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Securities Code: 6460  
May 31, 2010

Hajime Satomi  
Chairman of the Board  
and Chief Executive Officer  
SEGA SAMMY HOLDINGS INC.  
Shiodome Sumitomo Building,  
1-9-2 Higashi Shimbashi,  
Minato-ku,  
Tokyo, 105-0021, Japan

Dear Shareholders:

### **Notice of the 6th Ordinary General Meeting of Shareholders to be held on June 23, 2010**

You are cordially invited to attend the 6th Ordinary General Meeting of Shareholders of SEGA SAMMY HOLDINGS INC. (the "Company") to be held at Event Hall, Bellesalle Shiodome of Sumitomo Fudosan Shiodome Hamarikyu Building, 8-21-1 Ginza, Chuo-ku, Tokyo, 104-0061, Japan on Wednesday, June 23, 2010 at 10:00 a.m. for the purposes listed below.

If you are unable to attend the meeting in person, you may exercise your voting rights by either mail (in writing) or via the Internet. Therefore, please review the attached reference materials, and kindly exercise your voting rights before 18:00 Japan Standard Time on Tuesday, June 22, 2010.

#### Details of the Meeting

- 1. Date and time:** Wednesday, June 23, 2010 at 10:00 a.m.  
**2. Venue:** Event Hall, Bellesalle Shiodome  
Sumitomo Fudosan Shiodome Hamarikyu Building  
8-21-1 Ginza, Chuo-ku, Tokyo, 104-0061, Japan

Please note that the venue for this year is different from the venue for last year.

#### **3. Agenda:**

- Matters to be reported:**
1. The Business Report, the Consolidated Financial Statements for the 6th fiscal year (from April 1, 2009 to March 31, 2010) and results of audits by the Accounting Auditor and the Board of Corporate Auditors on the Consolidated Financial Statements
  2. Non-consolidated Financial Statements for the 6th fiscal year (from April 1, 2009 to March 31, 2010)

#### **Matters to be resolved:**

- Item 1:** To amend certain parts of the Articles of Incorporation  
**Item 2:** To elect six (6) Directors  
**Item 3:** To issue Stock Acquisition Rights as Stock Options to Directors

If you decide to attend the meeting in person, please submit the enclosed voting rights exercise form at the reception desk at the meeting location on the day of the meeting.

Should any change need to be made to the Reference Materials for the General Meeting of Shareholders, business reports or consolidated/unconsolidated financial reports, revised information shall be posted on the following website of the Company:  
(<http://www.segasammy.co.jp/japanese/ir/stockholder/index.html>)

## Information on the Exercise of Voting Rights

### Exercise of voting rights by mail

Vote “for” or “against” the agenda items on the voting rights exercise form enclosed and return the said form to the Company so that it is received no later than the deadline for exercising your voting rights, indicated above.

### Exercise of voting rights via the Internet, etc.

#### (1) Exercise of voting rights

- (i) Access the voting website (<http://www.evotep.jp/>), log on using the “voting rights exercise code” and “temporary password” printed on the enclosed voting rights exercise form, and follow the on-screen instructions (Japanese Language Only) to enter your “approval” or “disapproval,” before the deadline for exercising your voting rights, indicated above.
- (ii) In order to prevent unauthorized access by persons other than shareholders (“spoofing”) and falsification of entries, you are kindly requested to change the “temporary password” once you log on to the voting website.

#### (2) Voting website

- (i) You may exercise your voting rights by accessing the voting website designated by the Company (<http://www.evotep.jp/>) from a PC or mobile phone (i-mode, EZweb or Yahoo! Keitai). (Please note that the site cannot be accessed between 2 a.m. and 5 a.m. daily, Japan Standard Time) (“i-mode”, “EZweb” and “Yahoo!” are trademarks or registered trademarks of NTT DoCoMo, Inc., KDDI Corporation and U.S. Yahoo! Inc., respectively.)  
You may also access the voting website by using a mobile phone equipped with a QR code reader to read the QR code on the right:  
Please check the usage instructions for your mobile phone for further details regarding the use of the QR code reader.
- (ii) You may be unable to use the voting website depending on your Internet configuration, firewall, anti-virus software and proxy server settings.
- (iii) You must have access to either i-mode, EZweb or Yahoo! Keitai services to exercise your voting rights via mobile phone. Please note that the voting website is only accessible from a mobile handset capable of communicating encrypted data (i.e. SSL) and mobile phone data for security purposes.
- (iv) Please note that any costs incurred in accessing the voting website (e.g. dial-up connection fees and telephone charges) will be paid by the shareholders. Please note that any costs incurred in voting via mobile phone, including packet charges, will also be paid by the shareholders.



### Treatment of votes cast more than once

- (i) When any shareholder exercises voting rights both by voting rights exercise form and via the Internet, only the Internet vote will be upheld as valid.
- (ii) When any shareholder exercises voting rights more than once via the Internet, only the last vote will be upheld as valid. Similarly, when any shareholder exercises voting rights more than once via PC and via mobile phone, only the last vote will be upheld as valid.

**Convocation notices by email**

You may request to receive convocation notices for future General Meetings of Shareholders by email. If you are interested in applying for this service, please follow the procedure on the voting website. (Please note that registration cannot be completed via mobile phone and that mobile phone email addresses are not accepted.)

**Electronic proxy voting platform**

Institutional investors can use the electronic proxy voting platform that is operated by Investor Communications Japan, Inc., which is designed for institutional investors to exercise their voting rights electronically.

**For inquiries concerning the online voting system:**

[Helpdesk]

Shareholder register manager: Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation

Direct line: 0120-173-027 (Domestic [Japan] call only)  
(Weekdays 9:00- 21:00)

**\* Please note that the above contact number is not for inquiries concerning shares.**

## **Business Report**

(From April 1,2009 To March 31,2010)

### **I Group's Current Condition**

#### **1. Business Development and Results**

During the fiscal year ended March 31, 2010, the Japanese economy remained stagnant in spite of a certain degree of recovery. Corporate earnings were under pressure on issues such as appreciation of yen and ongoing deflation. In addition, the employment condition remained sluggish and personal consumption stayed at low levels.

In this climate, however, the pachislot and pachinko industry witnessed a firm drive to replace older pachinko machines with models offering more diverse gameplay. In the pachislot market, there is a certain expectation for recovery as the Group saw launches of some machines with innovative gameplay, receiving a warm market response.

In the amusement machine and amusement center industry, conditions remained difficult. The industry awaits the development and launch of new innovative machines that will lead the market by addressing the diversified needs of customers, including families and casual players.

In the home video game software industry, the demand was generally weak in the U.S. and European markets due to the headwind like sluggish personal consumption. The Group needs to adapt to changing business environment in which the market for new content geared to SNS and smartphone is expanding.

In this business environment, consolidated net sales for the year amounted to ¥384,679 million, a decrease of 10.4% from the previous fiscal year. Operating income totaled ¥36,712 million, an increase of 339.0% from the previous fiscal year. Due to the factors including impairment loss and loss on valuation of investment securities, the Group recorded net income of ¥20,269 million, compared with net loss of ¥22,882 million in the previous fiscal year.

Results by business segments were as follows.

#### **《Pachislot and Pachinko Machines》**

In the pachinko machine business, the Group recorded brisk sales, especially sales of “Pachinko CR SOUTEN-NO-KEN”, this year's major title, “Pachinko CR Sengoku Ranbu Aoki Dokugan”, a title with an innovative gameplay under the Sammy brand and “CR Kidou Shinsengumi Moeyo Ken2” under the Taiyo Elec brand. Although the sales of all the pachinko machines decreased from the previous fiscal year totaling 360 thousand units, profit margins improved due to such factors as a rise on the board sales of the pachinko machines and the reduced cost of procurement.

In the pachislot machine business, a title with an innovative gameplay “Pachislot Psalms of Planets Eureka SeveN” was launched under the Sammy brand, which registered sales of 56 thousand units thanks to a warm market response. Other titles such as “Pachislot TOMORROW'S JOE” under the Sammy brand and “Pachislot Shin Onimusya” under the RODEO brand maintained strong sales in the year under review. As a result, overall pachislot machine sales were 162 thousand units, exceeding the results of the previous fiscal year, despite the fact that the launch of some major titles was postponed to the next fiscal year.

In the meantime, profit margins improved due to revisions of pricing strategies for both pachinko and pachislot machines. The Group made GINZA CORPORATION its wholly-owned subsidiary as a strategic brand in its multi-brand development in the pachislot and pachinko machine business, in an effort to further enhance profitability.

As a result, net sales in this segment were ¥160,698 million (a decrease of 1.1% year on year) and operating income was ¥29,502 million (an increase of 103.1% year on year).

### Main Pachinko Machines and Units Sold

| Model name   | Brand        | Units sold<br>(Thousands) |
|--|--------------|---------------------------|
| Pachinko CR SOUTEN-NO-KEN                          | (Sammy)      | 94                        |
| Pachinko CR Kyutei Nyokan Chamgum no Chikai series | (Sammy)      | 58                        |
| Pachinko CR Sengoku Ranbu Aoki Dokugan             | (Sammy)      | 53                        |
| CR GAMERA THE BATTLE PACHINKO                      | (Sammy)      | 35                        |
| CR Kidou Shinsengumi Moeyo Ken 2 series            | (Taiyo Elec) | 34                        |

### Main Pachislot Machines and Units Sold

| Model name                               | Brand        | Units sold<br>(Thousands) |
|--|--------------|---------------------------|
| Pachislot Psalms of Planets Eureka SeveN | (Sammy)      | 56                        |
| Pachislot TOMORROW'S JOE                 | (Sammy)      | 37                        |
| Pachislot Shin Onimusya                  | (Rodeo)      | 28                        |
| Pachislot Urusei Yatsura 2               | (Sammy)      | 16                        |
| Pachislot BLOOD+                         | (Taiyo Elec) | 7                         |

### 《Amusement Machine Sales》

In the amusement machine sales business, operation of a major title for the year “BORDER BREAK” was strong. This title was sold under a revenue share model (ALL.Net P-ras) for the purpose of improving investment efficiency of the operators of amusement centers and securing long-term stable earnings for the Group. Strong sales were also seen in CVT KIT of major titles, such as “SEGA Network Mar-jang MJ4 Evolution”. Due to the absence of the launch of major titles, net sales in the year under review were lower than those in the previous fiscal year, while profitability improved.

As a result, net sales in this segment were ¥47,925 million (a decrease of 26.8% year on year), and operating income was ¥7,094 million (an increase of 3.0% year on year).

### 《Amusement Center Operations》

In the amusement center operations business, sales at existing SEGA amusement centers in Japan remained at low levels due to the difficult business environment characterized by sluggish personal consumption, recording a 91.7% of the previous fiscal year’s level. The Group continued to close or sell domestic amusement centers with low profitability or future potential, since the end of the previous fiscal year. In the year under review, the Group closed 66 amusement centers and opened 4 new amusement centers. At fiscal year-end, therefore, the Group operated a total of 260 amusement centers.

In the overseas amusement center operations, the Group also closed 8 amusement centers in North America, in an effort to improve profitability.

As a result, net sales in this segment were ¥54,835 million (a decrease of 23.1% year on year), and operating loss was ¥1,338 million, compared with operating loss of ¥7,520 million in the previous fiscal year.

### 《Consumer Business》

In the consumer business, the Group launched some new major titles of home video game software such as “Mario & Sonic at the Olympic Winter Games™”, this year’s major title for the U.S. and European markets and “BAYONETTA” for the global market, along with the latest titles of the popular series for the domestic market including “Ryu ga Gotoku 4: Densetsu wo Tsugumono” and “Phantasy Star Portable 2”. While domestic sales were mostly firm thanks to streamlining the development by narrowing down the titles, in the overseas markets, sales of new titles remained slow as affected by the adverse market condition, and also, the launch of some titles was postponed to the next fiscal year. As a result, the Group sold 10,550 thousand video game copies in the U.S., 12,380 thousand copies in Europe and 3,820 thousand copies in Japan and other regions, for a total of 26,750 thousand copies. The Group also decided to close its North American subsidiary specializing in development, Secret Level, Inc., in

view of the changing business environment in overseas game software markets.

In the toy sales division, while overseas sales remained solid, domestic sales were weak, due to the decrease of sales by the reduction of underperforming business and products, and the effect of slowdown of domestic market at the time of stagnant consumption. In the mobile phone and PC content business, sales remained brisk, due to the factors such as launch of major titles, and changing business model (introducing pay-per-use service), while the membership continued to decline in overall pachinko pachislot category in the mobile phone content business. In the animated films business, despite the decrease in the production of TV films and theater films, overall revenue from the sale of the films remained strong thanks to the increase in box office sales due to the successes of the theater films, boost in royalty revenue driven by the success of “BAKUGAN” in the overseas markets and other factors.

As a result, net sales in this segment were ¥121,838 million (a decrease of 7.5% year on year), and operating income was ¥6,332 million, compared with operating loss of ¥941 million in the previous fiscal year.

[Inappropriate Transactions by Former Employee of the Company’s Subsidiary (SEGATOYS CO., LTD.)] As per the announcements made on April 15, and May 6, 2010, it has been discovered that a former employee of SEGATOYS CO., LTD. had been conducting inappropriate transactions with multiple business partners, and that fictitious accounts receivable from SEGATOYS CO., LTD., stemming from the inappropriate transactions was around ¥420 million, following the investigations by internal investigation taskforce at SEGATOYS CO., LTD. and external investigation committee.

We deeply regret that such inappropriate transactions occurred within the Group. We express our sincerest apologies to our shareholders, investors, business partners and other affiliated parties for the enormous inconvenience and concerns this incident may cause. The Group as a whole will strive to prevent recurrence and restore confidence. We are earnestly continuing the investigations and will announce the final report as soon as the results become clear.

## **2. Issues to be Addressed**

In the pachislot and pachinko machine business, the Group will strive to adapt to the changes in business environment, through efforts including the development and supply of the products with innovative gameplay that meet market needs, reflecting changes in user preference as typically indicated by the spread of parlors with low ball-rental charges.

In the amusement machine business, the Group will seek a broad range of users by providing various products from high value added products to the products for family users that meet user needs. The Group will seek to simultaneously enhance investment efficiency for operators and secure sources of long-term and stable earnings for the Group as an amusement machine manufacturer. In overseas markets, the Group must provide the products that meet local needs at competitive price.

In the amusement center operations business, the Group will build up efficient business structure by reviewing and restructuring its portfolio of amusement centers. It will be the Group’s business challenge to recover the profits by strengthening management capabilities and competitiveness at its amusement centers, as well as by attracting new customers.

In the consumer business, the Group must enhance profitability through streamlining the development by such measures as narrowing down the titles in the home video game software business. The Group must also adapt to new functions of game consoles as well as to rapidly expanding market for new content, including that for SNS and smartphone. In the toy sales, mobile phone and PC content and animated films businesses, the Group must reinforce these operations, mainly by listed subsidiaries.

## **3. Fund Procurement, etc.**

### **(1) Fund Procurement**

The Company concluded commitment line contract aimed at securing medium- and long-term capital liquidity and otherwise providing a Group wide safety net. The company formed a syndicate arrangement with seven financial institutions covering ¥42,000 million.

In the fiscal year under review, SEGA CORPORATION raised funds that amounted to ¥10,000 million through private placement bonds with a bank guarantee, with the aim of providing adequate working capital.

(2) Capital Expenditures

The Group's capital expenditures totaled ¥16,164 million, including ¥3,297 million for increasing mold tools and other investments in the pachinko pachislot business. In addition, there were ¥7,796 million in capital expenditures related to amusement centers operated by SEGA Corporation and other companies.

(3) Business Transfers, Absorption-type Demergers, and Incorporation-type Demergers

There is no applicable material information for the fiscal year under review.

(4) Business Transfer from Other Companies

There is no applicable material information for the fiscal year under review.

(5) Succession of Rights and Obligations Related to Businesses of Other Corporations, etc., through Absorption-type Mergers or Demergers

There is no applicable material information for the fiscal year under review.

(6) Acquisition or Disposition of Stocks and Other Interests or Share Subscription Rights, etc., of Other Companies

① On April 28, 2009, Sammy Corporation, a Company subsidiary, sold its shareholdings in Sammy Systems Co., Ltd.

② On December 8, 2009, Sammy Corporation, a Company subsidiary, purchased all of issued shares of GINZA CORPORATION.

**4. Assets and Profits and Losses for the Previous Three Fiscal Years**

| Fiscal Year                    |             | FY2007                                  | FY2008                                  | FY2009                                  | FY2010                                  |
|--------------------------------|-------------|---|---|---|---|
|                                |             | From April 1, 2006<br>To March 31, 2007 | From April 1, 2007<br>To March 31, 2008 | From April 1, 2008<br>To March 31, 2009 | From April 1, 2009<br>To March 31, 2010 |
| Net sales                      | (¥ million) | 528,238                                 | 458,977                                 | 429,194                                 | 384,679                                 |
| Ordinary income<br>(loss)      | (¥ million) | 81,287                                  | (8,224)                                 | 6,636                                   | 35,925                                  |
| Net income (loss)              | (¥ million) | 43,456                                  | (52,470)                                | (22,882)                                | 20,269                                  |
| Net income (loss)<br>per share | (¥)         | 172.47                                  | (208.26)                                | (90.83)                                 | 80.46                                   |
| Total assets                   | (¥ million) | 549,940                                 | 469,642                                 | 423,938                                 | 423,161                                 |
| Net assets                     | (¥ million) | 358,858                                 | 281,627                                 | 242,532                                 | 256,770                                 |

- Notes: 1. Figures shown in millions of yen have been rounded down to the nearest million.  
 2. Net income (loss) per share is calculated based on the average number of shares outstanding during the period.  
 3. Effective as of FY2007, the third fiscal year, in order to evaluate the Company's net assets, the Company and its subsidiaries adopted the Accounting Standard Related to Indication of Net Assets on Balance Sheets (Financial Accounting Standard No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the Implementation Guidance for the Accounting Standard, etc., Related to Indication of Net Assets on Balance Sheets (Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).  
 4. Details for fiscal FY2010 are discussed in "1 Business Development and Results"

## 5. Major Business Segments

The business segments of the SEGA SAMMY Group are pachislot and pachinko machines, amusement machine sales, amusement center operations, consumer business and other businesses. The primary business activities are as follows.

| Segment                         | Main Business  |
|---------------------------------|--|
| Pachislot and Pachinko machines | Development, manufacture and sales of Pachinko and Pachislot machines.<br>Design for parlors.  |
| Amusement machine sales         | Development, manufacture and sales of game machines used in an amusement arcades   |
| Amusement center operations     | Development, operation, rental and maintenance of amusement centers.   |
| Consumer business               | Development and sale of home video game software.<br>Development, manufacture, and sale of toys.<br>Planning and production of entertainment content through cellular phone, etc.<br>Planning, production and sale of animated movies. |
| Other                           | Information provider services, etc.  |

## 6. Major Business Locations of the Group

(1) The company: SEGA SAMMY HOLDINGS INC.  
Head Office (Minato-ku, Tokyo)

(2) Office of the main subsidiaries

① Sammy Corporation

Head Office (Toshima-ku, Tokyo)

Kawagoe Factory (Kawagoe, Saitama)

Branches and Sales Offices (7 Branches, 29 Sales Offices)

② SEGA CORPORATION

Head Office (Ohta-ku, Tokyo)

Amusement Center Operating Locations: 217 locations

(3) Employees of the Group

Number of employees (change from end of previous year) 6,236 (620 down)

Note: The number of employees includes full-time staff and staff on loan, but not temporary employees.

## 7. Material Parent Company and Subsidiaries

(1) Relationships with parent company  
There is no pertinent matter.

(2) Relationships with subsidiaries

| Company           | Capital         | Percentage ratio of issued shares | Main business   |
|-------------------|-----------------|-----------------------------------|---|
| Sammy Corporation | ¥18,221 million | 100.0%                            | Development/manufacture/sales of pachislot and pachinko machines  |
| SEGA CORPORATION  | ¥60,000 million | 100.0%                            | Development/manufacture/sales of game machines used in amusement arcades<br>Development/operations of amusement centers<br>Development/sales of home videogame software |
| RODEO Co., Ltd.   | ¥100 million    | 65.0%<br>(Note)                   | Development/manufacture/sales of pachislot machines   |

|                                       |                 |                  |   |
|---------------------------------------|-----------------|------------------|---|
| Sammy Design Co., Ltd.                | ¥40 million     | 100.0%<br>(Note) | Planning/design/construction of pachinko parlors                              |
| TAIYO ELEC Co., Ltd.                  | ¥5,125million   | 51.2%<br>(Note)  | Development/manufacture/sales of pachislot and pachinko machines              |
| Sega Logistics Service Co., Ltd.      | ¥200 million    | 100.0%<br>(Note) | Maintenance service, transportation, and warehouse business                   |
| Sega Amusements U.S.A., Inc.          | US\$3 million   | 100.0%<br>(Note) | Import/manufacture/sales of amusement equipment                               |
| Sega Amusements Europe Ltd.           | £ 26 million    | 100.0%<br>(Note) | Import/manufacture/sales of amusement equipment                               |
| Sega Entertainment U.S.A., Inc.       | US\$0 million   | 100.0%<br>(Note) | Operations of amusement centers   |
| Sammy NetWorks Co., Ltd.              | ¥2,330 million  | 56.3%            | Internet game and music contents provider                                     |
| SEGA TOYS, LTD.                       | ¥1,735 million  | 52.2%            | Development/manufacture/sales of toys   |
| TMS ENTERTAINMENT, LTD.               | ¥8,816 million  | 60.2%            | Planning/production/sales and other activities involving animated movies      |
| Sega of America, Inc.                 | US\$110 million | 100.0%<br>(Note) | Development/management/sales of home video game software                      |
| Sega Publishing America, Inc.         | US\$41 million  | 100.0%<br>(Note) | Sales of home video game software   |
| Sega Europe Ltd.                      | £ 10 million    | 100.0%<br>(Note) | Sales of home video game software   |
| Sega Publishing Europe Limited        | £ 0 million     | 100.0%<br>(Note) | Sales of home video game software   |
| SEGA SAMMY INVESTMENT & PARTNERS INC. | ¥100 million    | 100.0%           | Investment advisory and operation, management of investment partnerships, etc |

Note: Percentage of ratio of issued shares includes rights of indirectly owned shares.

## 8. Main Banks and Borrowings

| Lenders                                | Balance of loans payable |
|--|--------------------------|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | ¥3,555 million           |
| Sumitomo Mitsui Banking Corporation    | ¥3,050 million           |
| The Hokuriku Bank, Ltd.                | ¥2,136 million           |
| Others                                 | ¥921 million             |
| Total                                  | ¥9,663 million           |

## 9. Where the Articles of Incorporation Provide for the Board of Directors to Determine Distributions, etc., of Retained Earnings, Policy Regarding Exercise of Such Authority

SEGA SAMMY HOLDINGS gives priority to returning profits to shareholders. The Company's basic policy is to pay an appropriate dividend that is commensurate with earnings.

For the distribution of surplus, the Company paid second quarter and plans to pay year-end dividends of ¥15 per share, respectively. This reflects the Group's policy of paying dividends to shareholders stably.

Furthermore, the Company's policy is to effectively use retained earnings to bolster its financial position and operating base as well as for investments in line with business expansion.

## 10. Other Significant Events of the Group

On December 27, 2005, Universal Entertainment Corporation (formerly known as Aruze Corporation, hereinafter referred to as the "Corporation") filed a lawsuit against subsidiary Sammy Corporation, claiming financial damages of ¥21,000 million and other sanctions for the alleged infringement of two of its patents, specifically patents No. 3069092 and No. 3708056, by Sammy in relation to the manufacture and sale of "Hokuto No Ken" pachislot machines. On May 22, 2007, the Tokyo District Court handed down its judgment to dismiss the Corporation's claim.

Later, as the Corporation was dissatisfied with this judgment, it filed an appeal with the Intellectual Property High Court on June 4, 2007. However, the same Court handed down its judgment to dismiss the Corporation's claim on March 10, 2010.

The Corporation filed a petition for a final appeal and acceptance of a final appeal with the Supreme

Court on March 26, 2010. However, it is reasonable to believe their appeal is most likely to be unsuccessful at the Supreme Court, as it has been at both the Tokyo District Court and the Intellectual Property High Court.

Incidentally on the same day, the Corporation filed a petition for downward amendment of claim to the Supreme Court, reducing the amount of claim to ¥100 million.

## II Shares Outstanding and Shareholders

1. **Number of shares authorized for issue**    **800,000,000 shares**
2. **Total shares issued and outstanding**    **283,229,476 shares**
3. **Number of shareholders**    **89,355**
4. **Principal shareholders (Top 10)**

| Name of shareholder  | Investment in<br>SEGA SAMMY HOLDINGS |                           |
|--|--------------------------------------|---------------------------|
|  | Shares held                          | Shareholding ratio<br>(%) |
| Hajime Satomi  | 43,569,338                           | 17.29                     |
| Mellon Bank, NA Treaty Clients Omnibus   | 18,280,322                           | 7.25                      |
| FSC Co., Ltd.  | 14,172,840                           | 5.62                      |
| The Bank of New York Mellon as Depository Bank<br>for Depository receipt holders | 12,465,860                           | 4.94                      |
| The Master Trust Bank of Japan, Ltd. (Trustee)                                   | 12,251,700                           | 4.86                      |
| Japan Trustee Services Bank, Ltd. (Trustee)                                      | 10,002,900                           | 3.97                      |
| Japan Trustee Services Bank, Ltd. (Trustee 9)                                    | 4,174,100                            | 1.65                      |
| State Street Bank and Trust Company  | 3,055,936                            | 1.21                      |
| State Street Bank and Trust Company 505225                                       | 2,850,921                            | 1.13                      |
| Hideo Ando   | 2,694,500                            | 1.06                      |

Note: Shareholding ratio was calculated excluding treasury stock (31,315,801 shares)

## III Company's Share Subscription Rights

1. **Outline of Share Subscription Rights Issued to the Company's Directors and Corporate Auditors as Remuneration for Their Services as of the End of the Fiscal Year Under Review**

|  |  |
|--|--|
| Resolutions of the Ordinary<br>General Meeting of Shareholders                 | June 20, 2006  |
| Number of individuals with rights<br>Company directors                         | 1 (Note 1)   |
| Number of share subscription rights  | 150( 1 right allows for the purchase of 100 shares )   |
| Class of shares for share subscription rights                                  | Common stock   |
| Number of shares for share subscription rights                                 | 15,000   |
| Payment on exercise of share subscription rights                               | ¥510   |
| Capital contribution upon exercise of share<br>subscription rights (per share) | ¥4,235   |
| Period for exercise of share subscription rights                               | August 15, 2008 – July 30, 2010  |
| Terms and conditions for exercise of share<br>subscription rights              | (Note 2)   |
| Matters concerning the transfer of share<br>subscription rights                | When transferring share subscription rights,<br>approval must be obtained from the Board of<br>Directors |

Notes: 1. Three directors that retired at the Ordinary General Meeting of Shareholders on June 19, 2007, and June 18, 2008 were excluded from these rights.

2. Terms and conditions for exercise of share subscription rights are as follows:

- ① The grantee shall be Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company or any of its subsidiaries when he or she exercises the rights, unless he or she loses such position by law or under the Articles of Incorporation or regulations of the Company or any of its subsidiaries or either ② or ③ applies:
- ② Notwithstanding ① above, even in the event that the grantee loses his or her position as the Company's Director, Executive Officer, or employee, the grantee may exercise share subscription rights that are unexercised when such position is lost if any of a through c applies:
  - a. Where the loss of such position is due to expiration of the term of office or amendment of law;
  - b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction, or where the grantee is transferred to a subsidiary of the Company at the Company's convenience;
  - c. Where, immediately after the loss of such position, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, or Counsel of the Company, or Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of any of the Company's subsidiaries.
- ③ Notwithstanding ① above, even in the event that the grantee loses his or her position as Director, Executive Officer, or employee of any of the Company's subsidiaries, the grantee may exercise share subscription rights that are unexercised when such position is lost if any of a through c applies:
  - a. Where the loss of such position is due to expiration of the term of office or amendment of law;
  - b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction, or where the grantee is transferred to the Company or another subsidiary of the Company at the Company's convenience;
  - c. Where, immediately after the loss of such position, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company or any of its subsidiaries.
- ④ No lien or any other disposition of share subscription rights is permitted.
- ⑤ Other terms and conditions regarding the exercising of share subscription rights will be set forth in the Share Subscription Rights Allotment Agreement to be entered into with the grantee.

**2. Outline of Share subscription rights Issued to Company Employees or Subsidiary Directors, Corporate Auditors, or Employees as Remuneration for Their Services During the Fiscal Year Under Review**

There is no pertinent matter.

**IV Company Directors and Corporate Auditors**

**1. Directors and Corporate Auditors**

| Title  | Name            | Main Responsibilities  |
|--|-----------------|--|
| Chairman of the Board and Chief Executive Officer    | Hajime Satomi   | Chairman and CEO, Sammy Corporation<br>Chairman and CEO, SEGA CORPORATION  |
| Executive Vice President and Representative Director | Keishi Nakayama | President and COO, Sammy Corporation<br>Executive for Group Communications Office,<br>Corporate Strategy and External Affairs,<br>Administrations Division, Group CSR Promotion Office |
| Director   | Okitane Usui    | President and COO, SEGA CORPORATION  |
| Director   | Hisao Oguchi    | Senior Managing Director, Sammy Corporation  |
| Director   | Yuji Iwanaga    | Attorney   |
| Director   | Takeshi Natsuno |  |

|                            |                  |   |
|----------------------------|------------------|---|
| Standing Corporate Auditor | Tomio Kazashi    |   |
| Corporate Auditor          | Toshio Hirakawa  | Standing Corporate Auditor, Sammy Corporation |
| Corporate Auditor          | Hisashi Miyazaki | Standing Corporate Auditor, SEGA CORPORATION  |
| Corporate Auditor          | Mineo Enomoto    | Corporate Auditor, SEGA CORPORATION, Attorney |

Notes: 1. Yuji Iwanaga and Takeshi Natsuno are outside director as stipulated in Article 2, Clause 15 of the Company Law.

2. Tomio Kazashi, Toshio Hirakawa and Mineo Enomoto are outside corporate auditor as stipulated in Article 2, Clause 16 of the Company Law.

3. Tomio Kazashi was newly elected and assumed office as standing corporate auditor at the Ordinary General Meeting of Shareholders held on June 18, 2009.

4. The Company has adopted the executive officer system to speed up decision-making, strengthen oversight of business execution, and reinforce business execution functions. The Company has four executive officers: Hideo Yoshizawa, Division Manager of the Administrative Division; Koichi Fukazawa, Takatoshi Akiba, the Corporate Strategy and External Affairs; Tetsushi Ikeda, Division Manager of the Group Internal Control Office, Group CSR Promotion Office and Internal Audit Office.

## 2. Total Remuneration, etc., to Directors and Corporate Auditors

| Title             | Number of individuals | Remuneration, etc. |
|-------------------|-----------------------|--------------------|
| Director          | 5                     | ¥489 million       |
| Corporate Auditor | 3                     | ¥23 million        |
| Total             | 8                     | ¥513 million       |

Notes: 1. Remuneration, etc., includes directors' bonuses in the amount of ¥110 million (¥107 million for directors, ¥2 million for corporate auditor).

2. The remuneration limit for directors is ¥600 million, pursuant to the resolution at the Ordinary General Meeting of Shareholders on June 20, 2006.

3. The remuneration limit for corporate auditors is ¥50 million, pursuant to the resolution at the Ordinary General Meeting of Shareholders of Sammy Corporation on June 25, 2004, and at the Ordinary General Meeting of Shareholders of SEGA Corporation on June 29, 2004.

4. The above includes the remuneration, etc., for one corporate auditor who retired from the position at the end of the Ordinary General Meeting of Shareholders on June 18, 2009.

5. Besides the above, ¥5 million of the retirement benefits, for one corporate auditor who retired from the position at the end of the Ordinary General Meeting of Shareholders on June 18, 2009.

6. Besides the above, it was resolved at the Ordinary General Meeting of Shareholders held on June 18, 2009 to grant final retirement benefits to directors and corporate auditors in conjunction with the abolishment of the existing retirement benefits system for officers. The amount of such final payment estimated as of the end of the year under review is ¥276 million for two directors, and such final payment shall be made at the time of retirement of each qualified person.

### 3. Main Activities of Outside Directors and Corporate Auditors

| Title                     | Name            | Major Activities   |
|---------------------------|-----------------|--|
| Outside Director          | Yuji Iwanaga    | He attended 10 Board of Directors meetings out of the 11 meetings held during the year (8 out of 9 regular meetings) and expressed his opinion on professional and managerial view points as an attorney. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors.  |
| Outside Director          | Takeshi Natsuno | He attended 11 Board of Directors meetings out of the 11 meetings held during the year (9 out of 9 regular meetings) and expressed his opinion on managerial view points. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors.  |
| Outside Corporate Auditor | Tomio Kazashi   | He attended 8 Board of Directors meetings out of the 8 meetings held during the year (7 out of 7 regular meetings) and expressed his opinion on managerial view points. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors.<br>He also attended 8 Corporate Auditors meetings out of the 8 meetings held during the year exchanging the opinions on auditing results and deliberating the significant issues related to audits.                                    |
| Outside Corporate Auditor | Toshio Hirakawa | He attended 11 Board of Directors meetings out of the 11 meetings held during the year (9 out of 9 regular meetings) and expressed his opinion on managerial view points. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors.<br>He also attended 12 Corporate Auditors meetings out of the 12 meetings held during the year exchanging the opinions on auditing results and deliberating the significant issues related to audits.                                |
| Outside Corporate Auditor | Mineo Enomoto   | He attended 9 Board of Directors meetings out of the 11 meetings held during the year (8 out of 9 regular meetings) and expressed his opinion on professional and managerial view points as an attorney. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors.<br>He also attended 11 Corporate Auditors meetings out of the 12 meetings held during the year exchanging the opinions on auditing results and deliberating the significant issues related to audits. |

Note: Attendances by outside director Mr. Kazashi since his appointment at the Ordinary General Meeting of Shareholders held in June 18, 2009.

### 4. Liability Limitation Agreements for Outside Directors and Corporate Auditors

At the Second Ordinary General Meeting of Shareholders on June 20, 2006, the Company amended its Articles of Incorporation and established regulations regarding liability limitation agreements for Outside Corporate Auditors.

An outline of the contents of the liability limitation agreement that the Company has entered into with Outside Corporate Auditor Mineo Enomoto is as follows:

(Outline of Liability Limitation Agreement)

The liability to compensate for damages under Article 423, Section 1 of the Company Law will be limited to the minimum liability set forth by law in the absence of malicious intent or material negligence.

**5. Total Remuneration, etc., to Outside Directors and Corporate Auditors**

|   | Number of individuals | Remuneration, etc. | Remuneration, etc., from subsidiary |
|---|-----------------------|--------------------|-------------------------------------|
| Total remuneration, etc., to outside Directors and Corporate Auditors | 5                     | ¥69 million        | ¥16 million                         |

Notes: 1. The remuneration, etc. includes director's bonuses in the amount of ¥2 million (¥2 million for corporate auditor).

2. The remuneration, etc. includes director's bonuses in the amount of ¥4 million (¥4 million for corporate auditor), that is planned to be paid from subsidiary.

**V Independent Auditors**

**1. Name**

KPMG AZSA & Co.

**2. Liability Limitation Agreement with Independent Auditors**

At the Second Ordinary General Meeting of Shareholders on June 20, 2006, the Company amended its articles of incorporation and established regulations regarding liability limitation agreements with independent auditors.

An outline of the content of the liability limitation agreement that the Company has entered into with KPMG AZSA & Co., the Company's independent auditor, is as follows:

(Outline of Content of Liability Limitation Agreement)

The liability to compensate for damages under Article 423, Section 1 of the Company Law will be limited to the minimum liability set forth in law, in the absence of malicious intent or material negligence.

**3. Remuneration, etc.**

|   | Remuneration, etc |
|---|-------------------|
| Remuneration, etc., related to the fiscal year under review   | ¥150 million      |
| Total of cash and other profits that should be paid to independent auditors by the Company and its subsidiaries | ¥382 million      |

Notes: 1. The Company's subsidiaries, Japan Multimedia Services Corporation and Sega Europe Ltd., etc. are audited by auditors that differ from the Company's.

2. The company entrusted financial due diligence to the independent auditors, in addition to the services in the Article 2, Section 1 of the Certified Public Accountants Act.

**4. Policy Regarding Determination of Termination or Not Reappointing**

The Company entrusts the Board of Corporate Auditors with the responsibility for deciding on the dismissal or non-reappointment of the independent auditor, and if any clause within Article 340, Section 1 of the Company Law is deemed to apply, the independent auditor will be dismissed in accordance with the Company's policy. The Board of Corporate Auditors also determines the reappointment or non-reappointment of the independent auditor upon consideration of the current status related to their performance, etc.

## **VI Outline of Resolutions Regarding Preparation of Internal Control System and so forth to Ensure Appropriate Business Execution**

Based on the Company Law, the Company made the following resolutions regarding the “Basic Policy on Preparation of Internal Controls System” and has worked to prepare this system.

- (1) **System to Ensure the Efficient Implementation of Directors’ Duties and Compliance with Laws and the Articles of Incorporation**  
Establish a Group CSR Charter and Group Code of Conduct, and Representative Directors will repeatedly communicate the spirit of such charter and code to employees in administrative post, in order to thoroughly establish compliance with laws as a condition for all corporate activities. These efforts will reflect the Company’s fundamental policy of fulfilling its social responsibility as a member of society and provide a basis for establishing a compliance system that comprises such policy. In addition, in the interest of further strengthening corporate governance, the Board of Directors will make efforts to build an effective internal controls system and to secure a system for compliance with laws and the Articles of Incorporation for the Company as a whole, so that the Company’s business execution is appropriate and sound. Also, the Board of Corporate Auditors will audit the effectiveness and functionality of this internal controls system, and make efforts to identify and correct issues early through regular inspection.
- (2) **System Related to the Retention and Management of Information Related to the Implementation of Directors’ Duties**  
Representative Directors will appoint the Director in charge of the Administrative Division as the person in charge of the entire Company with respect to preservation and management of information related to execution of Directors’ duties. Information related to execution of Directors’ duties will be recorded in writing or electronic media based on the Company regulations etc., and preserved and managed so that the Directors and Corporate Auditors are able to appropriately and accurately view such information and also so that such information is easy to search.
- (3) **Regulations and Other Systems Regarding Risk Management for Losses**  
With respect to risks related to the Company’s business, each relevant division and department will analyze and identify anticipated risks and clarify the risk management system. The Internal Audit Department and Internal Control Department will audit each division’s and department’s risk management and report the results regularly to the management decision-making body and executive and supervisory management organization.
- (4) **System to Ensure that Directors’ Duties are Implemented Efficiently**  
Adopt a corporate auditor system for efficient implementation of Directors’ duties, as well as for Company Directors and Corporate Auditors to be well-informed about the Group’s businesses and promptly and appropriately make decisions for the Group. The system should also enable appropriate and efficient implementation of duties under rules related to authorities and decision-making based on the Regulations of the Board of Directors, and so forth.
- (5) **System to Ensure Appropriate Compliance with Law, and the Articles of Incorporation Concerning the Performance of Employees’ Duties**
  - ① Grant the Corporate Governance Committee, which governs the Company’s and Group’s compliance related governing functions. Employees in administrative posts can act in compliance with law, the Articles of Incorporation, Company regulations, and social norms. Make the foregoing known thoroughly inside the Company and promote compliance.
  - ② Establish a “Hot Line” system that enables an employee to report in the interest of public good any violation of law, the Articles of Incorporation, Company regulations, or conduct in violation of social norms. Also establish a system that enables the person in charge promptly to report any material matters to the Board of Directors and Board of Corporate Auditors. Also, protect such an informant, and authorize the Company Compliance Department and so forth, and outside counsel as recipients of an informant’s report outside the ordinary reporting line, as part of a system that maintains transparency and accurately addresses relevant issues.

- (6) System to Ensure that the Businesses of the Group, Comprised of the Company, its Parent, and its Subsidiaries, are Executed Properly  
Hold meetings for the Group's Directors and Group's Corporate Auditors, where various problems in the Group or governance matters with material risks are addressed. The Company's Internal Audit Department will conduct audits for the benefit of the Group as a whole, and efforts will be made to ensure to the extent possible that information is shared among members of the Group and businesses are properly executed.
- (7) Matters Regarding Employees whom Corporate Auditors Request to Assist them in the Performance of their Duties  
Establish a Corporate Auditor's Office as an organization that reports directly to the Board of Corporate Auditors and employees in such office will assist the Corporate Auditors' duties under their direction and order.
- (8) Matters Related to the Independence of Corporate Auditors' Staff from Directors Described in the Previous Clause
- ① An employee who assists a Corporate Auditor's duties is a dedicated employee who is not directed or supervised by Directors.
  - ② Appointment, termination, personnel transfer, evaluation, disciplinary action, revision of wages, and so forth, of or involving employees described in the previous section will require prior agreement of the Board of Corporate Auditors.
- (9) System to Enable Directors or Employees to Report to Corporate Auditors, and other Systems Related to Reporting to Corporate Auditors
- ① Directors and employees promptly must report to the Board of Corporate Auditors material violations of law or the Articles of Incorporation or illegal conduct related to performance of duties or risks of conspicuous harm to the Company that they learn.
  - ② Directors and employees must report promptly to the Board of Corporate Auditors decisions that materially affect the Company's business or organization, results of internal audits, or results of evaluation of the internal control system associated with financial reports.
- (10) Systems Established to Ensure the Efficacious Performance of Auditing Responsibilities by Corporate Auditors
- ① Representative Directors regularly will meet with Corporate Auditors, exchange opinions related to Company management, in addition to business reports, and otherwise communicate effectively with them.
  - ② The Board of Directors will ensure Corporate Auditors' participation in important work-related meetings to ensure that the Company's business is executed properly.
  - ③ The Board of Corporate Auditors will use attorneys, certified public accountants, and other outside advisors, as necessary for itself, and its opportunities to receive advice related to audit work will be guaranteed.

## Consolidated Balance Sheet

(As of March 31, 2010)

(Unit: millions of yen)

| Item                                   | Amount         | Item  | Amount          |
|--|----------------|---|-----------------|
| <b>Assets</b>                          |                | <b>Liabilities</b>                                    |                 |
| <b>Current assets</b>                  | <b>298,730</b> | <b>Current liabilities</b>                            | <b>92,817</b>   |
| Cash and deposits                      | 101,324        | Notes and accounts payable-trade                      | 37,387          |
| Notes and accounts receivable-trade    | 67,027         | Short-term loans payable                              | 3,489           |
| Short-term investment securities       | 73,400         | Current portion of bonds                              | 20,600          |
| Merchandise and finished goods         | 6,500          | Income taxes payable                                  | 2,449           |
| Work in process                        | 7,914          | Accrued expenses                                      | 16,528          |
| Raw materials and supplies             | 22,358         | Provision for bonuses                                 | 2,539           |
| Income taxes receivable                | 2,534          | Provision for directors' bonuses                      | 656             |
| Deferred tax assets                    | 3,219          | Provision for point card certificates                 | 161             |
| Other                                  | 15,163         | Other   | 9,004           |
| Allowance for doubtful accounts        | (712)          | <b>Noncurrent liabilities</b>                         | <b>73,573</b>   |
| <b>Noncurrent assets</b>               | <b>124,431</b> | Bonds payable   | 41,501          |
| <b>Property, plant and equipment</b>   | <b>59,030</b>  | Long-term loans payable                               | 6,173           |
| Buildings and structures, net          | 22,487         | Provision for retirement benefits                     | 12,218          |
| Amusement machines and facilities, net | 6,336          | Provision for directors' retirement benefits          | 1,096           |
| Land                                   | 22,632         | Deferred tax liabilities                              | 399             |
| Construction in progress               | 171            | Deferred tax liabilities for land revaluation         | 960             |
| Other, net                             | 7,403          | Other   | 11,223          |
| <b>Intangible assets</b>               | <b>13,360</b>  | <b>Total liabilities</b>                              | <b>166,390</b>  |
| Goodwill                               | 6,767          | <b>Net assets</b>                                     |                 |
| Other                                  | 6,592          | <b>Shareholders' equity</b>                           | <b>259,468</b>  |
| <b>Investments and other assets</b>    | <b>52,040</b>  | Common stock  | 29,953          |
| Investment securities                  | 28,605         | Capital surplus                                       | 171,080         |
| Long-term loans receivable             | 1,638          | Retained earnings                                     | 132,128         |
| Lease and guarantee deposits           | 13,493         | Treasury stock  | (73,694)        |
| Deferred tax assets                    | 3,871          | <b>Valuation and translation adjustments</b>          | <b>(23,222)</b> |
| Other                                  | 7,593          | Valuation difference on available-for-sale securities | 346             |
| Allowance for doubtful accounts        | (3,162)        | Deferred gains or losses on hedges                    | 24              |
|  |                | Revaluation reserve for land                          | (5,966)         |
|  |                | Foreign currency translation adjustment               | (17,626)        |
|  |                | <b>Subscription rights to shares</b>                  | <b>1,188</b>    |
|  |                | <b>Minority interests</b>                             | <b>19,335</b>   |
|  |                | <b>Total net assets</b>                               | <b>256,770</b>  |
| <b>Total assets</b>                    | <b>423,161</b> | <b>Total liabilities and net assets</b>               | <b>423,161</b>  |

Note: Figures shown in millions of yen have been rounded down to the nearest million.

## Consolidated Statement of Income

(From April 1, 2009 To March 31, 2010)

(Unit: millions of yen)

| Item  | Amount |                |
|---|--------|----------------|
| <b>Net sales</b>                                      |        | <b>384,679</b> |
| <b>Cost of sales</b>                                  |        | <b>245,811</b> |
| <b>Gross profit</b>                                   |        | <b>138,867</b> |
| <b>Selling, general and administrative expenses</b>   |        | <b>102,154</b> |
| <b>Operating income</b>                               |        | <b>36,712</b>  |
| <b>Non-operating income</b>                           |        |                |
| Interest income                                       | 511    |                |
| Dividends income                                      | 454    |                |
| Equity in earnings of affiliates                      | 37     |                |
| Gain on investments in partnership                    | 114    |                |
| Income from operation of lease asset                  | 188    |                |
| Gain on valuation of derivatives                      | 46     |                |
| Other   | 605    | 1,958          |
| <b>Non-operating expenses</b>                         |        |                |
| Interest expenses                                     | 782    |                |
| Sales discounts                                       | 21     |                |
| Commission fee  | 74     |                |
| Provision of allowance for doubtful accounts          | 2      |                |
| Loss on investments in partnership                    | 235    |                |
| Foreign exchange losses                               | 265    |                |
| Penalty payment for cancellation of game center lease | 477    |                |
| Other   | 885    | 2,745          |
| <b>Ordinary income</b>                                |        | <b>35,925</b>  |

Note: Figures shown in millions of yen have been rounded down to the nearest million.

(Unit: millions of yen)

| Item   | Amount |               |
|--|--------|---------------|
| <b>Extraordinary income</b>                              |        |               |
| Gain on sales of noncurrent assets                       | 528    |               |
| Reversal of allowance for doubtful accounts              | 166    |               |
| Gain on sales of subsidiaries and affiliates' stocks     | 29     |               |
| Gain on sales of investment securities                   | 258    |               |
| Gain on change in equity                                 | 20     |               |
| Reversal of recovery costs of video game arcades         | 1,043  |               |
| Gain on outlawed debt                                    | 377    |               |
| Gain on compensation payment                             | 427    |               |
| Other  | 272    | 3,125         |
| <b>Extraordinary loss</b>                                |        |               |
| Loss on retirement of noncurrent assets                  | 497    |               |
| Loss on sales of noncurrent assets                       | 121    |               |
| Impairment loss  | 3,857  |               |
| Loss on valuation of investment securities               | 2,465  |               |
| Premium allowance of retirement                          | 184    |               |
| Loss on closing of stores                                | 844    |               |
| Loss on litigation                                       | 371    |               |
| Loss on sales of stocks of subsidiaries and affiliates   | 653    |               |
| Loss on liquidation of subsidiaries                      | 1,682  |               |
| Other  | 1,274  | 11,953        |
| <b>Income before income taxes and minority interests</b> |        | <b>27,097</b> |
| Income taxes-current                                     | 3,067  |               |
| Income taxes-deferred                                    | 2,559  | 5,627         |
| <b>Minority interests in income</b>                      |        | <b>1,200</b>  |
| <b>Net income</b>  |        | <b>20,269</b> |

Note: Figures shown in millions of yen have been rounded down to the nearest million.

## Consolidated Statement of Changes in Net Assets

(From April 1, 2009 To March 31, 2010)

(Unit: millions of yen)

|                                  | Shareholder's equity |                 |                   |                |                            |
|----------------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|                                  | Common Stock         | Capital surplus | Retained earnings | Treasury stock | Total Shareholder's equity |
| Balances as of March 31, 2009    | 29,953               | 171,082         | 119,417           | (73,685)       | 246,767                    |
| Changes during the period        |                      |                 |                   |                |                            |
| Dividends from retained earnings |                      |                 | (7,557)           |                | (7,557)                    |
| Net income                       |                      |                 | 20,269            |                | 20,269                     |
| Purchase of treasury stock       |                      |                 |                   | (12)           | (12)                       |
| Disposal of treasury stock       |                      | (2)             |                   | 3              | 1                          |
| Total changes during the period  | -                    | (2)             | 12,711            | (8)            | 12,700                     |
| Balances as of March 31, 2010    | 29,953               | 171,080         | 132,128           | (73,694)       | 259,468                    |

|  | Valuation and translation adjustments                     |                                    |                              |                         |   |
|--|---|------------------------------------|------------------------------|-------------------------|---|
|  | Valuation difference on available - for - sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Translation adjustments | Total Valuation and translation adjustments |
| Balances as of March 31, 2009                        | (1,619)   | -                                  | (5,966)                      | (16,865)                | (24,451)                                    |
| Changes during the period                            |   |                                    |                              |                         |   |
| Dividends from retained earnings                     |   |                                    |                              |                         |   |
| Net income   |   |                                    |                              |                         |   |
| Purchase of treasury stock                           |   |                                    |                              |                         |   |
| Disposal of treasury stock                           |   |                                    |                              |                         |   |
| Net changes of items other than shareholders' equity | 1,966   | 24                                 |                              | (760)                   | 1,229                                       |
| Total changes during the period                      | 1,966   | 24                                 | -                            | (760)                   | 1,229                                       |
| Balances as of March 31, 2010                        | 346   | 24                                 | (5,966)                      | (17,626)                | (23,222)                                    |

|  | Subscription rights to shares | Minority interests | Total net assets |
|--|-------------------------------|--------------------|------------------|
| Balances as of March 31, 2009                        | 1,222                         | 18,994             | 242,532          |
| Changes during the period                            |                               |                    |                  |
| Dividends from retained earnings                     |                               |                    | (7,557)          |
| Net income   |                               |                    | 20,269           |
| Purchase of treasury stock                           |                               |                    | (12)             |
| Disposal of treasury stock                           |                               |                    | 1                |
| Net changes of items other than shareholders' equity | (33)                          | 341                | 1,537            |
| Total changes during the period                      | (33)                          | 341                | 14,237           |
| Balances as of March 31, 2010                        | 1,188                         | 19,335             | 256,770          |

Note: Figures shown in millions of yen have been rounded down to the nearest million.

## Notes to Consolidated Financial Statements

### 1. Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

#### (1) Scope of Consolidation

Number of consolidated subsidiaries 65

For a complete list of major consolidated subsidiaries, refer to the section “I Group’s Current Condition” under “7 Material Parent Company and Subsidiaries” of “(2) Relationships with subsidiaries”.

Effective as of the fiscal year under review, the following 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 with the Company’s investment.

Effective as of the fiscal year under review, the following companies were excluded from the scope of consolidation: Sammy Systems Co., Ltd., Media-Trust Co., Ltd., because of the sale of the Companies’ shareholdings; and 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 consolidated subsidiary.

Number of non-consolidated subsidiaries 14

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 immaterial.

#### (2) Application of the Equity Method

Number of equity-method affiliates 10

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

As a result of the Company’s acquisition of the shareholding, ELTEX, Inc. became an equity-method affiliate effective as of the fiscal year under review.

Also, as a result of the sale of the Company’s shareholding, mPoria Inc. was excluded from an equity-method affiliate effective as of the fiscal year under review.

Number of non-consolidated subsidiaries and affiliates not accounted for by the equity method 19

Main non-consolidated subsidiaries and affiliates not accounted for by the equity method: Liverpool Co., Ltd. and 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 immaterial.

#### (3) Fiscal Year for Consolidated Subsidiaries

Consolidated subsidiaries whose fiscal year-ends differ from the consolidated balance sheet date are listed below. Necessary adjustments are made on consolidation for material transactions that occurred between the end of the fiscal years of these subsidiaries and the end of the consolidated balance sheet date.

| Consolidated subsidiary                      | Fiscal year-end |
|--|-----------------|
| Sega Amusements Taiwan Ltd.                  | December 31     |
| Shanghai New World Sega Recreation Co., Ltd. | December 31     |
| Sega Beijing Mobile Entertainment Co., Ltd.  | December 31     |
| Four investment in partnerships              | December 31     |

(4) Accounting Standards

① Valuation standards 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 asset, 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 Investment 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.)

② Method for depreciating and amortizing 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.

Useful life for primary assets is as follows:

Building/Structure : 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 next fiscal year.

- 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 under which the ownership of the lease assets is transferred to lessees:

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:

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.

③ Accounting for deferred assets

Founding expense : All expenses are expensed when incurred.

Stock issue expense : All expenses are expensed when incurred.

Bond issue expense : All expenses are expensed when incurred.

- ④ Accounting for allowances and provisions
- a. Allowance for doubtful accounts  
The reserve for doubtful accounts is provided in amount sufficient to cover possible losses estimated as a historical write-off ratio of bad debts for general receivables, with the addition of required amounts for doubtful accounts and bankrupt receivables based on a case-by-case 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 has been 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.  
(Change in significant accounting policies used in preparation of consolidated financial statements)  
Effective from the fiscal year under review, the Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, July 31, 2008). The adoption had no impact on the consolidated statement of income for the 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)  
It was resolved at the Ordinary General Meeting of Shareholders held on June, 2009 to grant final retirement benefits to directors and corporate auditors in conjunction with the abolishment of the existing retirement benefits system for officers. Due to this change, allowance for retirement benefits for directors and corporate auditors was reversed, and unpaid portion of final retirement benefits was recognized in "other" of noncurrent liabilities.
- ⑤ 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 foreign exchange forward contracts.
- b. Hedging instruments and hedged items  
Hedging instrument: Interest rate swaps, foreign currency forward contracts  
Hedged item: Interest on debts, receivables and payables denominated in foreign currencies
- c. Hedge policy  
Derivative instruments are used to mitigate risks associated with foreign currency exchange and interest rate fluctuations.  
As a rule, hedging is only used for items for 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 for the hedged item relative to that for the hedging instrument. For interest rate swaps with special treatment, hedge effectiveness is not evaluated.

⑥ Accounting method for consumption taxes

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

(5) Valuation of consolidated subsidiaries' assets and liabilities

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

(6) Matters concerning the amortization of goodwill and negative goodwill

If the duration of the effect of goodwill can be rationally estimated, amortization has been based on the estimated number of years of duration, in other cases, amortization has been based on the five-year-period straight line method.

(7) Changes in Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

① Adoption of accounting standards for construction contracts

The "Accounting Standard for Construction Contracts" (ASBJ Statement No.15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, December 27, 2007) are applied from this fiscal year, although previously the completed-contract method was applied as the standard for accounting for revenue from the made-to-order software. The percentage-of-completion method has been applied to the portion of construction performed through the end of this fiscal year, in those cases where the outcome of performance activity is deemed certain (the estimation for the degree of completion of construction is determined by the percentage of the cost incurred to the estimated total cost) for the made-to-order software and construction projects that commenced on or after April 1, 2009. When the outcome of performance activity is not deemed to be certain, the completed-contract method is applied. The adoption had no impact on the consolidated statement of income for the March 31, 2010.

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 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 noncurrent 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 noncurrent 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, work in process under inventories increased by ¥6,671 million, amusement machines under property, plant and equipment increased by ¥43 million, construction in progress increased by ¥6 million, other under intangible assets increased by ¥796 million, other under current assets decreased by ¥1,724 million, foreign currency translation adjustment decreased by ¥6 million, while operating income, ordinary income and income before income taxes and minority interests each increased by ¥5,799 million.

(8) Changes in Presentation

(Consolidated Statement of Income)

- ① Interest on refund that was separately itemized in the previous fiscal year's consolidated statement of operations. However, due to immateriality, it is therefore included in "other" under "non-operating income" in the consolidated statement of income for the fiscal year under review. (The value of interest on refund included in "other" under "non operating income" for the fiscal year under review is ¥84 million.)
- ② Refund of income taxes was separately itemized in the previous fiscal year's consolidated statement of operations. However, due to immateriality, it is therefore included in "income taxes-current" in the consolidated statement of income for the fiscal year under review. (The value of refund of income taxes included in "income taxes-current" for the fiscal year under review is ¥18 million.)

**2. Notes to Consolidated Balance Sheet**

- (1) Accumulated depreciation of property, plant and equipment ¥110,102 million

- (2) Assets pledged

| Assets pledged         |                | Covered for liabilities    |                |
|------------------------|----------------|----------------------------|----------------|
| Time deposits          | ¥5 million     | Accounts payable – trade   | ¥1 million     |
| Buildings / Structures | ¥1,327 million | Accrued expenses           | ¥0 million     |
| Land                   | ¥2,433 million | Short – term loans payable | ¥900 million   |
|                        |                | Long – term loans payable  | ¥2,300 million |

- (3) Guarantee of Obligations

| Guaranteed Party        | Details                       | Amount      |
|-------------------------|-------------------------------|-------------|
| Dimps Corporation       | Guarantee of bank loan        | ¥10 million |
| Orix Premium Ltd.       | Lease liabilities guarantee   | ¥43 million |
| Sega Games Holding Ltd. | Guarantee of accounts payable | ¥8 million  |

- (4) Security loaned

Investment securities include ¥279 million in securities loaned.

- (5) Revaluation of Land

Consolidated subsidiary SEGA CORPORATION has revalued land for commercial use, pursuant to Japan's Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and Amendments to the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001). SEGA has recorded an item for the revaluation difference of land under net assets.

Revaluation method

SEGA CORPORATION computed the value of land based on the methodology regarding rational adjustments to valuation of fixed assets stipulated in Article 2-3, and appraisals by licensed real estate appraisers prescribed in Article 2-5 of the Enforcement Ordinance No. 119 (March 31, 1998) pertaining to the Law Concerning Revaluation of Land.

Date of the revaluation March 31, 2002

- (6) Outstanding balance of overdraft account: ¥7,525 million  
 Outstanding balance of commitment line: ¥44,060 million

- (7) Contingent liabilities

It has been discovered that a former employee of SEGATOYS, CO., Ltd., a subsidiary of the Company had been forging company 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 ¥420 million) occurred through the

inappropriate transactions.

### 3. Notes to Consolidated Statement of Income

- (1) The book value devaluation of inventories held for normal sales purpose based on decline in profitability.

|               |                |
|---------------|----------------|
| Cost of sales | ¥4,664 million |
|---------------|----------------|

- (2) R&D expenses included in general management expenses and this fiscal year's production expenses

|  |                 |
|--|-----------------|
|  | ¥41,502 million |
|--|-----------------|

- (3) Breakdown of major extraordinary items

① Breakdown of Gain on sales of noncurrent assets

|                              |            |
|------------------------------|------------|
| Tools, furniture and fixture | ¥8 million |
|------------------------------|------------|

|                         |              |
|-------------------------|--------------|
| Amusement game machines | ¥504 million |
|-------------------------|--------------|

|                       |             |
|-----------------------|-------------|
| Other tangible assets | ¥16 million |
|-----------------------|-------------|

|              |                     |
|--------------|---------------------|
| <u>Total</u> | <u>¥528 million</u> |
|--------------|---------------------|

② Gain on outlawed debt

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

③ Breakdown of loss on retirement of noncurrent assets

|                        |              |
|------------------------|--------------|
| Buildings / Structures | ¥242 million |
|------------------------|--------------|

|                               |              |
|-------------------------------|--------------|
| Tools, furniture and fixtures | ¥238 million |
|-------------------------------|--------------|

|                                     |            |
|-------------------------------------|------------|
| Other Property, plant and equipment | ¥1 million |
|-------------------------------------|------------|

|                         |             |
|-------------------------|-------------|
| Other intangible assets | ¥15 million |
|-------------------------|-------------|

|              |                     |
|--------------|---------------------|
| <u>Total</u> | <u>¥497 million</u> |
|--------------|---------------------|

④ Breakdown of loss on sale of noncurrent assets

|                               |            |
|-------------------------------|------------|
| Tools, furniture and fixtures | ¥4 million |
|-------------------------------|------------|

|                                     |              |
|-------------------------------------|--------------|
| Other Property, plant and equipment | ¥116 million |
|-------------------------------------|--------------|

|              |                     |
|--------------|---------------------|
| <u>Total</u> | <u>¥121 million</u> |
|--------------|---------------------|

⑤ Loss on closing of stores

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

⑥ Breakdown of impairment loss.

(Unit: millions of yen)

| Use                       | Location                                    | Type                                | Impairment Loss |
|---------------------------|---|-------------------------------------|-----------------|
| Amusement facilities      | U.S.A.                                      | Buildings / Structures              | 231             |
|                           |   | Amusement game machines             | 165             |
|                           |   | Other property, plant and equipment | 88              |
|                           | Ishioka-shi, Ibaraki and 15 other locations | Buildings / Structures              | 629             |
|                           |   | Amusement game machines             | 182             |
|                           |   | Other property, plant and equipment | 14              |
| Assets for lease          | Chuo-ku, Osaka                              | Buildings / Structures              | 1,613           |
|                           |   | Land                                | 580             |
| Assets for business, etc. | Ota-ku, Tokyo and 4 other locations         | Buildings / Structures              | 25              |
|                           |   | Other property, plant and equipment | 153             |
|                           |   | Other intangible assets             | 93              |
| Total                     |   |                                     | 3,857           |

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. If the market value of any asset or asset group has decreased conspicuously or it is expected to continuously generate negative cash flow from operations, its book value is reduced to its recoverable value, and such reduction is recorded as an “impairment loss” under “extraordinary loss”. Recoverable value is calculated using the fair value less cost to sell based on the current market price.

4. Notes to Consolidated Statement of changes in Net Assets

(1) Issued Stock

(Unit: shares)

| Type of stock | End of previous fiscal year | Increase | Decrease | End of fiscal year under review |
|---------------|-----------------------------|----------|----------|---------------------------------|
| Common stock  | 283,229,476                 | —        | —        | 283,229,476                     |

(2) Treasury Stock

(Unit: shares)

| Type of stock | End of previous fiscal year | Increase | Decrease | End of fiscal year under review |
|---------------|-----------------------------|----------|----------|---------------------------------|
| Common stock  | 31,305,733                  | 11,718   | 1,650    | 31,315,801                      |

(Outline of Causes of Change)

The main causes of the increase are as follows:

Increase due to repurchase of fractional shares 11,718 shares

The main causes of the decrease are as follows:

Decrease due to request to purchase fractional shares 1,650 shares

(3) Dividends

① Dividend Amount

| Resolution                                     | Type of Stock | Total dividend (¥ million) | Dividend per share (¥) | 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 |

- ② Of the dividends for which the record date is in the fiscal year under review, but for which the effective date will be in the following fiscal year.

| Resolution                                 | Type of Stock | Resource of dividend | Total dividend (¥ million) | Dividend per share (¥) | 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   |

- (4) Number and type of shares to be issued upon exercise of subscription rights to shares (except for the ones before the first day of the exercisable period) as of the end of the fiscal year under review.

Common stock                      2,093,200 shares

## 5. Notes on the Financial Instruments

(Additional information)

Effective from the fiscal year under review, The “Accounting Standard for Financial Instruments and its Implementation Guidance” (ASBJ Statement No.10 (revised 2008), dated March 10, 2008) and “Guidance on Disclosures about Fair Value of Financial instruments” (ASBJ Guidance No.19, dated March 10, 2008) are adopted.

- (1) Matters regarding the current status of financial instruments

Under the Group’s financial strategies, the Company as a holding company is arranging the syndicated commitment line to provide for the Group-wide safety net under which medium term liquidity is sustained. Capital for each business is individually financed as needed, through bank borrowing or bond issue according to the Group’s capital planning. Funds are invested in financial assets with higher degree of safety. Under its policy, financial derivatives are used only for the purpose of avoiding risks as described below, and no speculative transactions are allowed.

Credit risks of the clients in terms of notes and accounts receivable - trade are mitigated under the credit management rules, etc. at each Group company.

The Group’s credit risk exposure in held-to-maturity debt securities is minimal, as its investment in this area is restricted to highly rated debt securities only according to the capital management rules, etc. at each Group company.

Available-for-sale securities are mainly stocks and the relevant information such as market prices of those stocks and financial conditions of the issuing companies (business partners) is reviewed and reported to the board of directors of each Group company, etc. on a regular basis. For other securities than held-to-maturity debt securities, holding status is continually reviewed in consideration of the relationship with business partners that issue those stocks.

Borrowings as well as bonds issue is intended to raise funds necessary for the purpose of working capital and capital investment. Each Group company reviews its own actual and projected cash position on a monthly basis, which is eventually verified collectively by the Company as part of the Group’s liquidity risk management.

The Group’s derivative transactions are restricted to forward exchange contracts as hedge against currency fluctuation risks on its foreign currency-denominated operating receivables and debt and foreign currency-denominated loans receivable, and interest rate swap agreements to mitigate interest rate risks on part of the Group’s variable interest rate loans and bonds payable. These transactions are managed properly under the derivative transactions management rules, etc. of each Group company which specifically require enforcement of “Guidelines for Foreign Exchange Transactions” to be subject to prior approval of the board of directors, while setting out limits on the authority and amount regarding transactions.

(2) Matters regarding the market value etc. of financial instruments

Consolidated balance sheet amounts and market values of the Group's financial instruments and the difference between the two as of the end of the fiscal year under review (March 31, 2010) are as follows. Market values of financial instruments named in Note 2 below are extremely difficult to grasp, thus are not included in the following list.

(Unit: millions of yen)

|  | Consolidated balance sheet amount | Market value | Difference |
|--|-----------------------------------|--------------|------------|
| (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       | –          |
| (4) Notes and accounts payable - trade                         | 37,387                            | 37,387       | –          |
| (5) Short-term loans payable                                   | 3,489                             | 3,489        | –          |
| (6) Long-term loans payable                                    | 6,173                             | 6,205        | (31)       |
| (7) Current portion of bonds                                   | 20,600                            | 20,600       | –          |
| (8) Bonds payable  | 41,501                            | 41,040       | 460        |
| (9) Derivative transactions (*2)                               |                                   |              |            |
| 1) Transactions outside the scope of hedge accounting          | 92                                | 92           | –          |
| 2) Transactions subject to hedge accounting                    | 111                               | 111          | –          |

(\*1) Embedded derivatives are included in investment securities with measuring the compound financial instruments as a whole at fair value, since it is impossible to measure it separately its fair value reasonably.

(\*2) Net credits and debts generated from derivative transactions are indicated in net amounts.

Notes: 1 Matters regarding the methods to calculate the market values of financial instruments, and regarding short-term investment securities and derivative transactions

(1) Cash and deposits; and (2) Notes and accounts receivable - trade

Of these, those that are settled in a short period of time (within one year) are recorded in book values as their market values are proximate to their book values. Of the notes and accounts receivable - trade, those with settlement dates arriving after more than one year from the end of the fiscal year under review are subject to present value evaluation in which amounts of receivables are discounted by the interest rates for the periods up to their settlement dates weighted by credit risks involved on case by case basis.

(3) Short-term investment securities and investment securities

Market values of stocks are based on their prices quoted on the concerned stock exchange, while those of debt securities are based on their prices quoted either on the concerned exchange, or by the underwriting financial institutions. Negotiable certificates of deposit included in available-for-sale securities are recorded in book values as they are settled in a short period (within one year) where their book values are proximate to their market values.

(4) Notes and accounts payable – trade; (5) Short-term loans payable; and (7) Current portion of bonds

Of these, those that are settled in a short period of time (within one year) are recorded in book values as their market values are proximate to their book values. In addition, there are some cases that fair value of the short-term loans payable, that the special treatment is applied, is calculated together with the interest-rate swap.

(6) Long-term loans payable; and (8) Bonds payable

Market values of these are calculated by the present value based on the sum of principal and interest as discounted by the interest rates presumed in the case of new borrowings. In addition, there are some cases that fair value of the long-term loans payable, that the special treatment is applied, is calculated together with the interest-rate swap.

(9) Derivative transactions

Market values of these are the prices quoted by the counterparty financial institutions.

2 Financial instruments whose market values are found to be extremely difficult to grasp  
Neither investment in unlisted stocks (with the consolidated balance sheet amount of ¥1,645 million) nor that in investment limited partnership (with the consolidated balance sheet amount of ¥3,952 million) is included in “(2) Available-for-sale securities” of “(3) Short-term investment securities and investment securities” as their market values are believed to be extremely difficult to grasp, due to the absence of market prices and unavailability of estimated future cash flow.

**6. Note Regarding Investment and Rental Property**

(Additional information)

Effective from the fiscal year under review, The “Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Statement No. 20, November 28, 2008) and “Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Guidance No.23, November 28, 2008) are adopted.

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

**7. Note Regarding Per Share Information**

|                      |         |
|----------------------|---------|
| Net assets per share | ¥937.80 |
| Net loss per share   | ¥80.46  |

**8. Note Regarding Material Subsequent Events**

There is no pertinent matter.

## **Independent Auditors' Report**

May 13, 2010

The Board of Directors  
SEGA SAMMY HOLDINGS INC.

KPMG AZSA & Co.

Satoshi Nakaizumi  
Designated and Engagement Partner  
Certified Public Accountant

Michitaka Shishido  
Designated and Engagement Partner  
Certified Public Accountant

Hiroyuki Nakamura  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the consolidated statutory report, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the related notes of SEGA SAMMY HOLDINGS INC. as of March 31, 2010 and for the year from April 1, 2009 to March 31, 2010 in accordance with Article 444(4) of the Corporate Law. The consolidated statutory report is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statutory report referred to above presents fairly, in all material respects, the financial position and the results of operations of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries for the period, for which the consolidated statutory report was prepared, in conformity with accounting principles generally accepted in Japan.

### Supplemental Information

As described in "Significant Accounting Policies," effective April 1, 2009, a change was made in the accounting principles for content production expenses related to game software and amusement machines.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

## Non-Consolidated Balance Sheet

( As of March 31, 2010 )

(Unit: millions of yen)

| Item   | Amount         | Item  | Amount         |
|--|----------------|---|----------------|
| <b>Assets</b>  |                | <b>Liabilities</b>                                    |                |
| <b>Current assets</b>  | <b>5,532</b>   | <b>Current liabilities</b>                            | <b>1,177</b>   |
| Cash and deposits  | 3,389          | Short-term loans payable                              | 440            |
| Prepaid expenses   | 56             | Accounts payable-other                                | 26             |
| Other  | 2,086          | Accrued expenses                                      | 278            |
| <b>Noncurrent assets</b>                                       | <b>306,465</b> | Deposits received                                     | 16             |
| <b>Property, plant and equipment</b>                           | <b>3,824</b>   | Unearned revenue                                      | 0              |
| Buildings, net   | 1,004          | Provision for directors' bonuses                      | 110            |
| Structures, net  | 936            | Provision for bonuses                                 | 98             |
| Machinery and equipment, net                                   | 5              | Other   | 205            |
| Vehicles, net  | 58             | <b>Noncurrent liabilities</b>                         | <b>470</b>     |
| Tools, furniture and fixtures, net                             | 401            | Deferred tax liabilities                              | 158            |
| Land   | 1,418          | Provision for retirement benefits                     | 35             |
| <b>Intangible assets</b>                                       | 170            | Other   | 276            |
| Right of trademark   | 9              | <b>Total liabilities</b>                              | <b>1,647</b>   |
| Software   | 158            | <b>Net assets</b>                                     |                |
| Other  | 2              | <b>Shareholders' equity</b>                           | <b>309,566</b> |
| <b>Investments and other assets</b>                            | <b>302,470</b> | Common stock  | 29,953         |
| Investment securities  | 15,156         | Capital surplus                                       | 287,152        |
| Stocks of subsidiaries and affiliates                          | 284,132        | Legal capital surplus                                 | 29,945         |
| Investments in other securities of subsidiaries and affiliates | 2,396          | Other capital surplus                                 | 257,207        |
| Long-term loans receivable from subsidiaries and affiliates    | 24             | Retained earnings                                     | 109,237        |
| Long-term prepaid expenses                                     | 2              | Other retained earnings                               | 109,237        |
| Other  | 757            | Retained earnings brought forward                     | 109,237        |
|  |                | Treasury stock  | (116,777)      |
|  |                | <b>Valuation and translation adjustments</b>          | <b>(281)</b>   |
|  |                | Valuation difference on available-for-sale securities | (281)          |
|  |                | <b>Subscription rights to shares</b>                  | <b>1,065</b>   |
|  |                | <b>Total net assets</b>                               | <b>310,350</b> |
| <b>Total assets</b>  | <b>311,997</b> | <b>Total liabilities and net assets</b>               | <b>311,997</b> |

Note: Figures shown in millions of yen have been rounded down to the nearest million.

## Non-Consolidated Statement of Income

(From April 1, 2009 To March 31, 2010)

(Unit: millions of yen)

| Item   | Amount |              |
|--|--------|--------------|
| <b>Operating revenue</b>                                     |        |              |
| Consulting fee income  | 5,583  |              |
| Dividends income   | 7,558  | 13,142       |
| <b>Operating expenses</b>                                    |        |              |
| Operating expenses   | 4,897  | 4,897        |
| <b>Operating income</b>                                      |        | <b>8,244</b> |
| <b>Non-operating income</b>                                  |        |              |
| Interest income  | 4      |              |
| Interest on securities                                       | 18     |              |
| Dividends income   | 340    |              |
| Income from operation of lease asset                         | 188    |              |
| Other  | 91     | 642          |
| <b>Non-operating expenses</b>                                |        |              |
| Interest expenses  | 22     |              |
| Commission fee   | 68     |              |
| Loss on investments in partnership                           | 352    |              |
| Expenses from operation of lease asset                       | 103    |              |
| Other  | 5      | 551          |
| <b>Ordinary income</b>                                       |        | <b>8,334</b> |
| <b>Extraordinary income</b>                                  |        |              |
| Gain on sales of noncurrent assets                           | 0      |              |
| Gain on sales of investment securities                       | 18     |              |
| Gain on reversal of subscription rights to shares            | 61     | 81           |
| <b>Extraordinary loss</b>                                    |        |              |
| Loss on sales of noncurrent assets                           | 7      |              |
| Loss on retirement of noncurrent assets                      | 0      |              |
| Loss on revaluation of investments in affiliated partnership | 1,380  | 1,388        |
| <b>Income before income taxes</b>                            |        | <b>7,027</b> |
| Income taxes-current   |        | 12           |
| <b>Net income</b>  |        | <b>7,015</b> |

Note: Figures shown in millions of yen have been rounded down to the nearest million.

## Non-Consolidated Statement of Changes in Net Assets

(From April 1, 2009 To March 31, 2010)

(Unit: millions of yen)

|                                  | Shareholders' equity |                       |                       |                       |
|----------------------------------|----------------------|-----------------------|-----------------------|-----------------------|
|                                  | Common Stock         | Capital surplus       |                       |                       |
|                                  |                      | Legal Capital surplus | Other capital surplus | Total capital surplus |
| Balances as of March 31, 2009    | 29,953               | 29,945                | 257,211               | 287,157               |
| Changes during the period        |                      |                       |                       |                       |
| Dividends from retained earnings |                      |                       |                       |                       |
| Net income                       |                      |                       |                       |                       |
| Purchase of treasury stock       |                      |                       |                       |                       |
| Disposal of treasury stock       |                      |                       | (4)                   | (4)                   |
| Total changes during the period  | -                    | -                     | (4)                   | (4)                   |
| Balances as of March 31, 2010    | 29,953               | 29,945                | 257,207               | 287,152               |

|                                  | Shareholders' equity              |                         |                |                            |
|----------------------------------|-----------------------------------|-------------------------|----------------|----------------------------|
|                                  | Retained earnings                 |                         | Treasury stock | Total Shareholder's equity |
|                                  | Other retained earnings           | Total retained earnings |                |                            |
|                                  | Retained earnings brought forward |                         |                |                            |
| Balances as of March 31, 2009    | 109,779                           | 109,779                 | (116,770)      | 310,119                    |
| Changes during the period        |                                   |                         |                |                            |
| Dividends from retained earnings | (7,557)                           | (7,557)                 |                | (7,557)                    |
| Net income                       | 7,015                             | 7,015                   |                | 7,015                      |
| Purchase of treasury stock       |                                   |                         | (12)           | (12)                       |
| Disposal of treasury stock       |                                   |                         | 6              | 1                          |
| Total changes during the period  | (541)                             | (541)                   | (6)            | (552)                      |
| Balances as of March 31, 2010    | 109,237                           | 109,237                 | (116,777)      | 309,566                    |

|  | Valuation and translation adjustments                     |   | Subscription rights to shares | Total net assets |
|--|---|---|-------------------------------|------------------|
|  | Valuation difference on available - for - sale securities | Total Valuation and translation adjustments |                               |                  |
| Balances as of March 31, 2009                        | (1,939)   | (1,939)                                     | 1,127                         | 309,307          |
| Changes during the period                            |   |   |                               |                  |
| Dividends from retained earnings                     |   |   |                               | (7,557)          |
| Net income   |   |   |                               | 7,015            |
| Purchase of treasury stock                           |   |   |                               | (12)             |
| Disposal of treasury stock                           |   |   |                               | 1                |
| Net changes of items other than shareholders' equity | 1,657   | 1,657                                       | (61)                          | 1,595            |
| Total changes during the period                      | 1,657   | 1,657                                       | (61)                          | 1,042            |
| Balances as of March 31, 2010                        | (281)   | (281)                                       | 1,065                         | 310,350          |

Note: Figures shown in millions of yen have been rounded down to the nearest million.

## Individual Notes

### I Notes Regarding Material Matters Related to Accounting Policies

#### 1. Valuation standards and accounting treatment for assets

- (1) Valuation standards and methods for securities
  - ① Investments in subsidiaries and affiliates are stated at moving-average cost.

##### Other 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.

Other securities without fair market value are stated at moving-average cost.

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 Investment 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.

#### 2. Depreciation of noncurrent assets

- (1) Property, plant and equipment

Depreciation is computed by the declining-balance method.  
However, buildings (excluding attached equipment) are depreciated using the straight-line method.  
Useful life for primary assets is as follows:

|                 |                |
|-----------------|----------------|
| Building        | : 2 - 50 years |
| Structure       | : 2 - 50 years |
| Tools/Furniture | : 2 - 20 years |
- (2) Intangible fixed assets

Depreciation is computed using the straight-line method. We adopt the straight-line method over the useful life of 5 years for Software for internal use.

#### 3. Accounting for provisions

- (1) Provision for directors' bonuses

Provisions for directors' bonuses are provided based on the estimated amount to be paid.
- (2) Provision for bonuses

Provisions for bonuses are provided based on the estimated amount to be paid.
- (3) Provision for retirement benefits

The liability for retirement benefits is based on the estimated amount of benefit obligations at the end of the fiscal year.

#### 4. Other material matters that form the basis of accounting documents

- (1) Accounting method for consumption taxes

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

#### 5. Changes in Presentation

- (1) Non-Consolidated Balance Sheet

Income taxes receivable was separately itemized in the previous fiscal year's consolidated Statement of Operations. However, due to immateriality in value, it is therefore included in "other" under current assets in the consolidated statement of income for the fiscal year under review. (The value of Income taxes receivable included in "other" under current assets for the fiscal year under review is ¥1,579 million.)
- (2) Non-Consolidated Statement of Income

In the previous fiscal year's non-consolidated statement of income, expenses from operation of lease asset was included in "other" under "non-operating expenses". However, its value has now exceeded 10% of non-operating expenses, and it is therefore separately itemized in the

non-consolidated statement of income for the fiscal year under review. The value of expenses from operation of lease asset included in “other” under “non-operating expenses” for the previous fiscal year was ¥54 million.

## II Notes to Balance Sheet

|   |              |
|---|--------------|
| (1) Accumulated depreciation of noncurrent assets | ¥457 million |
| (2) Receivables from and payables to affiliates   |              |
| Short-term receivables from affiliates            | ¥505 million |
| Short-term payables to affiliates                 | ¥38 million  |
| Long-term receivables from affiliates             | ¥24 million  |

## III Notes to Statement of Income

|                                      |                |
|--------------------------------------|----------------|
| Transactions with affiliates         |                |
| Consulting fee income                | ¥5,583 million |
| Dividends income (Operating revenue) | ¥7,558 million |
| SG&A expenses                        | ¥49 million    |
| Non-operating transactions           | ¥703 million   |

## IV Notes to Statement of Changes in Net Assets

|   |                   |
|---|-------------------|
| Number and type of Treasury stock as of the end of the fiscal year under review |                   |
| Common stock  | 31,315,801 shares |

## V Note Regarding Tax Effect Accounting

The main reason for recording deferred tax assets is the amount of loss carried forward, and valuation losses on investment securities and securities of affiliated companies, but in view of the possibility of collection, the Company has posted a valuation reserve for the total amount of deferred tax assets. The reason for deferred tax liabilities were valuation difference on available-for-sale securities.

## VI Notes Regarding Transactions with Related Parties

### (1) Subsidiaries and Affiliates

(Unit: millions of yen)

| Type       | Name              | Voting rights (%) | Relationship   | Name of transactions           | Transaction amount (Note 1) | Accounts | Balance at end of fiscal year |
|------------|-------------------|-------------------|--|--------------------------------|-----------------------------|----------|-------------------------------|
| Subsidiary | Sammy Corporation | 100.0             | Management guidance to the company, interlocking directorate | Consulting fee income (Note 2) | 2,624                       | —        | —                             |
|            |                   |                   |  | Deposits repaid (Note 3)       | 15,270                      | —        | —                             |
|            |                   |                   |  | Interest on deposit (Note 3)   | 20                          | —        | —                             |
| Subsidiary | SEGA CORPORATION  | 100.0             | Management guidance to the company, interlocking directorate | Consulting fee income (Note 2) | 2,959                       | —        | —                             |

Notes: 1. Consumption taxes are not included in transaction amounts.

2. The amount of the Consulting fee income is decided based on the Company’s necessary expenses.

3. Cash management system transactions are used for the purpose of uniformly and efficiently procuring and managing funds within the Group, and interest is determined with consideration to market interest rates.

(2) Directors, Key Individual Shareholders, etc.

(Unit: millions of yen)

| Type   | Name                  | Voting rights (%) | Relationship   | Name of transactions                       | Transaction amount (Note 1) | Accounts         | Balance at end of fiscal year |
|--|-----------------------|-------------------|--|--|-----------------------------|------------------|-------------------------------|
| Company in which Directors or their relatives own majority voting rights | FSC Co., Ltd (Note 2) | 5.67              | Insurance representative   | Payment of insurance premium (Note 3)      | 7                           | Prepaid expenses | 3                             |
|  |                       |                   | Subcontractor  | Payment of subcontracting fees (Note 3)    | 10                          | –                | –                             |
| Directors and their relatives  | Hajime Satomi         | 17.44             | Chairman of the Board and Chief Executive Officer of the Company | Payment of used of a business jet (Note 4) | 240                         | –                | –                             |

Notes: 1. Consumption taxes are not included in transaction amounts.

2. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% of the voting rights of FSC Co., Ltd.

3. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

4. Transaction prices are based on actual current prices.

**VII Note Regarding Per Share Information**

|                      |           |
|----------------------|-----------|
| Net assets per share | ¥1,227.74 |
| Net income per share | ¥27.85    |

**VIII Note Regarding Material Subsequent Events**

There is no pertinent matter.

## **Independent Auditors' Report**

May 13, 2010

The Board of Directors  
SEGA SAMMY HOLDINGS INC.

KPMG AZSA & Co.

Satoshi Nakaizumi  
Designated and Engagement Partner  
Certified Public Accountant

Michitaka Shishido  
Designated and Engagement Partner  
Certified Public Accountant

Hiroyuki Nakamura  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the statutory report, comprising the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and its supporting schedules of SEGA SAMMY HOLDINGS INC. as of March 31, 2010 and for the year from April 1, 2009 to March 31, 2010 in accordance with Article 436(2) ① of the Corporate Law. The statutory report and supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory report and supporting schedules based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the statutory report and supporting schedules are free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the statutory report and supporting schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statutory report and supporting schedules referred to above present fairly, in all material respects, the financial position and the results of operations of SEGA SAMMY HOLDINGS INC. for the period, for which the statutory report and supporting schedules were prepared, in conformity with accounting principles generally accepted in Japan.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

## **Audit Report**

The Board of Corporate Auditors has received the reports of the audit procedures and results concerning the execution of the duties of the Directors during the 6th fiscal year from April 1, 2009 through March 31, 2010 prepared by each of the auditors. After discussing the reports, we have prepared this Audit Report and report as follows.

### 1. Procedures and details of the audits by the Auditors and the Board of Corporate Auditors

The Board of Corporate Auditors established the audit policy, allocation of duties, and other relevant matters, and received reports from each Corporate Auditor regarding the implementation of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the independent auditor regarding the execution of their duties, and sought explanations as necessary.

Each Corporate Auditor complied with the auditing standards for Corporate Auditors established by the Board of Corporate Auditors, according to the audit policy, allocation of duties, and other relevant matters, communicated with the Directors, the internal audit department, other employees, and any other relevant personnel. We also made efforts to optimize the environment for information collection and audit, and participated in meetings of the Board of Directors and other important meetings, received reports from the Directors, employees, and other relevant personnel regarding performance of their duties, and sought explanations as necessary. We examined important authorized documents and associated information, and investigated the operations and assets at the head office and principal offices. In addition, we monitored and verified the system for ensuring that the execution of the duties of the Directors conforms to the relevant laws and regulations and the Articles of Incorporation, as well as the details of the resolutions of the Board of Directors regarding the organization of the system stipulated in Article 100, Item 1 and Item 3 of the Enforcement Regulations of the Company Law and the status of the system (internal control system) based on said resolutions, a necessary measure for ensuring that a joint stock corporation's business is proper. As to the internal control system associated with financial reports, we received the reports from the Directors and the independent auditor, KPMG AZSA & Co. regarding the evaluation of the internal control, and the implementation of audits, and sought explanations as necessary. With respect to subsidiaries, we communicated and exchanged information with directors, statutory auditors, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary. Based on the above methods, we examined the business report and supporting schedules related to the relevant Fiscal Year.

Furthermore, we monitored and verified whether the independent auditor maintained its independence and implemented appropriate audits, and we received reports from the independent auditor regarding the performance of its duties and sought explanations as necessary. In addition, we received notice from the independent auditor that "systems for ensuring that duties are performed properly" (matters set forth in each Item of Article 131 of the Corporate Calculation Regulations) were maintained in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary. Based on the above methods, we examined the financial statements (balance sheet, statement of income, statement of changes in net assets, and individual notes) and supporting schedules, and the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and notes to consolidated financial statements) related to the relevant Fiscal Year.

### 2. Result of audit

#### (1) The Report of Business Operations

- 1) In our opinion, the business report and supporting schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent the Company's condition.
- 2) With regard to the execution of the duties of the Directors, we have found no evidence of wrongful action or material violation of the relevant laws and regulations, nor of any violation with respect to the Articles of Incorporation.
- 3) In our opinion, the contents of the resolutions of the Board of Directors regarding the internal control system are fair and reasonable. In addition, we have found no matters on which to remark in regard to the execution of the duties of the Directors regarding the internal control system, including the one associated with financial reports.

In addition, as stated in the business report, it has been discovered that a former employee of SEGATOYS, CO., Ltd., a subsidiary of the Company had been conducting inappropriate

transactions with multiple business partners. SEGATOYS, CO., Ltd is now earnestly investigating this matter by both the internal investigation taskforce at SEGATOYS, CO., Ltd. and the external investigation committee. We confirmed that SEGATOYS, CO.,Ltd. planed to prevent the recurrence through improving the internal management system.

(2) Audit result of the Financial Statements and supporting schedules

In our opinion, the audit procedures and audit results received from the independent auditor KPMG AZSA & Co. are appropriate.

(3) Audit result of the Consolidated Financial Statements and consolidated supporting schedules

In our opinion, the audit procedures and audit results received from the independent auditor KPMG AZSA & Co. are appropriate.

May 14, 2010  
Board of Corporate Auditors,  
SEGA SAMMY HOLDINGS INC.  
Tomio Kazashi, Standing Corporate Auditor  
(Outside Auditor)  
Toshio Hirakawa, Outside Auditor  
Hisashi Miyazaki, Corporate Auditor  
Mineo Enomoto, Outside Auditor

Reference Materials for the Ordinary General Meeting of Shareholders

**Agenda items and reference information**

**Item 1: To amend certain parts of the Articles of Incorporation**

1. Reasons for the amendments

In conjunction with the deletion of an article accompanying the partial amendment of the Articles of Incorporation that was approved by the 5th Ordinary Meeting of Shareholders held on June 18, 2009, the article stipulated in paragraph 2 of Article 12 of the Articles of Incorporation shall be renumbered.

2. Details of the amendments

The details of the amendments in the Articles of Incorporation are as follows:

(The modified parts are indicated by underlining.)

| Present Articles of Incorporation   | Proposed Amendment  |
|---|---|
| <p style="text-align: center;">CHAPTER I GENERAL PROVISIONS</p> <p>Article 1<br/>~<br/>Article 11 (Omitted)</p> <p style="text-align: center;">CHAPTER II SHARES</p> <p>Article 12 (Record date)<br/>(Omitted)</p> <p>2. In addition to the case of the preceding paragraph or Article <u>55</u>, the Company may, by giving prior public notice, set a certain date as record date by a resolution of the Board of Directors, if it is necessary in order to define persons entitled to exercise their rights as shareholders or registered share pledgees.</p> <p>Article 13<br/>~<br/>Article 54 (Omitted)</p> | <p style="text-align: center;">CHAPTER I GENERAL PROVISIONS</p> <p>Article 1<br/>~<br/>Article 11 (Not amended)</p> <p style="text-align: center;">CHAPTER II SHARES</p> <p>Article 12 (Record date)<br/>(Not amended)</p> <p>2. In addition to the case of the preceding paragraph or Article <u>53</u>, the Company may, by giving prior public notice, set a certain date as record date by a resolution of the Board of Directors, if it is necessary in order to define persons entitled to exercise their rights as shareholders or registered share pledgees.</p> <p>Article 13<br/>~<br/>Article 54 (Not amended)</p> |

**Item 2: To elect six (6) Directors**

The terms of office of all six (6) Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. We are seeking the election of six (6) Directors. Two (2) of the Director-nominees are Outside Directors.

The nominees for Directors are as described below:

| Nominee No. | Name<br>(Date of Birth)             | Brief Career Profile, Important Concurrent Duties,<br>Responsibilities at the Company         |      | Number of the<br>Company's<br>Shares Held   |                      |
|-------------|-------------------------------------|---|------|---|----------------------|
| 1           | Hajime Satomi<br>(January 16, 1942) | Mar   | 1980 | President and Representative Director of Sammy Industry Co., Ltd. (now Sammy Corporation)                   | 43,569,338<br>shares |
|             |                                     | Nov   | 2003 | Chairman and Director of Sammy NetWorks Co., Ltd. (current position)  |                      |
|             |                                     | Feb   | 2004 | Chairman and Representative Director of SEGA CORPORATION  |                      |
|             |                                     | May   | 2004 | Chairman of JAMMA (Japan Amusement Machinery Manufacturers' Association) (current position)                 |                      |
|             |                                     | June  | 2004 | Chairman, Representative Director and Chief Executive Officer of Sammy Corporation (current position)       |                      |
|             |                                     | June  | 2004 | Chairman, CEO and Representative Director of SEGA CORPORATION   |                      |
|             |                                     | Oct   | 2004 | Chairman of the Board and Chief Executive Officer of the Company (current position)                         |                      |
|             |                                     | Mar   | 2005 | Senior Advisor to Nichiyukyo (Japan Play Equipment Industry Association) (current position)                 |                      |
|             |                                     | May   | 2005 | Advisor to NDK (Japan Electric Game Manufacturers' Association)   |                      |
|             |                                     | June  | 2005 | Chairman and Director of SEGA TOYS, LTD. (current position)   |                      |
|             |                                     | June  | 2005 | Chairman and Director of TMS ENTERTAINMENT, LTD. (current position)   |                      |
|             |                                     | Dec   | 2006 | Chairman of Japan Amusement Industry Association (current position)   |                      |
|             |                                     | May   | 2007 | Chairman of NDK (current position)  |                      |
|             |                                     | June  | 2007 | President, Representative Director, Chief Executive Officer and Chief Operating Officer of SEGA CORPORATION |                      |
| May         | 2008                                | Chairman, Representative Director and Chief Executive Officer of the above (current position) |      |   |                      |
| 2           | Keishi Nakayama<br>(July 23, 1942)  | Sep   | 1989 | Joined Sammy Industry Co., Ltd. (now Sammy Corporation) as Division Manager of the General Affairs Division | 400,100 shares       |
|             |                                     | June  | 1993 | Director and General Manager of the President's Office of the above   |                      |
|             |                                     | Jan   | 2000 | Managing Director and General Manager of the President's Office of the above                                |                      |
|             |                                     | Mar   | 2004 | Senior Managing Director in charge of the President's Office of Sammy Corporation                           |                      |
|             |                                     | Oct   | 2004 | Senior Managing Director of the Company   |                      |
|             |                                     | Apr   | 2005 | Director of SEGA SAMMY GOLF ENTERTAINMENT INC.  |                      |
|             |                                     | June  | 2005 | Executive Vice President and Director of the Company  |                      |
|             |                                     | July  | 2006 | Chairman and Director of SEGA SAMMY GOLF ENTERTAINMENT INC. (current position)                              |                      |
|             |                                     | June  | 2007 | Executive Vice President and Representative Director of the Company (current position)                      |                      |
|             |                                     | May   | 2008 | President, Representative Director and Chief Operating Officer of Sammy Corporation (current position)      |                      |
| May         | 2008                                | Chairman and Director of WAVEMASTER, INC.(current position)                                   |      |   |                      |

[English Translation of Financial Statements Originally Issued in the Japanese Language]

| Nominee No. | Name<br>(Date of Birth)            | Brief Career Profile, Important Concurrent Duties,<br>Responsibilities at the Company |  | Number of the<br>Company's<br>Shares Held |
|-------------|------------------------------------|---|--|---|
| 3           | Okitane Usui<br>(October 31, 1958) | Oct 1993  | Joined Sega Enterprises, Ltd. (now SEGA CORPORATION)   | 2,000 shares                              |
|             |                                    | June 1997   | Director, Deputy General Manager of Consumer Business Division of the above  |   |
|             |                                    | June 1998   | Executive Officer, General Manager of Consumer Business Planning Department, Consumer Business Group Division of the above |   |
|             |                                    | May 1999  | Retired from the above   |   |
|             |                                    | June 2007   | Joined SEGA CORPORATION, Corporate Advisor   |   |
|             |                                    | June 2007   | Senior Managing Director, General Manager of Amusement Business Group Division of the above                                |   |
|             |                                    | Feb 2008  | Director, General Manager of Amusement Business Group Division of the above  |   |
|             |                                    | May 2008  | President, Representative Director and Chief Operating Officer of the above (current position)                             |   |
|             |                                    | June 2008   | CEO of SEGA HOLDINGS EUROPE LTD. (current position)  |   |
|             |                                    | June 2008   | Chairman of SEGA HOLDINGS USA, INC. (current position)   |   |
|             |                                    | June 2008   | Director of the Company (current position)   |   |
| 4           | Hisao Oguchi<br>(March 5, 1960)    | Apr 1984  | Joined Sega Enterprises, Ltd. (now SEGA CORPORATION)   | 22,400 shares                             |
|             |                                    | June 2000   | Corporate Officer of the above   |   |
|             |                                    | June 2002   | Senior Corporate Officer of the above  |   |
|             |                                    | June 2003   | President and Representative Director of the above   |   |
|             |                                    | June 2004   | President, COO and Representative Director of the above  |   |
|             |                                    | Oct 2004  | Vice Chairman and Director of the Company  |   |
|             |                                    | Aug 2005  | CEO of SEGA HOLDINGS EUROPE LTD.   |   |
|             |                                    | May 2006  | Chairman of SEGA HOLDINGS U.S.A., Inc.   |   |
|             |                                    | June 2007   | Executive Vice President and Representative Director of SEGA CORPORATION   |   |
|             |                                    | Feb 2008  | Representative Director of the above   |   |
|             |                                    | May 2008  | Director of the above  |   |
|             |                                    | May 2008  | Director of Sammy Corporation  |   |
|             |                                    | June 2008   | CCO and Director of SEGA CORPORATION   |   |
|             |                                    | June 2008   | CCO and Director of the Company (current position)   |   |
|             |                                    | Apr 2009  | Senior Managing Director of Sammy Corporation (current position)   |   |
|             |                                    | June 2009   | Director of SEGASAMMY VISUAL ENTERTAINMENT INC. (current position)   |   |
| 5           | Yuji Iwanaga<br>(April 3, 1941)    | Apr 1981  | Registered with The Japan Federation of Bar Associations (current position)  | 0 shares                                  |
|             |                                    | Apr 1981  | Joined Yanagita Sakuragi Law Office  |   |
|             |                                    | Sep 1984  | Partner of Lillick McHose and Charles Law Office (Now Pilsbury Winthrop Shaw Pittman LLP) (current position)               |   |
|             |                                    | Dec 1984  | Registered with the State Bar of California  |   |
|             |                                    | Apr 2003  | Outside Director of Manufacturers Bank (current position)  |   |
|             |                                    | June 2005   | Outside Director of JMS North America Corporation (current position)   |   |
|             |                                    | June 2006   | Outside Director of TAIYO YUDEN Co., Ltd. (current position)   |   |
|             |                                    | June 2007   | Outside Director of the Company (current position)   |   |

| Nominee No. | Name<br>(Date of Birth)                                | Brief Career Profile, Important Concurrent Duties,<br>Responsibilities at the Company | Number of the<br>Company's<br>Shares Held  |              |
|-------------|--|---|--|--------------|
| 6           | Takeshi Natsuno<br>(March 17, 1965)                    | Apr 1988  | Joined Tokyo Gas Co., Ltd.   | 2,000 shares |
|             |  | Sep 1997  | Joined NTT Mobile Communications Network, Inc. (now NTT DoCoMo, Inc.)                        |              |
|             |  | June 2005   | Senior Vice President, Managing Director, Multimedia Services Department of NTT DoCoMo, Inc. |              |
|             |  | May 2008  | Guest Professor, Media and Governance of Keio University (current position)                  |              |
|             |  | June 2008   | Outside Director of the Company (current position)   |              |
|             |  | June 2008   | Director of PIA Corporation (current position)   |              |
|             |  | June 2008   | Outside Director of transcosmos inc. (current position)                                      |              |
|             |  | June 2008   | Director of Liveware Inc.(current position)  |              |
|             |  | June 2008   | Director of NTT Resonant Inc. (current position)   |              |
|             |  | June 2008   | Director of SBI Holdings, Inc. (current position)  |              |
|             |  | Dec 2008  | Director of DWANGO Co., Ltd. (current position)  |              |
|             |  | June 2009   | Outside Director of DLE, Inc. (current position)   |              |
|             |  | Sep 2009  | Outside Director of GREE, Inc. (current position)  |              |
| Jan 2010    | Outside Director of bitWallet, Inc. (current position) |   |  |              |

- Notes:(1) Business arrangements including a lease agreement exist between Hajime Satomi and the Company.
- (2) There are no specific conflicts of interest between the Company and the other Director-nominees.
- (3) Yuji Iwanaga and Takeshi Natsuno are Outside Director-nominees.
- (4) We seek appointment of Mr. Iwanaga as an Outside Director, as he has performed at a high level in international corporate law and international corporate legal affairs in a global corporation from the viewpoint of an expert international lawyer. Furthermore, Mr. Iwanaga has business management experience gained in senior corporate management prior to his registration as an attorney. Thus, given Mr. Iwanaga's deep insight into management, he has been judged to be capable of properly performing the duties of an Outside Director.
- (5) We seek appointment of Mr. Natsuno as an Outside Director so that the management of the Company may benefit from his extensive managerial experience and broad insight into management.
- (6) Mr. Iwanaga and Mr. Natsuno shall have served as Outside Directors of the Company for three years and two years, respectively, at the conclusion of this Ordinary General Meeting of Shareholders.
- (7) On November 21, 2006, there was a leak of customer data at FeliCa Networks, Inc. as a result of the actions of a temporary employee. Although this occurred while Mr. Natsuno was Director of the company, Mr. Natsuno was not involved in the incident. After the incident occurred, Mr. Natsuno proactively followed up by issuing a strong caution in reference to risk management, called for rigorous compliance with appropriate laws and regulations, and revised internal rules and regulations, in order to prevent any further occurrence of similar incidents. In this manner, Mr. Natsuno fulfilled his responsibilities.
- Additionally, on January 30, 2007, an unauthorized external intrusion was recorded on the server of the Vpass internet service provided by Sumitomo Mitsui Card Co., Ltd. and there was a leak of certain data pertaining to cards held by customers. The company reported the leak to the authorities and contacted affected customers to explain the situation and apologize for any inconvenience. Although this occurred while Mr. Natsuno was Director of the company, Mr. Natsuno was not involved in the incident. After the incident occurred, Mr. Natsuno fulfilled his responsibilities and followed up by proactively building a system to prevent any further occurrence of similar incidents, including by conducting an investigation into system weaknesses and strengthening supervisory systems.

**Item 3: To issue Stock Acquisition Rights as Stock Options to Directors**

Although approval was given by the resolution of the 2nd Ordinary General Meeting of Shareholders held on June 20, 2006 for the maximum amount of compensation payable to the Directors to be 600 million yen per year (excluding the compensation for employee-directors for their services in such capacity), it is proposed that the Company issue stock acquisition rights as stock options to the Directors, excluding the Outside Directors, within an annual amount of 86 million yen, separately from the foregoing compensation to Directors.

Said amount will not include compensation for the employee portion of employee-directors for their services in such capacity.

Furthermore, there are four (4) Directors of the Company, excluding Outside Directors, and the number of Directors will remain the same at four (4), if Item 2 is approved as proposed.

1. Reason for issuing stock acquisition rights as compensation to Directors

Stock options will be granted for the purpose of furthering business management with emphasis on shareholder value and stock prices to eventually enhance corporate value and for bolstering employees' motivation and morale toward better performance as compensation for performing duties.

2. Details of stock acquisition rights

(1) Total number of stock acquisition rights to be issued

Not exceeding 1,720 units. Additionally, in cases where adjustments to the number of shares become necessary as a result of the Company having conducted a merger, an issue of new shares, a corporate split, a share-split, a share-consolidation or any other event, adjustments deemed necessary by the Company shall be made to the number of shares.

(2) Class and number of shares to be issued

Not exceeding 172,000 shares of common stock. The number of shares to be issued or transferred upon exercise of one unit of stock acquisition rights shall be 100.

Additionally, in cases where adjustments to the number of shares become necessary as a result of the Company having conducted a merger, an issue of new shares, a corporate split, a share-split, a share-consolidation or any other event, adjustments deemed necessary by the Company shall be made to the number of shares.

(3) Amount to be paid for stock acquisition rights

No amount of money shall be required to be paid in return for stock acquisition rights.

(4) Value of the property to be contributed upon exercise of stock acquisition rights

The amount to be contributed shall be the amount obtained by multiplying the amount to be paid per share to be acquired upon exercise of stock acquisition rights (hereinafter referred to as the "Exercise Price") by the number of shares to be issued or transferred upon exercise of stock acquisition rights.

The Exercise Price shall be the amount calculated at 1.05 times the average closing price of the Company's common stock on the Tokyo Stock Exchange in regular trading days during the entire month prior to the month in which the day of allotment of stock acquisition rights falls (excluding days on which no trading takes place), with fractions of less than one yen being rounded up to the nearest yen.

However, in the case that the amount resulting from the calculation above is less than the closing price on the day prior to the day of allotment of stock acquisition rights (or the closing price of the nearest transaction day before the day of allotment), the relevant closing price shall be the Exercise Price.

In cases where adjustments to the Exercise Price become necessary as a result of the Company having conducted a merger, an issue of new shares, a corporate split, a share-split, a share-consolidation or any other event, adjustments deemed necessary by the Company shall be made to the Exercise Price.

(5) Fair value of stock acquisition rights

It shall be based on the estimated fair value of stock acquisition rights determined using the Black-Scholes model taking into account the Exercise Price and other terms and conditions.

(6) Exercise period of stock acquisition rights

Within two (2) years from the date following the second anniversary of the date of allotment of stock acquisition rights.

(7) Condition for exercise of stock acquisition rights

A person who has received allotment of stock acquisition rights must be a Director or a person serving in an equivalent position of the Company when exercising stock acquisition rights. However, the foregoing shall not apply in cases in which the person has retired upon the expiration of his or her term

or there is a justifiable reason equivalent thereto.

- (8) Restrictions on acquisition of stock acquisition rights by transfer  
Acquisition of stock acquisition rights by transfer shall be subject to the approval of the Board of Directors.
- (9) Other matters regarding the stock acquisition rights
  - (i) Other matters regarding the stock acquisition rights are to be determined by resolution of the Board of Directors of the Company that determines the matters concerning the offering of the stock acquisition rights.

**Venue of the 6th Ordinary General Meeting of Shareholders**

- 1. Date and time:** Wednesday, June 23, 2010 at 10:00 a.m.  
**2. Venue:** Event Hall, Bellesalle Shiodome  
Sumitomo Fudosan Shiodome Hamarikyu Building  
8-21-1 Ginza, Chuokuku, Tokyo, 104-0061, Japan

Please note that the venue for this year is different from the venue for last year.

**Access By Rail**

- 9-minute walk from the Karasumori Exit or the Shiodome Exit of Shimbashi Station (JR Line)
  - 6-minute walk from Shiodome Station (Oedo Line) exiting the gates leading to JR Shimbashi Station
  - 11-minute walk from the No. 4 Exit of Shimbashi Station (Ginza Line)
  - 9-minute walk from Shimbashi Station (Asakusa Line) exiting the gates leading to JR Shimbashi Station and Shiodome
- \* When taking any of the routes above, please take the underground walkways after leaving the exits.  
\* You are strongly advised to take public transportation on the day of the Meeting, as congestion is expected on the streets and parking areas surrounding the venue.