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Securities Code: 6460
June 1, 2011

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, Japan

Dear Shareholders:

Notice of the 7th Ordinary General Meeting of Shareholders to be held on June 23, 2011

You are cordially invited to attend the 7th 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 Thursday, June 23, 2011 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 Documents for General Meeting of Shareholders, and kindly exercise your voting rights before 6:00 p.m., Japan Standard Time, on Wednesday, June 22, 2011.

Details of the Meeting

- 1. Date and time:** Thursday, June 23, 2011 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
- 3. Agenda:**
 - Matters to be reported:**
 1. The Business Report and the Consolidated Financial Statements for the 7th fiscal year (from April 1, 2010 to March 31, 2011) 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 7th fiscal year (from April 1, 2010 to March 31, 2011)

Matters to be resolved:

Proposal 1: To amend certain parts of the Articles of Incorporation

Proposal 2: To elect six (6) Directors

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- * If you attend the meeting in person, please submit the enclosed voting form at the reception desk at the meeting location on the day of the meeting.
 - * Pursuant to the provisions of laws and regulations and the Articles of Incorporation, Internal Control System and so forth to Ensure Appropriate Business Execution in the Business Report, Notes to Consolidated Financial Statements and Notes to Non-Consolidated Financial Statements are posted on the website of the Company.
 - * The Business Report and Consolidated/Non-consolidated Financial Statements audited by the Accounting Auditor and the Board of Corporate Auditors include Internal Control System and so forth to Ensure Appropriate Business Execution, Notes to Consolidated Financial Statements and Notes to Non-consolidated Financial Statements, which are posted on the website of the Company.
 - * Should any change need to be made to the Reference Documents for General Meeting of Shareholders, Business Report or Consolidated/Non-consolidated Financial Statements, such changes shall be posted on the website of the Company (Japanese only).
 - * For voting results, an extraordinary report shall be posted on the website of the Company in place of Notice of Resolutions. Information in English will be posted on our English website (<http://www.segasammy.co.jp/english/ir/library/data.html>).

Information on Exercise of Voting Rights

Exercise of voting rights by mail

Indicate “for” or “against” the proposals on the voting 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

(1) Exercise of voting rights

- (i) Access the voting website designated by the Company (<http://www.evotep.jp/>), log on using the “voting rights exercise code” and “temporary password” printed on the enclosed voting form, and follow the on-screen instructions (Japanese language only) to enter “for” or “against” the proposals 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 website 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) shall be borne by the shareholder. Please note that any costs incurred in voting via mobile phone, including packet charges, shall also be borne by the shareholder.



Treatment of votes cast more than once

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

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 registry administrator: 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 1,2010 To March 31,2011)

I Group's Current Condition

1. Business Development and Results

During the fiscal year ended March 31, 2011, the Japanese economy witnessed the growing concern for the economic recovery losing its momentum, given the rapidly rising yen and still stagnant personal consumption, although there were signs of turnaround in some areas of the economy, including recovery trends in corporate earnings. Unpredictability still prevails as a result of the severe damage caused by the Great East Japan Earthquake that took place on March 11, 2011, along with the shortage in electricity supply mainly due to the suspended operation of Fukushima Daiichi Nuclear Power Plant.

In this climate, although the pachislot and pachinko industry witnessed the replacement of older pachinko machines at a rather weak pace, the pachislot market is on a recovery trend thanks to the positive factors including the launch of a few newly launched machines that enjoyed high market reputation, the recovery of pachislot's popularity in pachinko parlors, and an increase in the number of pachislot machines installed in pachinko parlors.

In the amusement machine and amusement center industry in which the conditions still remain challenging, there is a hint of recovery in the market mainly in the area of prize category such as the UFO Catcher. Meanwhile, the development and supply of innovative game machines that will further invigorate the market is expected, while a changeover to new business models is under way, which simultaneously enhance investment efficiency for amusement center operators and secure sources of stable earnings for amusement machine manufacturers.

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 demand for new content geared to social networking service (SNS) and smartphone is expanding.

In this business environment, net sales for the fiscal year ended March 31, 2011 amounted to ¥396,732 million, an increase of 3.1% from the previous fiscal year. The Group posted an operating income of ¥68,750 million, an increase of 87.3% from the previous fiscal year and ordinary income of ¥68,123 million, an increase of 89.6%. While recording extraordinary income of ¥3,705 million due to distribution of patent royalty income for prior periods and gain on reversal of subscription rights to shares, the Company posted extraordinary loss of ¥14,361 million due to cost of product compensation related, impairment loss and loss on liquidation of subsidiaries. As a result, the Group recorded a net income of ¥41,510 million, an increase of 104.8% from the previous fiscal year.

The Group is scheduled to adopt the consolidated tax return system from the next fiscal year, whereby realizability of deferred tax assets has been reviewed, and tax expenses have been reduced by ¥12,154 million compared with previous years.

The Company conducted an exchange of shares effective December 1, 2010, in order to convert Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD. into wholly owned subsidiaries of SEGA SAMMY HOLDINGS INC., which will become the wholly owning parent of each such company.

Furthermore, following the resolution at the meeting of Board of Directors for the retirement and acquisition of treasury stock, the Company retired 17,000,000 shares (6.0% of the total number of shares outstanding prior to the retirement) on December 10, 2010, before it acquired 14,000,000 shares of treasury stock (at an acquisition cost of ¥24,287 million) by March 15, 2011.

Results by business segments were as follows.

《Pachislot and Pachinko Machines》

In the pachinko machine business, the Group launched this year's major title "Pachinko CR Hokuto No Ken" series under the Sammy brand, which received a favorable evaluation in the market and recorded sales in excess of 200 thousand units. Sales of other titles also remained solid. Furthermore, the "Dejiten Series", which features innovative game elements to come up to the diversifying customer needs, was introduced as a new approach. As a result, overall pachinko machine sales amounted to 343 thousand units.

In the pachislot machine business, sales of "Pachislot SOUTEN-NO-KEN" under the Sammy brand and "Pachislot Shin Onimusha" launched in the previous fiscal year under the RODEO brand remained solid. As a result, overall pachislot machine sales amounted to 302 thousand units, exceeding the results of the previous fiscal year significantly. Meanwhile, thanks to an initiative to promote reuse of components, especially those related to liquid crystal display, there was an improvement in profit ratio as well.

As a result, net sales in this segment were ¥212,293 million (an increase of 32.1% from the previous fiscal year) and operating income was ¥64,284 million (an increase of 117.9% from the previous fiscal year).

Main Pachinko Machines and Units Sold

| Model name | Brand | Units sold (Thousands) |
|--|--------------|---------------------------|
| Pachinko CR Hokuto No Ken Raoh Series | (Sammy) | 123 |
| Pachinko CR Hokuto No Ken Kenshiro | (Sammy) | 78 |
| Pachinko CR Juoh | (Sammy) | 33 |
| Pachinko CR GATCHAMAN UNMEI-NO-KIZUNA Series | (Sammy) | 21 |
| CR SAMURAI CHAMPLOO 2 Series | (Taiyo Elec) | 17 |

Main Pachislot Machines and Units Sold

| Model name | Brand | Units sold (Thousands) |
|--|--------------|---------------------------|
| Pachislot SOUTEN-NO-KEN | (Sammy) | 92 |
| Pachislot Shin Onimusha | (Rodeo) | 62 |
| Oreno Sora~Spirit of Young Justice~ | (Rodeo) | 38 |
| Ring ni Kakero -Golden Japan Jr. Series- | (Taiyo Elec) | 36 |
| Pachislot SPIDER-MAN 3 | (Sammy) | 22 |

《Amusement Machine Sales》

In the amusement machine sales business, distribution revenue remained solid thanks to the operation of the revenue sharing models such as "BORDER BREAK" launched in the previous fiscal year, and "HATSUNE MIKU Project DIVA Arcade" launched in the current fiscal year, for the purpose of improving investment efficiency of the operators of amusement centers and of securing long-term stable earnings for the Group. Meanwhile, the Group committed to selling the major title "SENGOKU TAISEN", CVT KITS including "WORLD CLUB Champion Football Intercontinental Clubs 2009-2010" and consumables including cards and prize products.

In the overseas amusement machine sales business, the Group started to develop amusement machine sales business in China, with the acquisition of license to manufacture and sell amusement machines in the Chinese market by Sega Jinwin (Shanghai) Amusements Co., Ltd., a joint venture established between SEGA CORPORATION and Shanghai JinWin Investment Co., Ltd.

As a result, net sales in this segment were ¥50,319 million (an increase of 5.0% from the previous fiscal year) and operating income was ¥7,317 million (an increase of 3.1% from the previous fiscal year).

《Amusement Center Operations》

In the amusement center operations business, sales at existing SEGA amusement centers in Japan remained solid up to the third quarter of the current fiscal year, exceeding the level of performance during the same period in the previous fiscal year, thanks to the initiative to reinforce management capabilities at amusement centers. However, sales at existing SEGA amusement centers in Japan achieved 99.3% compared with the previous fiscal year, because of the suspension of business and reduction in opening hours at some of the amusement centers, implemented under constraint of the aftermaths of the Great East Japan Earthquake, and the rolling blackouts resulting therefrom. The Group closed 17 amusement centers and opened 6 new amusement centers. Consequently, the Group operated a total of 249 amusement centers at the end of the current fiscal year.

As a result, net sales in this segment were ¥45,721 million (a decrease of 16.6% from the previous fiscal year) and operating income was ¥342 million, compared with operating loss of ¥1,338 million in the previous fiscal year, registering profit for the first time in four years.

《Consumer Business》

In the consumer business, in the area of home video game software, some major titles for the overseas markets including “Sonic Colors” and “SHOGUN 2 : Total War”, along with the major titles for the Japanese market including “Phantasy Star Portable 2 Infinity” were launched. Although the launch of some of the major titles was delayed into the next fiscal year due to the impact by the Great East Japan Earthquake, domestic sales generally remained solid. In the overseas markets, sales of the new titles remained slow as affected by the adverse market condition. As a result, the Group sold 7,830 thousand video game copies in the U.S., 8,230 thousand copies in Europe and 2,630 thousand copies in Japan and other regions, for a total of 18,710 thousand copies, falling below the performance level of the previous fiscal year.

In the toy sales division, along with the solid sales of “Bakugan” by “Bakugan Limited Liability Partnership (Bakugan LLP)” which was formed mainly by the five Group companies and “Anpanman Series”, etc., full-scale sales of “Zoobles” was started as a new development. In the mobile phone, smartphone and PC content business, the pay-per-use service of “Sammy 777 town” (for mobile phone users) continued to remain solid, while supply of the titles targeted at the new platform went into full swing. In the animated films business, distribution revenue remained favorable thanks to the sound box office sales of the 14th theater film “Detective Conan” while domestic and overseas royalty revenue from “Bakugan” stayed robust.

As a result, net sales in this segment were ¥89,550 million (a decrease of 26.5% from the previous fiscal year), and an operating income was ¥1,969 million (a decrease of 68.9% from the previous fiscal year).

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.

In the amusement machine business, the business challenges of the Group includes seeking a broad range of users by providing various products from high value added products to family-use products to meet user needs while enhancing investment efficiency for operators and securing long-term and stable earnings for the Group as an amusement machine manufacturer. In overseas markets, the Group must provide the products that satisfy local needs at competitive price.

In the amusement center operations business, 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, the mobile phone and PC content business and the animated films business, the Group’s business challenge will be to further reinforce its operational strength by implementing measures such as the conversion of the formerly listed subsidiaries into wholly-owned subsidiaries.

It will be the Group’s business challenge to flexibly address the wide-reaching impacts of the Great East

Japan Earthquake that may require response measures to the shortage in electricity supply which is feared to prolong, generate concern for procurement of materials and components, as well as adversely affect the capital expenditures and personal consumption.

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.

There is no material fund procurement for the fiscal year under review.

For effective use of the Group funds, the Group has introduced the Cash Management System (“CMS”) involving three Group companies including the Company, Sammy Corporation and SEGA CORPORATION. The CMS group is scheduled to be extended to include six in April 2011, by adding the three companies that became the Company’s wholly-owned subsidiaries in December 2010, namely Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD. and TMS ENTERTAINMENT, LTD.

(2) Capital Expenditures

The Group’s capital expenditures totaled ¥19,686 million, including ¥5,725 million for increasing mold tools, acquiring land for factory use and other investments in the pachinko pachislot business. In addition, there were ¥7,701 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

The Company conducted an exchange of shares effective December 1, 2010, in order to convert Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD. into wholly owned subsidiaries of SEGA SAMMY HOLDINGS INC., which will become the wholly owning parent of each such company.

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

| Item \ Fiscal Year | | FY2008 | FY2009 | FY2010 | FY2011 |
|-----------------------------|-------------|---|---|---|---|
| | | From April 1, 2007 To March 31, 2008 | From April 1, 2008 To March 31, 2009 | From April 1, 2009 To March 31, 2010 | From April 1, 2010 To March 31, 2011 |
| Net sales | (¥ million) | 458,977 | 429,194 | 384,679 | 396,732 |
| Ordinary income (loss) | (¥ million) | (8,224) | 6,636 | 35,925 | 68,123 |
| Net income (loss) | (¥ million) | (52,470) | (22,882) | 20,269 | 41,510 |
| Net income (loss) per share | (¥) | (208.26) | (90.83) | 80.46 | 163.19 |
| Total assets | (¥ million) | 469,642 | 423,938 | 423,161 | 458,624 |
| Net assets | (¥ million) | 281,627 | 242,532 | 256,770 | 285,461 |

- 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. Details for fiscal FY2011 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 |
|---------------------------------|--|
| Pachinko and Pachislot machines | Development, manufacture and sale of Pachinko and Pachislot machines Design for parlors |
| Amusement machine sales | Development, manufacture and sale of game machines used in amusement arcades |
| Amusement center operations | Development, operation, rent and maintenance of amusement center |
| Consumer business | Development and sale of home video game software Development, manufacture, and sale of toys Planning and production of entertainment contents through cellular phone, etc. 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 (8 Branches, 29 Sales Offices)

② SEGA CORPORATION

Head Office (Ohta-ku, Tokyo)

Amusement Center Operating Locations: (206 locations)

(3) Employees of the Group

Number of employees (change from end of previous year) 6,000 (236 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 Development/operations of amusement centers Development/sales of home videogame software |
| RODEO Co., Ltd. | ¥100 million | 65.0% (Note) | Development/manufacture/sales of pachislot machines |

| Company | Capital | Percentage ratio of issued shares | Main business |
|---------------------------------------|----------------------|-----------------------------------|--|
| Sammy Design Co., Ltd. | ¥40 million | 100.0% (Note) | Planning/design/construction of pachinko parlors |
| TAIYO ELEC Co., Ltd. | ¥5,125 million | 51.2% (Note) | Development/manufacture/sales of pachislot and pachinko machines |
| Sega Logistics Service Co., Ltd. | ¥200 million | 100.0% (Note) | Maintenance service, transportation, and warehouse business |
| SEGA BeeLINK Co., Ltd. | ¥100 million | 100.0% (Note) | Operation of darts bars |
| DARTSLIVE Co., Ltd. | ¥10 million | 100.0% (Note) | Planning/development/sales of game equipment and game software |
| Sega Amusements U.S.A., Inc. | US\$3,900 thousand | 100.0% (Note) | Import/manufacture/sales of amusement equipment |
| Sega Amusements Europe Ltd. | £ 26,485 thousand | 100.0% (Note) | Import/manufacture/sales of amusement equipment |
| Sega GameWorks U.S.A., Inc. | US\$0 thousand | 100.0% (Note) | Operations of amusement centers |
| Sega of America, Inc. | US\$110,000 thousand | 100.0% (Note) | Development/management/sales of home video game software |
| Sega Publishing America, Inc. | US\$41,900 thousand | 100.0% (Note) | Sales of home video game software |
| Sega Europe Ltd. | £ 10,000 thousand | 100.0% (Note) | Sales of home video game software |
| Sega Publishing Europe Ltd. | £ 0 thousand | 100.0% (Note) | Sales of home video game software |
| Sammy NetWorks Co., Ltd. | ¥2,330 million | 100.0% | Planning/production of game and music contents through mobile phones and Internet, etc. |
| SEGA TOYS CO., LTD. | ¥1,804 million | 100.0% | Development/manufacture/sales of toys |
| TMS ENTERTAINMENT, LTD. | ¥8,816 million | 100.0% | Planning/production/sales and other activities involving animated movies |
| MARZA ANIMATION PLANET INC. | ¥100 million | 100.0% | Production of computer graphics animations, planning/production of animated movies, licensing business, investment advisory business and operation/management of investment business partnership (funds), etc. |
| Japan Multimedia Services Corporation | ¥835 million | 80.2% (Note) | Information providing service, call center service and temporary staffing service |

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. | ¥3,200 million |
| Sumitomo Mitsui Banking Corporation | ¥2,400 million |
| The Hokuriku Bank, Ltd. | ¥1,814 million |
| Others | ¥759 million |
| Total | ¥8,173 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

¥20 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

The Company, Sammy Corporation which is a wholly owned subsidiary of the Company and TAIYO ELEC Co., Ltd. which is a subsidiary of Sammy Corporation resolved at the Board of Directors Meetings of each company held on May 13, 2011 to conduct an exchange of shares with the common stock of the Company in order to convert TAIYO ELEC Co., Ltd. into a wholly owned subsidiary of Sammy Corporation, which will become the wholly owning parent company of such company.

II Shares Outstanding and Shareholders

1. Number of shares authorized for issue **800,000,000 shares**
2. Total shares issued and outstanding **266,229,476 shares**
3. Number of shareholders **94,703**
4. Principal shareholders (Top 10)

| Name of shareholder | Investment in SEGA SAMMY HOLDINGS | |
|--|--------------------------------------|---------------------------|
| | Shares held | Shareholding ratio (%) |
| Hajime Satomi | 43,569,338 | 17.30 |
| Mellon Bank N.A. Treaty Client Omnibus | 18,128,563 | 7.20 |
| FSC Co., Ltd. | 14,172,840 | 5.63 |
| Japan Trustee Services Bank, Ltd. (Trustee) | 10,454,100 | 4.15 |
| The Master Trust Bank of Japan, Ltd. (Trustee) | 7,998,300 | 3.17 |
| State Street Bank – West Pension Fund Clients – Exempt | 4,448,554 | 1.76 |
| Japan Trustee Services Bank, Ltd. (Trustee 9) | 3,283,800 | 1.30 |
| Morgan Stanley and Company Inc. | 2,945,886 | 1.17 |
| Mellon Bank N.A. as agent for its client Mellon Omnibus US Pension | 2,938,041 | 1.16 |
| State Street Bank and Trust Company 505225 | 2,785,821 | 1.10 |

Note: Shareholding ratio was calculated excluding treasury stock (14,504,662 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 General Meeting of Shareholders | June 30, 2010 |
| Number of individuals with rights Company directors | 4 |
| Number of share subscription rights (Note 1) | 1,720 |
| Class of shares for share subscription rights | Common stock |
| Number of shares for share subscription rights | 172,000 |
| Payment on exercise of share subscription rights | There is no need of delivering payment to exchange with the share subscription rights. |
| Capital contribution upon exercise of share subscription rights (per share) | ¥1,312 |
| Period for exercise of share subscription rights | August 1, 2012 – July 31, 2014 |
| Terms and conditions for exercise of share subscription rights | (Note 2) |
| Matters concerning the transfer of share subscription rights | When transferring share subscription rights, approval must be obtained from the Board of Directors |

Notes: 1. Number of shares of share subscription rights is 100 per the right.

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

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. However, the following cases are treated as exceptions.

- a. Where the loss of such position is due to expiration of the term of office or amendment of law or Articles of Incorporation of the Company or any of its subsidiaries;
- b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction;
- c. Where, immediately after the loss of such position due to the reasons held by the Company, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company, any of its Group companies, any of its business partners or any other company sanctioned by the Company.

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

| | | | |
|---|---|--|-----------|
| Resolutions of the Ordinary General Meeting of Shareholders | | June 30, 2010 | |
| Number of share subscription rights (Note 1) | | 34,178 | |
| Class of shares for share subscription rights | | Common stock | |
| Number of shares for share subscription rights | | 3,417,800 | |
| Payment on exercise of share subscription rights | | There is no need of delivering payment to exchange with the share subscription rights. | |
| Capital contribution upon exercise of share subscription rights (per share) | | ¥1,312 | |
| Period for exercise of share subscription rights | | August 1, 2012 – July 31, 2014 | |
| Terms and conditions for exercise of share subscription rights | | (Note 2) | |
| Issuance to employees, etc. | Company employees | Number of share subscription rights | 575 |
| | | Number of shares for share subscription rights | 57,500 |
| | | Number of recipient | 14 |
| | Subsidiary Directors, Corporate Auditors or employees | Number of share subscription rights | 33,603 |
| | | Number of shares for share subscription rights | 3,360,300 |
| | | Number of recipient | 1,861 |

Notes: 1. Number of shares of share subscription rights is 100 per the right.

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

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. However, the following cases are treated as exceptions.

- a. Where the loss of such position is due to expiration of the term of office or amendment of law or Articles of Incorporation of the Company or any of its subsidiaries;
- b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction;
- c. Where, immediately after the loss of such position due to the reasons held by the Company, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company, any of its Group companies, any of its business partners or any other company sanctioned by the Company.

| | | | |
|---|---|--|---------|
| Resolutions of the Ordinary General Meeting of Shareholders | | December 24, 2010 | |
| Number of share subscription rights (Note 1) | | 4,640 | |
| Class of shares for share subscription rights | | Common stock | |
| Number of shares for share subscription rights | | 464,000 | |
| Payment on exercise of share subscription rights | | There is no need of delivering payment to exchange with the share subscription rights. | |
| Capital contribution upon exercise of share subscription rights (per share) | | ¥1,753 | |
| Period for exercise of share subscription rights | | February 2, 2013 – February 1, 2015 | |
| Terms and conditions for exercise of share subscription rights | | (Note 2) | |
| Issuance to employees, etc. | Subsidiary Directors, Corporate Auditors or employees | Number of share subscription rights | 4,640 |
| | | Number of shares for share subscription rights | 464,000 |
| | | Number of recipient | 169 |

Notes: 1. Number of shares of share subscription rights is 100 per the right.

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

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. However, the following cases are treated as exceptions.

- a. Where the loss of such position is due to expiration of the term of office or amendment of law or Articles of Incorporation of the Company or any of its subsidiaries;
- b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction;
- c. Where, immediately after the loss of such position due to the reasons held by the Company, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company, any of its Group companies, any of its business partners or any other company sanctioned by the Company.

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 Chairman and CEO, SEGA CORPORATION |
| Executive Vice President and Representative Director Executive for Group Communications Office, Corporate Strategy and External Affairs, Administrations Division, Group CSR Promotion Office | Keishi Nakayama | President and COO, Sammy Corporation |
| 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. The Company has submitted an Independent Directors/Corporate Auditors Notification Form to register Standing Corporate Auditor Tomio Kazashi as Independent Director at Tokyo Stock Exchange, Inc.

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 five executive officers: Hideo Yoshizawa, Division Manager of the Administrative Division; Koichi Fukazawa, Takatoshi Akiba and Kenichirou Hori, 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 | 6 | ¥571 million |
| Corporate Auditor | 2 | ¥24 million |
| Total | 8 | ¥596 million |

Notes: 1. Remuneration, etc., includes bonuses to directors/corporate auditors in the amount of ¥153 million (¥150 million for directors, ¥3 million for corporate auditors) and stock options to directors in the amount of ¥18 million (¥18 million for directors).

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.

3. Main Activities of Outside Directors and Corporate Auditors

| Title | Name | Major Activities |
|---------------------------|-----------------|---|
| Outside Director | Yuji Iwanaga | He attended 13 Board of Directors meetings out of the 13 meetings held during the year (12 out of 12 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 13 Board of Directors meetings out of the 13 meetings held during the year (12 out of 12 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 13 Board of Directors meetings out of the 13 meetings held during the year (12 out of 12 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. He also attended 14 Corporate Auditors meetings out of the 14 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 13 Board of Directors meetings out of the 13 meetings held during the year (12 out of 12 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. He also attended 14 Corporate Auditors meetings out of the 14 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 12 Board of Directors meetings out of the 13 meetings held during the year (11 out of 12 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. He also attended 11 Corporate Auditors meetings out of the 14 meetings held during the year exchanging the opinions on auditing results and deliberating the significant issues related to audits. |

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 | ¥75 million | ¥19 million |

- Notes: 1. The remuneration, etc. includes director's bonuses in the amount of ¥3 million (¥3 million for corporate auditor), that is planned to be paid from the Company.
2. The remuneration, etc. includes director's bonuses in the amount of ¥5 million (¥5 million for corporate auditor), that is planned to be paid from subsidiary.

V Independent Auditors

1. Name

KPMG AZSA LLC

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 LLC, 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 | ¥112 million |
| Total of cash and other profits that should be paid to independent auditors by the Company and its subsidiaries | ¥322 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. In the event of a situation likely to have a severe impact on the Group, crisis management teams of the Company and the Group companies shall cooperate to discuss about countermeasures for prompt and effective actions.
- (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 department in charge of internal audit 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, 2011)

(Unit: millions of yen)

| Item | Amount | Item | Amount |
|--|----------------|---|-----------------|
| Assets | | Liabilities | |
| Current assets | 315,580 | Current liabilities | 109,028 |
| Cash and deposits | 149,006 | Notes and accounts payable-trade | 37,513 |
| Notes and accounts receivable-trade | 56,468 | Short-term loans payable | 2,857 |
| Short-term investment securities | 42,412 | Current portion of bonds | 11,892 |
| Merchandise and finished goods | 5,889 | Income taxes payable | 26,310 |
| Work in process | 14,916 | Accrued expenses | 17,546 |
| Raw materials and supplies | 15,567 | Provision for bonuses | 2,373 |
| Income taxes receivable | 5,861 | Provision for directors' bonuses | 956 |
| Deferred tax assets | 13,795 | Provision for point card certificates | 143 |
| Other | 12,136 | Asset retirement obligations | 185 |
| Allowance for doubtful accounts | (472) | Deferred tax liabilities | 0 |
| Noncurrent assets | 143,044 | Other | 9,247 |
| Property, plant and equipment | 57,140 | Noncurrent liabilities | 64,135 |
| Buildings and structures, net | 20,120 | Bonds payable | 29,608 |
| Amusement machines and facilities, net | 4,550 | Long-term loans payable | 5,316 |
| Land | 24,643 | Provision for retirement benefits | 12,656 |
| Construction in progress | 1,155 | Provision for directors' retirement benefits | 1,203 |
| Other, net | 6,670 | Deferred tax liabilities | 2,782 |
| Intangible assets | 22,754 | Deferred tax liabilities for land revaluation | 958 |
| Goodwill | 15,559 | Asset retirement obligations | 1,848 |
| Other | 7,195 | Other | 9,760 |
| Investments and other assets | 63,149 | Total liabilities | 173,163 |
| Investment securities | 44,193 | Net assets | |
| Long-term loans receivable | 306 | Shareholders' equity | 289,077 |
| Lease and guarantee deposits | 12,396 | Capital stock | 29,953 |
| Deferred tax assets | 1,988 | Capital surplus | 119,784 |
| Other | 5,646 | Retained earnings | 164,669 |
| Allowance for doubtful accounts | (1,382) | Treasury stock | (25,329) |
| | | Accumulated other comprehensive income | (13,883) |
| | | Valuation difference on available-for-sale securities | 11,350 |
| | | Deferred gains or losses on hedges | (0) |
| | | Revaluation reserve for land | (5,969) |
| | | Foreign currency translation adjustment | (19,264) |
| | | Subscription rights to shares | 406 |
| | | Minority interests | 9,861 |
| | | Total net assets | 285,461 |
| Total assets | 458,624 | Total liabilities and net assets | 458,624 |

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

Consolidated Statement of Income

(From April 1, 2010 To March 31, 2011)

(Unit: millions of yen)

| Item | Amount | |
|---|--------|----------------|
| Net sales | | 396,732 |
| Cost of sales | | 230,677 |
| Gross profit | | 166,055 |
| Selling, general and administrative expenses | | 97,304 |
| Operating income | | 68,750 |
| Non-operating income | | |
| Interest income | 463 | |
| Dividends income | 311 | |
| Equity in earnings of affiliates | 35 | |
| Gain on investments in partnership | 391 | |
| Income from operation of lease asset | 92 | |
| Other | 516 | 1,812 |
| Non-operating expenses | | |
| Interest expenses | 637 | |
| Sales discounts | 198 | |
| Commission fee | 399 | |
| Provision of allowance for doubtful accounts | 32 | |
| Loss on investments in partnership | 97 | |
| Foreign exchange losses | 206 | |
| Penalty payment for cancellation of game center lease | 18 | |
| Loss on valuation of derivatives | 263 | |
| Other | 585 | 2,439 |
| Ordinary income | | 68,123 |

(Unit: millions of yen)

| Item | Amount | |
|--|----------|---------------|
| Extraordinary income | | |
| Gain on sales of noncurrent assets | 34 | |
| Reversal of allowance for doubtful accounts | 315 | |
| Gain on sales of investment securities | 52 | |
| Gain on change in equity | 125 | |
| Reversal of recovery costs of video game arcades | 544 | |
| Gain on outlawed debt | 167 | |
| Gain on reversal of subscription rights to shares | 1,174 | |
| Distribution of patent royalty income for prior periods | 1,139 | |
| Other | 151 | 3,705 |
| Extraordinary loss | | |
| Loss on retirement of noncurrent assets | 296 | |
| Loss on sales of noncurrent assets | 40 | |
| Impairment loss | 1,502 | |
| Loss on valuation of investment securities | 1,308 | |
| Loss on liquidation of subsidiaries | 1,468 | |
| Amortization of goodwill | 204 | |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | 1,177 | |
| Cost of product compensation related | 5,225 | |
| Loss on disaster | 1,254 | |
| Other | 1,883 | 14,361 |
| Income before income taxes and minority interests | | 57,467 |
| Income taxes-current | 27,460 | |
| Income taxes-deferred | (14,140) | 13,320 |
| Income before minority interests | | 44,147 |
| Minority interests in income | | 2,636 |
| Net income | | 41,510 |

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, 2010 To March 31, 2011)

(Unit: millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balances as of March 31, 2010 | 29,953 | 171,080 | 132,128 | (73,694) | 259,468 |
| Changes of items during the period | | | | | |
| Dividends from surplus | | | (8,816) | | (8,816) |
| Net income | | | 41,510 | | 41,510 |
| Increase by share exchanges | | (11,294) | | 32,890 | 21,595 |
| Retirement of treasury stock | | (40,000) | | 40,000 | — |
| Purchase of treasury stock | | | | (24,530) | (24,530) |
| Disposal of treasury stock | | (1) | | 3 | 2 |
| Change of scope of consolidation | | | (155) | | (155) |
| Reversal of revaluation reserve for land | | | 2 | | 2 |
| Total changes of items during the period | — | (51,296) | 32,541 | 48,364 | 29,609 |
| Balances as of March 31, 2011 | 29,953 | 119,784 | 164,669 | (25,329) | 289,077 |

| | Accumulated other comprehensive income | | | | |
|--|---|------------------------------------|------------------------------|---|--|
| | Valuation difference on available - for sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign currency translation adjustment | Total accumulated other comprehensive income |
| Balances as of March 31, 2010 | 346 | 24 | (5,966) | (17,626) | (23,222) |
| Changes of items during the period | | | | | |
| Dividends from surplus | | | | | |
| Net income | | | | | |
| Increase by share exchanges | | | | | |
| Retirement of treasury stock | | | | | |
| Purchase of treasury stock | | | | | |
| Disposal of treasury stock | | | | | |
| Change of scope of consolidation | | | | | |
| Reversal of revaluation reserve for land | | | (2) | | (2) |
| Net changes of items other than shareholders' equity | 11,003 | (24) | | (1,637) | 9,341 |
| Total changes of items during the period | 11,003 | (24) | (2) | (1,637) | 9,338 |
| Balances as of March 31, 2011 | 11,350 | (0) | (5,969) | (19,264) | (13,883) |

(Unit: millions of yen)

| | Subscription rights to shares | Minority interests | Total net assets |
|---|----------------------------------|-----------------------|---------------------|
| Balances as of March 31, 2010 | 1,188 | 19,335 | 256,770 |
| Changes of items during the period | | | |
| Dividends from surplus | | | (8,816) |
| Net income | | | 41,510 |
| Increase by share exchanges | | | 21,595 |
| Retirement of treasury stock | | | — |
| Purchase of treasury stock | | | (24,530) |
| Disposal of treasury stock | | | 2 |
| Change of scope of consolidation | | | (155) |
| Reversal of revaluation reserve for land | | | — |
| Net changes of items other than shareholders' equity | (782) | (9,474) | (915) |
| Total changes of items during the period | (782) | (9,474) | 28,690 |
| Balances as of March 31, 2011 | 406 | 9,861 | 285,461 |

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

Notes to Consolidated Financial Statements

I Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

(1) Scope of Consolidation

Number of consolidated subsidiaries 68

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; TOCSIS Inc. and three other companies, because of the Company’s acquisition of the shareholdings; Sammy Partners Co.,Ltd., because of the increase of importance; Breaktime, Inc., and one other company, which were newly established with the Company’s investment.

Effective as of the fiscal year under review, the following have been excluded from the scope of consolidation; MARZA ANIMATION PLANET INC., because of its merger with SEGA SAMMY INVESTMENT & PARTNERS INC. (accordingly changing its trade name to MARZA ANIMATION PLANET INC.); GAMEWORKS LAS VEGAS, L.L.C., because of its merger with another consolidated subsidiary; Kenjinton Partners, because of its liquidation; PlatinumGames Inc., because of reduced control thereon.

Number of non-consolidated subsidiaries 13

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 9

Main equity-method affiliates: INTERLIFE HOLDINGS CO., LTD., CRI Middleware Co., Ltd., etc.

From the fiscal year under review, Simuline Inc. has been excluded from the scope of the equity method affiliates due to its capital increase.

As a result of the establishment of INTERLIFE HOLDINGS CO., LTD. via share transfer conducted by Nissho Inter Life Co., Ltd., the Company has come to own the shares in INTERLIFE HOLDINGS CO., LTD. in lieu of those in Nissho Inter Life Co., Ltd.

Number of non-consolidated subsidiaries and affiliates not accounted for by the equity method 18

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

(Changes in significant accounting policies used in preparation of consolidated financial statements)

Effective from the fiscal year under review, the “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No.16, March 10, 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ PITF No.24, March 10, 2008) have been adopted. This change has no impact on the consolidated statement of income.

(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.

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

Moreover, as for consolidated subsidiaries SEGA TOYS CO., LTD. and two other companies, their fiscal year-ends had been changed to September 30, however, they were changed again to March 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):

Amortization is computed using the straight-line method. The straight-line method is adopted over the useful life of within five 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.

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.

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 Amortization method and period 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 Accounting method for consumption taxes

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

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

① Adoption of accounting standard for asset retirement obligations

Effective from the fiscal year under review, the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) have been adopted.

Accordingly, operating income and ordinary income for the fiscal year under review decreased by ¥96 million, while income before income taxes and minority interests decreased by ¥1,302 million.

In addition, the amount of asset retirement obligation change is ¥2,146 million following the adoption of the subject accounting standard and guidance.

② Adoption of accounting standard for business combinations

Effective from the fiscal year under review, the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, December 26, 2008), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, December 26, 2008), “Partial amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No.23, December 26, 2008), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, December 26, 2008), “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, December 26, 2008), and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008) have been adopted.

(6) Changes in Presentation

(Consolidated Statement of Income)

① From the fiscal year under review, the “Ordinance of the Ministry of Justice which partially revises Ordinance for Enforcement of the Companies Act and Ordinance on Accounting of Companies, etc.” (Ordinance of the Ministry of Justice No. 7, March 27, 2009) based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008) has been adopted. As a result, an item of “income before minority interests” is included in the consolidated statement of income.

② “Gain on reversal of subscription rights to shares” that was included in “other” under extraordinary income in the previous fiscal year has now exceeded 10% of the amount of total extraordinary income, and it is therefore separately itemized from the fiscal year under review. The value of gain on reversal of subscription rights to shares included in “other” for the previous fiscal year was ¥63 million.

(7) Additional information

① Effective from the fiscal year under review, the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, June 30, 2010) has been adopted. “Accumulated other comprehensive income” and “total accumulated other comprehensive

income” for the previous fiscal year have been substituted by “valuation and translation adjustments” and “total valuation and translation adjustments”, respectively.

- ② From the next fiscal year, the Company and some of its consolidated subsidiaries are scheduled to adopt consolidated tax return system in which the Company is a consolidated parent corporation, following the successful application for such adoption in the fiscal year under review. From the fiscal year under review, the Company has been adopting accounting treatments as prerequisite to the adoption of consolidated tax return system in accordance with “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (ASBJ PITF (Practical Issues Task Force) No.5 initially issued on October 9, 2002 and lastly revised on March 18, 2011) and “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (ASBJ PITF No.7 initially issued on February 6, 2003 and revised on June 30, 2010).

II Notes to Consolidated Balance Sheet

- (1) Accumulated depreciation of property, plant and equipment ¥108,688 million

- (2) Assets pledged

| Assets pledged | | Covered for liabilities | |
|------------------------|----------------|----------------------------|----------------|
| Time deposits | ¥5 million | Accounts payable – trade | ¥2 million |
| Buildings / Structures | ¥1,202 million | Accrued expenses | ¥0 million |
| Land | ¥2,433 million | Short – term loans payable | ¥900 million |
| | | Long – term loans payable | ¥2,100 million |

- (3) Guarantee of Obligations

| Guaranteed Party | Details | Amount |
|-------------------|-----------------------------|-------------|
| Orix Premium Ltd. | Lease liabilities guarantee | ¥11 million |

- (4) Security loaned

Investment securities include ¥282 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: ¥10,125 million
 Outstanding balance of commitment line: ¥42,000 million

III 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 ¥6,547 million

- (2) R&D expenses included in general and administrative expenses and this fiscal year’s production expenses ¥29,613 million

(3) Breakdown of major extraordinary items

① Breakdown of Gain on sales of noncurrent assets

| | |
|-------------------------------------|--------------------|
| Buildings and structures | ¥1 million |
| Tools, furniture and fixtures | ¥1 million |
| Amusement machines and facilities | ¥8 million |
| Other property, plant and equipment | ¥22 million |
| Other intangible assets | ¥1 million |
| <u>Total</u> | <u>¥34 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 and structures | ¥133 million |
| Tools, furniture and fixtures | ¥91 million |
| Amusement machines and facilities | ¥1 million |
| Other property, plant and equipment | ¥42 million |
| Other intangible assets | ¥27 million |
| <u>Total</u> | <u>¥296 million</u> |

④ Breakdown of loss on sales of noncurrent assets

| | |
|-------------------------------------|--------------------|
| Buildings and structures | ¥6 million |
| Tools, furniture and fixtures | ¥4 million |
| Amusement machines and facilities | ¥0 million |
| Land | ¥29 million |
| Other property, plant and equipment | ¥0 million |
| Other intangible assets | ¥0 million |
| <u>Total</u> | <u>¥40 million</u> |

⑤ Cost of product compensation related includes the provision of substitute machines that is free of charge as temporary product compensation in the pachislot and pachinko machines business and compensation of business.

⑥ Loss on disaster is the Great East Japan Earthquake related expenses including valuation loss on assets, estimated restoration expenses of amusement centers and offices, and fixed expenses during the suspended operation period.

⑦ Breakdown of impairment loss.

(Unit: millions of yen)

| Use | Location | Type | Impairment loss |
|---------------------------|---|-------------------------------------|-----------------|
| Amusement facilities | Chiba-shi, Chiba and 16 other locations | Buildings and structures | 201 |
| | | Amusement machines and facilities | 2 |
| | | Other property, plant and equipment | 16 |
| | | Other intangible assets | 9 |
| Kids Card related | Inba-gun, Chiba | Amusement machines and facilities | 776 |
| Assets for business, etc. | Shibuya-ku, Tokyo and 8 other locations | Buildings and structures | 58 |
| | | Other property, plant and equipment | 40 |
| | | Other intangible assets | 396 |
| | | <u>Total</u> | <u>1,502</u> |

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.

IV 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 | – | 17,000,000 | 266,229,476 |

(Outline of Causes of Change)

The causes of the decrease are as follows:

Decrease due to retirement of treasury stock 17,000,000 shares

(2) Treasury Stock

(Unit: shares)

| Type of stock | End of previous fiscal year | Increase | Decrease | End of fiscal year under review |
|---------------|-----------------------------|------------|------------|---------------------------------|
| Common stock | 31,315,801 | 14,168,589 | 30,979,728 | 14,504,662 |

(Outline of Causes of Change)

The causes of the increase are as follows:

Increase due to purchase in the market by the resolution at the Board of Directors meeting 14,000,000 shares

Increase due to purchase demand pursuant to Article 797, Paragraph 1 of the Companies Act 150,144 shares

Increase due to repurchase of fractional shares 18,445 shares

The causes of the decrease are as follows:

Decrease due to retirement of treasury stock 17,000,000 shares

Decrease due to share exchange 13,977,737 shares

Decrease due to request to purchase fractional shares 1,991 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 14, 2010 | Common stock | 3,778 | 15 | March 31, 2010 | June 1, 2010 |
| Board of Directors Meeting on October 29, 2010 | Common stock | 5,038 | 20 | September 30, 2010 | December 2, 2010 |

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 16, 2011 | Common Stock | Retained Earnings | 5,034 | 20 | March 31, 2011 | June 2, 2011 |

(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.

There is no pertinent matter.

V Notes on the Financial Instruments

(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 financed based on the financial plan as needed, through bank borrowing or bond issue applying Cash Management System for the purpose of the efficient utilization of the Group funds. 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 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, 2011) 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 | 149,006 | 149,006 | — |
| (2) Notes and accounts receivable – trade | 56,468 | 56,416 | (51) |
| (3) Short-term investment securities and investment securities | | | |
| 1) Held-to-maturity debt securities | 2,018 | 2,021 | 2 |
| 2) Available-for-sale securities (*1) | 77,523 | 77,523 | — |
| 3) Stocks of affiliates | 493 | 280 | (213) |
| (4) Notes and accounts payable - trade | 37,513 | 37,513 | — |
| (5) Short-term loans payable | 2,857 | 2,857 | — |
| (6) Long-term loans payable | 5,316 | 5,333 | (17) |
| (7) Current portion of bonds | 11,892 | 11,892 | — |
| (8) Bonds payable | 29,608 | 29,356 | 252 |
| (9) Derivative transactions (*2) | | | |
| 1) Transactions outside the scope of hedge accounting | 3 | 3 | — |
| 2) Transactions subject to hedge accounting | (0) | (0) | — |

(*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

| Category | Consolidated balance sheet amount (Millions of yen) |
|---|--|
| Investment in unlisted stocks | 2,036 |
| Investment in limited partnership | 1,352 |
| Stocks of non-consolidated subsidiaries | 2,189 |
| Stocks of affiliates | 765 |
| Investment in affiliates | 224 |

Items above are not included in “(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.

VI Note Regarding Investment and Rental Property

Status and market value of investment and rental property

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

VII Note Regarding Per Share Information

Net assets per share ¥1,093.23

Net income per share ¥163.19

VIII Note Regarding Material Subsequent Events

A resolution has been reached at each of the board meetings of the Company, Sammy Corporation, a wholly owned subsidiary of the Company (“SAMMY”), and TAIYO ELEC Co., Ltd., a subsidiary of SAMMY (“TAIYO ELEC”), held on May 13, 2011 to conduct an exchange of shares involving common stock of the Company as consideration (the “Share Exchange”) in order to convert TAIYO ELEC into a wholly owned subsidiary of SAMMY, which will become the wholly owning parent of TAIYO ELEC. The Share Exchange will be conducted pursuant to an agreement to exchange shares that has been executed between SAMMY and TAIYO ELEC (the “Share Exchange Agreement”).

The Share Exchange is to be conducted after TAIYO ELEC obtains approval for the Share Exchange Agreement from its shareholders at an ordinary general meeting scheduled to be held on June 21, 2011. SAMMY has on May 13, 2011 obtained the approval for the Share Exchange Agreement from its shareholder at an extraordinary general meeting by means of a written resolution pursuant to Article 319(1) of the Companies Act of Japan.

Overview of the Share Exchange is as follows.

(1) Purposes of the Share Exchange

On December 1, 2010, the Company converted Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD. and TMS ENTERTAINMENT, LTD., which were listed subsidiaries, into wholly owned subsidiaries and consolidated the group structure, achieving an effective synergy of our management resources within the group. The Share Exchange will further reinforce the management structure of the group and promote the maximization of group earning power by converting TAIYO ELEC, the sole listed subsidiary in the SEGA SAMMY group, into a wholly owned subsidiary.

We believe that, for TAIYO ELEC to continue to expand its business through the development

of more efficient and inventive pachinko and pachislot machines, the company needs to deepen its connections with SAMMY and take full advantage of business operations that are integrated with the SEGA SAMMY group by implementing the Share Exchange.

Specifically, we think that a robust TAIYO ELEC brand can be established in the pachinko and pachislot machines market by improving TAIYO ELEC's pachinko and pachislot machine development capability through measures such as personnel exchanges involving highly skilled pachinko and pachislot developers, leveraging the substantial intellectual property of the SEGA SAMMY group and joint development involving integrated technologies, in addition to the exchange of personnel from management and sales departments that have been conducted thus far. Also, from a production perspective, manufacturing costs are expected to fall further as a result of sharing of components, joint purchasing and other measures.

- (2) Effective date of the Share Exchange
August 1, 2011 (tentative)

- (3) Method of the Share Exchange

It has been determined that common stocks of the Company will be the consideration in the Share Exchange, given that, among other things, the minority shareholders of TAIYO ELEC will continue to be offered liquidity with respect to their shares, there will be a shared opportunity to benefit from synergies resulting from the Share Exchange and pursuant to the group strategy, it is necessary to maintain a wholly owned parent/subsidiary relationship between SAMMY and the Company. Common stocks in an amount necessary for such purpose will be allotted to SAMMY through the Company's disposal of its treasury stock.

- (4) Share exchange ratio

SAMMY will furnish 0.40 shares of common stock of the Company per share of common stock of TAIYO ELEC, provided that SAMMY will not allot shares in the Share Exchange in connection with shares that SAMMY holds, consisting of 11,623,100 shares of common stock of TAIYO ELEC.

SAMMY plans to acquire common stocks of the Company by subscribing to treasury stock disposed of by the Company.

- (5) Basis for calculation of share exchange ratio

In order to achieve fairness and appropriateness in the share exchange ratios used for the Share Exchange, it was decided that SAMMY and TAIYO ELEC would each invite an independent institution to perform the calculations. SAMMY selected Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., and TAIYO ELEC selected SMBC Nikko Securities Inc. to perform such calculations.

After earnest discussions and negotiations in reference to the results of analysis of the share exchange ratio submitted by the third-party valuation companies described above, SAMMY and TAIYO ELEC reached the adopting of a resolution by the board of directors of each company setting a share exchange ratio for the Share Exchange.

- (6) Outline of the company to be the wholly owning parent

Trading name : Sammy Corporation

Capitalization : ¥18,221 million

Description of Business : Manufacture and sales of pachinko machines, pachislot machines, ball arranging machines, mahjong ball machines and related equipment

- (7) Summary of Accounting

The Share Exchange constitutes, out of transactions, etc., under common control, an additional acquisition of shares of a subsidiary by SAMMY from minority shareholders of TAIYO ELEC. It is expected that goodwill (or negative goodwill) will appear in the consolidated financial statements of SEGA SAMMY in association with the Share Exchange, but at present, no determination has been made as to the amount of goodwill (or negative goodwill) that will be generated.

Independent Auditors' Report

May 13, 2011

The Board of Directors
SEGA SAMMY HOLDINGS INC.

KPMG AZSA LLC

Satoshi Nakaizumi
Designated Limited Liability Partner
Certified Public Accountant

Michitaka Shishido
Designated Limited Liability Partner
Certified Public Accountant

Hiroyuki Nakamura
Designated Limited Liability 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, 2011 and for the year from April 1, 2010 to March 31, 2011 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 "Note Regarding Material Subsequent Events," a resolution has been reached at each of the board meetings of the Company, Sammy Corporation, and TAIYO ELEC Co., Ltd., held on May 13, 2011 to conduct an exchange of shares involving common stock of the Company as consideration in order to convert TAIYO ELEC Co., Ltd. into a wholly owned subsidiary of Sammy Corporation, which will become the wholly owing parent of TAIYO ELEC Co., Ltd.

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, 2011)

(Unit: millions of yen)

| Item | Amount | Item | Amount |
|--|----------------|---|----------------|
| Assets | | Liabilities | |
| Current assets | 15,723 | Current liabilities | 9,927 |
| Cash and deposits | 2,552 | Short-term loans payable | 9,300 |
| Accounts receivable-trade | 394 | Accounts payable-other | 21 |
| Prepaid expenses | 100 | Accrued expenses | 252 |
| Income taxes receivable | 5,678 | Deposits received | 19 |
| Deferred tax assets | 5,631 | Unearned revenue | 2 |
| Other | 1,365 | Provision for bonuses | 99 |
| Noncurrent assets | 344,652 | Provision for directors' bonuses | 153 |
| Property, plant and equipment | 3,668 | Other | 79 |
| Buildings, net | 955 | Noncurrent liabilities | 7,994 |
| Structures, net | 841 | Provision for retirement benefits | 46 |
| Machinery and equipment, net | 3 | Deferred tax liabilities | 7,670 |
| Vehicles, net | 34 | Other | 276 |
| Tools, furniture and fixtures, net | 415 | Total liabilities | 17,921 |
| Land | 1,418 | Net assets | |
| Intangible assets | 70 | Shareholders' equity | 331,145 |
| Right of trademark | 7 | Capital stock | 29,953 |
| Software | 60 | Capital surplus | 193,247 |
| Other | 2 | Legal capital surplus | 29,945 |
| Investments and other assets | 340,913 | Other capital surplus | 163,302 |
| Investment securities | 32,966 | Retained earnings | 133,748 |
| Stocks of subsidiaries and affiliates | 305,570 | Other retained earnings | 133,748 |
| Investments in other securities of subsidiaries and affiliates | 208 | Retained earnings brought forward | 133,748 |
| Long-term loans receivable from subsidiaries and affiliates | 1,393 | Treasury stock | (25,804) |
| Long-term prepaid expenses | 9 | Valuation and translation adjustments | 10,902 |
| Other | 764 | Valuation difference on available-for-sale securities | 10,902 |
| | | Subscription rights to shares | 406 |
| | | Total net assets | 342,454 |
| Total assets | 360,375 | Total liabilities and net assets | 360,375 |

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

Non-Consolidated Statement of Income

(From April 1, 2010 To March 31, 2011)

(Unit: millions of yen)

| Item | Amount | |
|--|---------|---------------|
| Operating revenue | | |
| Consulting fee income | 4,512 | |
| Dividends income | 27,900 | 32,412 |
| Operating expenses | | |
| Operating expenses | 5,370 | 5,370 |
| Operating income | | 27,042 |
| Non-operating income | | |
| Interest income | 36 | |
| Interest on securities | 12 | |
| Dividends income | 539 | |
| Income from operation of lease asset | 92 | |
| Other | 69 | 750 |
| Non-operating expenses | | |
| Interest expenses | 43 | |
| Commission fee | 81 | |
| Loss on investments in partnership | 466 | |
| Other | 56 | 648 |
| Ordinary income | | 27,145 |
| Extraordinary income | | |
| Gain on reversal of subscription rights to shares | 1,065 | 1,065 |
| Extraordinary loss | | |
| Loss on retirement of noncurrent assets | 0 | |
| Loss on valuation of investment securities | 261 | |
| Loss on revaluation of investments in affiliated partnership | 617 | |
| Loss on disaster | 2 | 881 |
| Income before income taxes | | 27,328 |
| Income taxes-current | 6 | |
| Income taxes-deferred | (6,006) | (5,999) |
| Net income | | 33,328 |

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, 2010 To March 31, 2011)

(Unit: millions of yen)

| | Shareholders' equity | | | |
|--|----------------------|-----------------------|-----------------------|-----------------------|
| | Capital stock | Capital surplus | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus |
| Balances as of March 31, 2010 | 29,953 | 29,945 | 257,207 | 287,152 |
| Changes of items during the period | | | | |
| Dividends from surplus | | | | |
| Net income | | | | |
| Increase by share exchanges | | | (30,521) | (30,521) |
| Retirement of treasury stock | | | (63,381) | (63,381) |
| Purchase of treasury stock | | | | |
| Disposal of treasury stock | | | (2) | (2) |
| Total changes of items during the period | - | - | (93,905) | (93,905) |
| Balances as of March 31, 2011 | 29,953 | 29,945 | 163,302 | 193,247 |

| | Shareholders' equity | | | |
|--|-------------------------|-------------------------|----------------|----------------------------|
| | Retained earnings | | Treasury stock | Total shareholders' equity |
| | Other retained earnings | Total retained earnings | | |
| Balances as of March 31, 2010 | 109,237 | 109,237 | (116,777) | 309,566 |
| Changes of items during the period | | | | |
| Dividends from surplus | (8,816) | (8,816) | | (8,816) |
| Net income | 33,328 | 33,328 | | 33,328 |
| Increase by share exchanges | | | 52,116 | 21,595 |
| Retirement of treasury stock | | | 63,381 | - |
| Purchase of treasury stock | | | (24,530) | (24,530) |
| Disposal of treasury stock | | | 5 | 2 |
| Total changes of items during the period | 24,511 | 24,511 | 90,973 | 21,579 |
| Balances as of March 31, 2011 | 133,748 | 133,748 | (25,804) | 331,145 |

| | 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, 2010 | (281) | (281) | 1,065 | 310,350 |
| Changes of items during the period | | | | |
| Dividends from surplus | | | | (8,816) |
| Net income | | | | 33,328 |
| Increase by share exchanges | | | | 21,595 |
| Retirement of treasury stock | | | | - |
| Purchase of treasury stock | | | | (24,530) |
| Disposal of treasury stock | | | | 2 |
| Net changes of items other than shareholders' equity | 11,184 | 11,184 | (659) | 10,524 |
| Total changes of items during the period | 11,184 | 11,184 | (659) | 32,104 |
| Balances as of March 31, 2011 | 10,902 | 10,902 | 406 | 342,454 |

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 Stocks of subsidiaries and affiliates are stated at moving-average cost.

② 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 and amortization 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

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.

(2) Intangible assets

Amortization 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 bonuses

Provisions for bonuses are provided based on the estimated amount to be paid.

(2) Provision for directors' bonuses

Provisions for directors' 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" that was included in "other" under current assets in the previous fiscal year has now exceeded 1% of the amount of total assets, and it is therefore separately itemized from the fiscal year under review. The value of "income taxes receivable" included in "other" for the previous fiscal year was ¥1,579 million.

- (2) Non-Consolidated Statement of Income
 “Expenses from operation of lease asset” that was separately itemized for the previous fiscal year, has been included in “other” under non-operating expenses for the fiscal year under review, due to its reduced significance (¥56 million for the fiscal year under review).

6. Additional Information

From the next fiscal year, the Company is scheduled to adopt consolidated tax return system in which the Company is a consolidated parent corporation, following the successful application for such adoption in the fiscal year under review. From the fiscal year under review, the Company has been adopting accounting treatments as prerequisite to the adoption of consolidated tax return system in accordance with “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (ASBJ PITF No.5 initially issued on October 9, 2002 and lastly revised on March 18, 2011) and “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (ASBJ PITF No.7 initially issued on February 6, 2003 and revised on June 30, 2010).

II Notes to Balance Sheet

- (1) Accumulated depreciation of property, plant and equipment ¥644 million
- (2) Receivables from and payables to affiliates
- | | |
|--|----------------|
| Short-term receivables from affiliates | ¥1,708 million |
| Short-term payables to affiliates | ¥8,349 million |
| Long-term receivables from affiliates | ¥1,393 million |

III Notes to Statement of Income

| | |
|--------------------------------------|-----------------|
| Transactions with affiliates | |
| Consulting fee income | ¥4,512 million |
| Dividends income (Operating revenue) | ¥27,900 million |
| SG&A expenses | ¥35 million |
| Non-operating transactions | ¥851 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 | 14,504,662 shares |

V Notes Regarding Tax Effect Accounting

- (1) Main reasons for recording deferred tax assets and deferred tax liabilities

| | |
|--|-------------------------|
| | (Unit: millions of yen) |
| Deferred tax assets | |
| Loss carried forward | 8,161 |
| Exclusion from the deductible expenses of provision for bonuses | 40 |
| Exclusion from the deductible expenses of loss on valuation of investment securities | 3,960 |
| Disallowed portion of loss on investments in partnership | 1,562 |
| Valuation difference on available-for-sale securities | 335 |
| Other | 161 |
| Subtotal deferred tax assets | 14,222 |
| Valuation allowance | (8,215) |
| Total deferred tax assets | 6,006 |
| Deferred tax liabilities | |
| Valuation difference on available-for-sale securities | (8,045) |
| Total deferred tax liabilities | (8,045) |
| Deferred tax liabilities, net | (2,039) |

Note: As the Company is scheduled to adopt consolidated tax return system from the next fiscal year, realizability of deferred tax assets in the fiscal year under review has been evaluated in accordance with “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (ASBJ PITF No.5 initially issued on October 9, 2002 and lastly revised on March 18, 2011) and “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (ASBJ PITF No.7 initially issued on February 6, 2003 and lastly revised on June 30, 2010).

- (2) Breakdown by main item that caused significant difference between normal effective statutory tax rate and the actual rate of corporate tax burden after tax effect accounting, if there is any such difference.

| | |
|--|----------------|
| Normal effective statutory tax rate | 40.7% |
| (Adjusted) | |
| Permanently non-deductible expenses including entertainment expenses | 1.1% |
| Changes in valuation allowance | 3.1% |
| Amount excluded from gross revenue such as dividend income | (44.3%) |
| Effect from the adoption of consolidated taxation system | (22.0%) |
| Other | (0.6%) |
| Actual rate of corporate tax after tax effect accounting | <u>(22.0%)</u> |

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) | 2,932 | Accounts receivable-trade | 256 |
| | | | | Borrowing of funds | 9,000 | Short-term loans payable | 8,300 |
| | | | | Repayment of loans | 700 | — | — |
| | | | | Interest on loans (Note 3) | 40 | — | — |
| Subsidiary | SEGA CORPORATION | 100.0 | Management guidance to the company, interlocking directorate | Consulting fee income (Note 2) | 1,579 | Accounts receivable-trade | 138 |

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. 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) | 5.68 | Insurance representative | Payment of insurance premium (Note 3) | 6 | Prepaid expenses | 3 |
| | | | | Receipt and remittance of insurance monies | 2 | — | — |
| | | | Subcontractor | Payment of subcontracting fees (Note 3) | 11 | — | — |
| Directors and their relatives | Hajime Satomi | 17.48 | 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 | ¥1,358.82 |
| Net income per share | ¥131.02 |

VIII Notes Regarding Material Subsequent Events

A resolution has been reached at the board meeting of the Company held on May 13, 2011 to conduct a disposal of treasury stock by third-party allotment to a subsidiary.

1. Reason for disposal of treasury stock

The common stocks of the Company will be allotted to Sammy Corporation in the Share Exchange where the common stocks of the Company will be the consideration, and Sammy Corporation, a wholly owned subsidiary of the Company, will become the wholly owning parent while TAIYO ELEC Co., Ltd., a subsidiary of Sammy Corporation, will become the wholly owned subsidiary. For details thereof, please refer to “Note Regarding Material Subsequent Events” in the consolidated financial statements.

2. Class and number of shares to be disposed: Common stock 4,423,660 share

3. Amount of disposal: ¥1,583 per share (total: ¥7,002 million)

4. Method of disposal: Allotment to Sammy Corporation (with payment)

5. Due date of payment: May 30, 2011 (tentative)

Independent Auditors' Report

May 13, 2011

The Board of Directors
SEGA SAMMY HOLDINGS INC.

KPMG AZSA LLC

Satoshi Nakaizumi
Designated Limited Liability Partner
Certified Public Accountant

Michitaka Shishido
Designated Limited Liability Partner
Certified Public Accountant

Hiroyuki Nakamura
Designated Limited Liability 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, 2011 and for the 7th business year from April 1, 2010 to March 31, 2011 in accordance with Article 436(2)(i) 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.

Supplemental Information

As described in "Note Regarding Material Subsequent Events," a resolution has been reached at the board meeting of the Company held on May 13, 2011 to conduct a disposal of treasury stock by third-party allotment to a subsidiary.

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 7th fiscal year from April 1, 2010 through March 31, 2011 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 received the periodical reports from Directors, employees, and other relevant personnel, sought explanations as necessary, and expressed our opinions on the status of development and operation of 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 LLC 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.

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- 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.
 - (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 LLC 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 LLC are appropriate.
3. Subsequent events
- As stated in “Business Report,” the Company, Sammy Corporation which is a wholly owned subsidiary of the Company and TAIYO ELEC Co., Ltd. which is a subsidiary of Sammy Corporation resolved at the Board of Directors Meetings of each company held on May 13, 2011 to conduct an exchange of shares with the common stock of the Company in order to convert TAIYO ELEC Co., Ltd. into a wholly owned subsidiary of Sammy Corporation, which will become the wholly owning parent company of such company.

May 16, 2011
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 Documents for General Meeting of Shareholders

Proposals and reference information

Proposal 1: To amend certain parts of the Articles of Incorporation

1. Reasons for the amendments

In accordance with the conversion of Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD. into wholly owned subsidiaries of the Company (collectively, the “Share Exchange Wholly Owned Subsidiaries”) in December 2010, the business purposes stipulated in the Articles of Incorporation of the Share Exchange Wholly Owned Subsidiaries shall be added to the business purposes of companies, in which the Company holds shares, stipulated in Article 2 of the Articles of Incorporation of the Company.

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 (Omitted)</p> <p>Article 2 (Purpose) The purpose of the Company shall be: to manage and control the business activities of the corporations that conduct the following businesses and businesses equivalent thereto and to engage in operations incidental thereto by owning shares in such corporations:</p> <p>(1) to (22) (Omitted) (New)</p> <p>(New)</p> <p><u>(23) to (34)</u> (Omitted)</p> <p><u>(35)</u> Manufacture, marketing, importing and exporting of jet skis, motor boats, and scuba diving equipment, fabric products for clothing, fur clothing, dry goods for clothing, dress accessories, accessories, leather goods, shoes, suitcases, bags, indoor ornament, furniture, arts and crafts, watches, glasses, acoustic instruments, home appliances, cosmetics, medical consumables, and medical equipment;</p> | <p style="text-align: center;">CHAPTER I GENERAL PROVISIONS</p> <p>Article 1 (Not amended)</p> <p>Article 2 (Purpose) (Not amended)</p> <p>(1) to (22) (Not amended)</p> <p><u>(23) School management concerning the requests from scenario writers, voice actors, film-making engineers and others;</u></p> <p><u>(24) Planning and management of early capability development targeting preschool children;</u></p> <p><u>(25) to (36)</u> (Not amended)</p> <p><u>(37) Planning, development,</u> manufacture, marketing, importing and exporting of jet skis, motor boats, and scuba diving equipment, fabric products for clothing, fur clothing, dry goods for clothing, dress accessories, accessories, leather goods, shoes, suitcases, bags, indoor ornament, furniture, arts and crafts, watches, glasses, acoustic instruments, home appliances, cosmetics, medical consumables, and medical equipment;</p> |

| Present Articles of Incorporation | Proposed Amendment |
|--|---|
| <p>(36) Marketing, importing and exporting of gems, precious metals, antiques, cameras, stationery, books, magazines, musical instruments, sports gear, DIY tools, gardening tools, fertilizers, feed, soil conditioners, automobiles, automobile parts, automobile goods, bicycles, food, alcoholic beverages, soft drinks, tobaccos, daily necessities, system equipment for emergency notification for the prevention of crimes, fires and disaster damages, disposal units of industrial wastes (kitchen garbage), photovoltaic generators, food processing machines and equipment; and</p> <p>2. (Omitted)</p> <p>Article 3 to Article 54 (Omitted)</p> | <p>(38) Planning, development, manufacture, marketing, importing and exporting of gems, precious metals, antiques, cameras, stationery, books, magazines, musical instruments, sports gear, DIY tools, gardening tools, fertilizers, feed, soil conditioners, automobiles, automobile parts, automobile goods, bicycles, food, alcoholic beverages, soft drinks, tobaccos, daily necessities, system equipment for emergency notification for the prevention of crimes, fires and disaster damages, disposal units of industrial wastes (kitchen garbage), photovoltaic generators, food processing machines and equipment; and</p> <p>2. (Not amended)</p> <p>Article 3 to Article 54 (Not amended)</p> |

Proposal 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 which are Outside Directors.

The nominees for Directors are as described below:

| Nominee No. | Name (Date of Birth) | Brief Career Profile, Important Concurrent Duties outside the Company, Title and Area of Responsibilities at the Company | | Number of the Company's Shares Owned | |
|-------------|--|---|------|---|----------------------|
| 1 | Hajime Satomi (January 16, 1942) | Mar | 1980 | President and Representative Director of Sammy Industry Co., Ltd. (now Sammy Corporation) | 43,569,338 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) | |
| | | Jun | 2004 | Chairman, Representative Director and Chief Executive Officer of Sammy Corporation (current position) | |
| | | Jun | 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) | |
| | | Jun | 2005 | Chairman and Director of SEGA TOYS, CO., LTD. (current position) | |
| | | Jun | 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) | |
| | | Jun | 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 (July 23, 1942) | Sep | 1989 | Joined Sammy Industry Co., Ltd. (now Sammy Corporation) as Division Manager of the General Affairs Division | 400,100 shares |
| | | Jun | 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. | |
| | | Jun | 2005 | Executive Vice President and Director of the Company | |
| | | Jul | 2006 | Chairman and Director of SEGA SAMMY GOLF ENTERTAINMENT INC. (current position) | |
| | | Jun | 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) | |
| Mar | 2011 | Director of Sammy NetWorks Co., Ltd. (current position) | | | |

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| Nominee No. | Name (Date of Birth) | Brief Career Profile, Important Concurrent Duties outside the Company, Title and Area of Responsibilities at the Company | Number of the Company's Shares Owned |
|-------------|------------------------------------|--|--------------------------------------|
| 3 | Okitane Usui (October 31, 1958) | <p>Oct 1993 Joined Sega Enterprises, Ltd. (now SEGA CORPORATION)</p> <p>Jun 1997 Director, Deputy General Manager of Consumer Business Division of the above</p> <p>Jun 1998 Executive Officer, General Manager of Consumer Business Planning Department, Consumer Business Group Division of the above</p> <p>May 1999 Retired from the above</p> <p>Jun 2007 Joined SEGA CORPORATION, Corporate Advisor</p> <p>Jun 2007 Senior Managing Director, General Manager of Amusement Business Group Division of the above</p> <p>Feb 2008 Director, General Manager of Amusement Business Group Division of the above</p> <p>May 2008 President, Representative Director and Chief Operating Officer of the above (current position)</p> <p>Jun 2008 CEO of SEGA HOLDINGS EUROPE LTD. (current position)</p> <p>Jun 2008 Chairman of SEGA HOLDINGS USA, INC. (current position)</p> <p>Jun 2008 Director of the Company (current position)</p> | 2,000 shares |
| 4 | Hisao Oguchi (March 5, 1960) | <p>Apr 1984 Joined Sega Enterprises, Ltd. (now SEGA CORPORATION)</p> <p>Jun 2000 Corporate Officer of the above</p> <p>Jun 2002 Senior Corporate Officer of the above</p> <p>Jun 2003 President and Representative Director of the above</p> <p>Jun 2004 President, COO and Representative Director of the above</p> <p>Oct 2004 Vice Chairman and Director of the Company</p> <p>Aug 2005 CEO of SEGA HOLDINGS EUROPE LTD.</p> <p>May 2006 Chairman of SEGA HOLDINGS U.S.A., Inc.</p> <p>Jun 2007 Executive Vice President and Representative Director of SEGA CORPORATION</p> <p>Feb 2008 Representative Director of the above</p> <p>May 2008 Director of the above</p> <p>May 2008 Director of Sammy Corporation</p> <p>Jun 2008 CCO and Director of SEGA CORPORATION</p> <p>Jun 2008 CCO and Director of the Company (current position)</p> <p>Apr 2009 Senior Managing Director of Sammy Corporation (current position)</p> <p>Jun 2009 Director of SEGASAMMY VISUAL ENTERTAINMENT INC. (now MARZA ANIMATION PLANET INC.) (current position)</p> <p>Apr 2011 Senior Managing Director, Representative Director of Sammy Corporation (current position)</p> | 22,400 shares |
| 5 | Yuji Iwanaga (April 3, 1941) | <p>Apr 1981 Registered with The Japan Federation of Bar Associations (current position)</p> <p>Apr 1981 Joined Yanagita Sakuragi Law Office</p> <p>Sep 1984 Partner of Lillick McHose and Charles Law Office (Now Pillsbury Winthrop Shaw Pittman LLP) (current position)</p> <p>Dec 1984 Registered with the State Bar of California</p> <p>Apr 2003 Outside Director of Manufacturers Bank (current position)</p> <p>Jun 2005 Outside Director of JMS North America Corporation (current position)</p> <p>Jun 2006 Outside Director of TAIYO YUDEN Co., Ltd. (current position)</p> <p>Jun 2007 Outside Director of the Company (current position)</p> | 0 shares |

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| Nominee No. | Name (Date of Birth) | Brief Career Profile, Important Concurrent Duties outside the Company, Title and Area of Responsibilities at the Company | Number of the Company's Shares Owned |
|-------------|---|---|--|
| 6 | Takeshi Natsumo (March 17, 1965) | Apr 1988 | Joined Tokyo Gas Co., Ltd. |
| | | Sep 1997 | Joined NTT Mobile Communications Network, Inc. (now NTT DoCoMo, Inc.) |
| | | Jun 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) |
| | | Jun 2008 | Outside Director of the Company (current position) |
| | | Jun 2008 | Director of PIA Corporation (current position) |
| | | Jun 2008 | Outside Director of transcosmos inc. (current position) |
| | | Jun 2008 | Director of Liveware Inc. (current position) |
| | | Jun 2008 | Director of NTT Resonant Inc. (current position) |
| | | Jun 2008 | Director of SBI Holdings, Inc. (current position) |
| | | Dec 2008 | Director of DWANGO Co., Ltd. (current position) |
| | | Jun 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) |
| | | Dec 2010 | Director of U-NEXT (current position) |
| Apr 2011 | Outside Director of CUUSO SYSTEM Co., Ltd. (current position) | | |
| | | | 2,000 shares |

- Notes: 1. Business arrangements including a lease agreement exist between Hajime Satomi and the Company.
2. There are no special interests between the Company and the other Director-nominees.
3. Yuji Iwanaga and Takeshi Natsumo 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. Natsumo 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. Natsumo shall have served as Outside Directors of the Company for four years and three 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. Natsumo was Director of the company, Mr. Natsumo was not involved in the incident. After the incident occurred, Mr. Natsumo proactively followed up by issuing a strong caution in reference to risk management, called for rigorous compliance with applicable laws and regulations, and revised internal rules and regulations, in order to prevent any further occurrence of similar incidents. In this manner, Mr. Natsumo 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. Natsumo was Director of the company, Mr. Natsumo was not involved in the incident. After the incident occurred, Mr. Natsumo 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.

Venue of the 7th Ordinary General Meeting of Shareholders

- 1. Date and time:** Thursday, June 23, 2011 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

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.