66,346	1.8	2011-2015
Lease obligations (Excluding current portion)	1,522	1,325	14,250	Note 2	2011-2028
Other interest-bearing debt					
Accounts payable-facilities	138	1,111	11,943	–	–
Accounts payable-facilities (Excluding current portion)	178	1,262	13,564	–	2011-2013
Total	¥14,348	¥13,714	$147,383	–	–

Notes: 1. The "Average interest rate" represents weighted average interest rate over the year-end balance of loans.
2. The average interest rate on lease obligation is not listed because lease obligation is posted in the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.
3. The redemption schedule of long-term loans payable, lease obligation and interest-bearing debt (excluding current portion) after March 31, 2010 is summarized as follows:

					Millions of yen
Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term borrowings	¥2,957	¥3,183	¥ 13	¥13	¥ 6
Lease obligations	291	223	125	55	629
Other interest-bearing debt accounts payable-facilities	¥ 670	¥ 592	¥ –	¥ –	¥ –

					Thousands of U.S. dollars (Note 1)
Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term borrowings	$31,781	$34,208	$ 143	$146	$ 67
Lease obligations	3,134	2,401	1,352	599	6,761
Other interest-bearing debt accounts payable-facilities	$ 7,200	$ 6,364	$ –	$ –	$ –

Independent Auditors' Report

To the Shareholders and Board of Directors of
SEGA SAMMY HOLDINGS INC.:

We have audited the accompanying consolidated balance sheets of SEGA SAMMY HOLDINGS INC. and consolidated subsidiaries as of March 31, 2010 and 2009, the related consolidated statements of operations, changes in net assets and cash flows for each of the two years in the period ended March 31, 2010, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SEGA SAMMY HOLDINGS INC. and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

As discussed in Note 3 to the consolidated financial statements, effective April 1, 2009, a change was made in the accounting principles for content production expenses related to game software and amusement machines.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

(KPMG AZSA & Co.)
Tokyo, Japan
June 24, 2010

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