



**SEGA-SAMMY**  
H O L D I N G S

# **Business Report 2005**

Report and Reference for the 1st  
Ordinary General Meeting of Shareholders

# Contents

- 1 To Our Shareholders
- 4 Business Report
  - (Report and Reference for the  
1st Ordinary General Meeting of Shareholders)
- 4 Overview of Business
- 19 Overview of the Company
- 25 Significant Events following the End of the Fiscal Year
- 26 Consolidated Balance Sheet
- 27 Consolidated Statement of Income
- 28 Notes to Consolidated Financial Statements
- 32 Independent Auditors' Report (Copy)
- 33 Board of Corporate Auditors' Report (Copy)
- 34 Non-Consolidated Balance Sheet
- 35 Non-Consolidated Statement of Income
- 36 Notes to Financial Statements
- 37 Proposal for Appropriation of  
Unappropriated Retained Earnings
- 38 Independent Auditors' Report (Copy)
- 39 Board of Corporate Auditors' Report (Copy)  
(Unaudited)
- 40 Consolidated Financial Statements (Sammy Corporation)
- 42 Consolidated Financial Statements (SEGA CORPORATION)
- 44 Medium-Term Business Plan
- 45 IR Information

# To Our Shareholders

Aiming to stake out an unshakeable position as the world-beating, comprehensive entertainment company, Sammy Corporation and SEGA CORPORATION joined forces to create SEGA SAMMY HOLDINGS INC. in October 2004. The following is a report on the business results of the Company in its maiden fiscal year, which ended on March 31, 2005.



Hajime Satomi  
Chairman and CEO

## The SEGA SAMMY Group Vision

Establish a presence in all operational fields and become the

**World's**  
**No.1**

Comprehensive Entertainment Company.



Before reviewing the year's business performance, I would like to recount and apologize for incidents that occurred in the SEGA SAMMY Group.

In February 2005, some media agencies reported on allegations of Income tax law violations by a former president of the Company's subsidiary Sammy Corporation. The SEGA SAMMY Group regards the inadequacy of the internal controls that it has developed as a grave matter. Accordingly, the Group is committed to strengthening corporate governance to prevent the recurrence of such an incident.

In addition, on April 18, 2005, at the TOKYO JOYPOLIS facility (Daiba, Minato-ku, Tokyo), which is operated by subsidiary SEGA CORPORATION, a customer's precious life was lost as a result of an accidental fall at the *Viva! Skydiving* attraction. The SEGA SAMMY Group regards the occurrence of such an accident in one of its facilities as an extremely serious problem and extends profound and unreserved apologies to the bereaved family.

To ensure that such an accident never happens again, the Group will concertedly implement preventative measures and establish improved safety measures.

We apologize sincerely to our shareholders for the concern that these incidents have caused. SEGA SAMMY HOLDINGS INC. will take Group-wide measures to bolster corporate governance and compliance, which it regards as its highest management priority. For further details on those issues, please see the Important Issues section on page 11 of this report.

Turning to business performance during the fiscal year under review, in the pachislot business—a Group mainstay—the unabated popularity of the “Hokuto No Ken” pachislot machine drove up unit sales to a new industry record. As a result of brisk sales of that product and other offerings, the Group further strengthened its position as the manufacturer with the largest share of the pachislot machine market. Further, as a result of strengthening the pachinko machine business, our first machine built in accordance with new regulations, “CR Hakushon Daimao 2,” was favorably received and sales of pachinko machines remained steady.

In the amusement machine sales business, such mainstays as “UFO Catcher 7” and such new offerings as “Quest of D” were positively received.



In amusement center operations, “MUSHIKING: The King of Beetles” contributed substantially to revenues, clearing the 150-million mark for post-launch cumulative card sales.

The consumer business sold 11.79 million units of eight home-use game software titles in the fiscal year under review. And, cumulative sales of “Jissen Pachislot Hisshoho! Hokuto No Ken” passed the one-million-unit milestone.

As a result of the above, in the fiscal year ended March 31, 2005, the Company reported consolidated net sales of ¥515,668 million, ordinary income of ¥104,432 million and net income of ¥50,574 million.

For our first fiscal year, we plan to return profits to our shareholders by paying year-end cash dividends per share of ¥40.00 and commemorative cash dividends per share of ¥20.00 to mark the establishment of SEGA SAMMY HOLDINGS INC.

In closing, I would like to ask our shareholders to endorse the SEGA SAMMY Group as it continues to forge ahead.

Hajime Satomi  
Chairman and CEO

# Business Report

From October 1, 2004  
To March 31, 2005

Note that the first fiscal year for consolidation reporting purposes covers the period from April 1, 2004 to March 31, 2005, whereas the first business year on an operating basis was the six-month period that ended on March 31, 2005.

## I Overview of Business

### ① Corporate Group and Operating Results

During the past fiscal year, the outlook for Japan's economy improved due to expectations for a continuation in a recovery led by private-sector demand. In particular, there was an upturn in employment statistics as corporate performance continued to improve because of a big increase in earnings and other factors.

In this environment, the pachislot and pachinko industry saw a rebound in investments by pachinko parlors as the number of large parlors continued to climb and several new pachinko machines became major hits. In July 2004, revisions were enacted to regulations pertaining to the law in Japan governing gaming machines that, among other things, tightened limitations on the gambling elements of pachinko and pachislot machines and strengthened measures to prevent improper use of machines. Although pachislot machine manufacturers have had difficulty producing models that conform to these new regulations, there are high expectations among customers that suppliers will quickly introduce innovative models that are even more entertaining. In the pachinko machine category, all manufacturers have been introducing new models that conform to the amended regulations and expanding pachinko machine lineups, a move that is putting an end to the prior trend of all companies supplying look-alike models. The collective result of all these trends is that Japan's pachislot and pachinko industry is entering a period of transition.

In the amusement machine sales industry, one notable trend in recent years has been the industry-

leading sales of popular game machines that allow players to compete over networks and that tie in with card trading. Another notable trend is the strong performance in the market for family-oriented machines, such as prize crane machines and token-based machines for children. Furthermore, there is now widespread market acceptance of pachinko and pachislot machines that are redesigned for use in amusement centers. The result is an increasingly pronounced recovery fueled by rising demand for amusement products due to the large number of new, large-scale amusement center operations being opened in Japan.

In the amusement center operations industry, recent years have witnessed the closing of smaller facilities along with the opening of many large-scale facilities. At the same time, facilities for children in shopping centers and other locations continue to perform well. The primary source of growth is games for children that use cards and allow for head-to-head play.

In the home videogame software industry, the Tokyo Game Show 2004, held in September 2004, attracted a record number of participating companies. As markets mature for established home videogame consoles, manufacturers have been making headlines by introducing a number of new portable game consoles since late in 2004. As a result, there are rising hopes that this industry, which some feared had begun to stagnate, will be reenergized.

In this environment, SEGA CORPORATION and Sammy Corporation on October 1, 2004 integrated their operations for the purpose of building an even more powerful base as a comprehensive global entertainment organization. A holding company called SEGA SAMMY

HOLDINGS INC. was established with the aim of maximizing corporate value, giving the two companies a new beginning as the SEGA SAMMY Group.

To make even more effective use of its resources, the new Group plans to reorganize the operations of Sammy Corporation, SEGA CORPORATION and other subsidiaries into the following categories: pachislot and pachinko machines; amusement machine sales; amusement center operations; consumer business; and other businesses. In conjunction with this realignment, Sammy Corporation in the past fiscal year began to specialize in pachislot and pachinko machines and SEGA CORPORATION began assembling a business structure to specialize in the amusement machine sales, amusement center operations and consumer businesses. To accomplish this, the following actions were taken.

### **Business Reorganization Actions During the Past Fiscal Year**

- (1) To capture synergies quickly from this integration, all shares of Sammy Amusement Service Co., Ltd. and APANDA Inc. held by Sammy Corporation were transferred to SEGA CORPORATION on December 1, 2004.
- (2) To strengthen the pachinko parlor design business, Sammy Corporation on January 28, 2005 purchased all shares of Sammy Design Co., Ltd. that were previously held by Shuko Electronics Co., Ltd. In addition, Sammy Corporation purchased all outstanding shares of AGORA DESIGN Co., Ltd., a company engaged in the design of pachinko parlors, etc.
- (3) All shares of Sammy USA Corporation and Sammy Europe Limited were transferred to SEGA HOLDINGS U.S.A., Inc. and SEGA Europe Ltd., respectively, on February 25, 2005.

(4) All shares of Sammy Studios, Inc., which was a subsidiary of Sammy Holding Co., Inc., were sold to the managers of Sammy Holding Co., Inc. on February 28, 2005. The purposes are to realign development resources and unify development and sales strategies in order to focus resources on growing market categories and to raise productivity in the consumer business.

On January 21, 2005, SEGA SAMMY ASSET MANAGEMENT INC. was established for the purpose of more efficiency to utilize cash flows and diversify risks associated with investments in new facilities and other development projects.

As part of actions to realign the overseas game software development framework, all shares of Visual Concepts Entertainment, Inc. along with all sports game titles and intellectual asset rights were transferred to Take-Two Interactive Software, Inc. on January 24, 2005. In addition, in the consumer business, The Creative Assembly Ltd. joined into the SEGA SAMMY Group on March 9, 2005 for the purpose to supply competitive titles and powerful brands used in Europe and the U.S. This provides an operating base with the potential for achieving dramatic growth in the product lineup and sales volume.

In the pachislot machine category of the pachislot and pachinko machine business, which is a core business of the entire Group, "Hokuto No Ken" achieved record-setting sales volume by generating a strong response from users. This accomplishment enabled the SEGA SAMMY Group to retain its leading share of the pachislot

market. In the pachinko machine category as well, the Group's first model conforming to the fresh standards, "CR Hakushon Daimao 2," was very successful, demonstrating the effectiveness of actions taken to reinforce this business to respond to changes in regulations.

In the amusement center operations business, the Group established an entirely new genre by launching a kids card game called "MUSHIKING: The King of Beetles" that combines a rental amusement device with the sale of trading cards. Along with the sale of MUSHIKING merchandise, this genre is making a consistent and substantial contribution to the Group's sales and earnings.

Due to the above items, consolidated net sales totaled ¥515,668 million and ordinary income was ¥104,432 million. Extraordinary expenses of ¥20,054 million resulting from business reorganizations and other actions associated with the integration that formed the SEGA SAMMY Group, consolidated net income was ¥50,574 million.

Note that the first fiscal year for consolidation reporting purposes covers the period from April 1, 2004 to March 31, 2005, whereas the first business year on an operating basis was the six-month period that ended on March 31, 2005.

Results by business segment were as follows.

### Pachislot and Pachinko Machines

In the pachislot machine business, “Hokuto No Ken” has become an extremely long-term hit product following its introduction in the prior fiscal year. In the past fiscal year alone, sales of this model totaled 357 thousand units, raising cumulative sales to 617 thousand units, more than any other pachislot machine in the history of the industry.

The Group also recorded strong sales of prize merchandise using Hokuto No Ken characters at pachinko parlors due to the introduction of many original products based on innovative ideas. In RODEO-brand products, key products include “Umematsu Paradise” incorporating the new Dynamite Wave game cabinet; “Kaiji,” the pachislot industry’s first 13-inch LCD model; and “Onimusha 3,” which is based on the hit software

game “Onimusha,” a series that has sold more than 6.8 million units worldwide. As a result, pachislot machine sales rose to 677 thousand units compared with 591 thousand units in the prior fiscal year.

In the pachinko machine business, the Group introduced its first model conforming to the amended regulations, “CR Hakushon Daimao 2,” a unit featuring a large, 10.4-inch LCD screen along with outstanding game play. In all, 8 new models were released during the past fiscal year, demonstrating the benefits of new product development initiatives. However, the start of sales of some models has been pushed back to the current fiscal year reflecting marketing strategies. As a result, pachinko machine sales totaled 233 thousand units compared with 248 thousand units in the prior fiscal year.

In pachinko ball and token dispensing machines and other peripheral businesses, as well as the pachinko



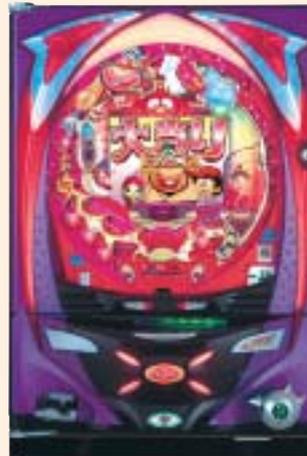
“Hokuto No Ken” pachislot machine

© Buronson • Tetsuo Hara  
© Sammy



“Onimusha 3” pachislot machine

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© Sammy © RODEO



“CR Hakushon Daimao 2” pachinko machine

© TATSUNOKO PRODUCTION  
© BANPRESTO  
© Sammy

parlor design business, activities were focused on building a base for taking businesses in new directions by bolstering sales activities through closer cooperation among Group members.

Due to the above items, net sales in this segment totaled ¥280,109 million and operating income was ¥103,930 million.

### Main Pachislot Machines and Units Sold

Variety	Brand name	Units sold (thousands)
Hokuto No Ken	(Sammy)	357
Popeye	(Sammy)	60
Onimusha 3	(Rodeo)	69
Umematsu Paradise	(Rodeo)	37
Gamera High Grade Vision	(Rodeo)	31
Kaiji	(Rodeo)	28
Others	(OEM, etc.)	95
<b>Total</b>		<b>677</b>

### Main Pachinko Machines and Units Sold

Variety	Units sold (thousands)
CR Hakushon Daimao 2 series	60
CR Popeye series	42
CR Oreno Sora series	30
CR Rinda No Dounimotomaranai series	26
Others	75
<b>Total</b>	<b>233</b>

### Amusement Machine Sales

In this segment, the primary source of sales growth was token games that are based on pachislot machines customized for use in amusement center operations. Also contributing to sales growth was strong sales of core products like “UFO Catcher 7” due to the large number of new large and midsize amusement arcades. Moreover, two newly introduced products, “Quest of D” and “Sangokushi Taisen,” posted strong sales. Overall, game machines with networking and card-trading functions have created a new genre in the amusement machine sales category. In prize sales as well, the year saw a strong performance due to the benefits of collaboration with other companies and the popularity of MUSHIKING merchandise.



“UFO Catcher 7”  
© SEGA

Due to the above items, net sales in this segment totaled ¥63,304 million and operating income was ¥7,423 million.



“Quest of D”  
© SEGA, 2004

## Amusement Center Operations

Although the Summer Olympics and unusually hot weather in Japan held back results in the fiscal year's first half, this segment posted strong results from UFO Catcher and other prize machines. However, overall performance for the fiscal year was weak because no major new products were unveiled during the second half.

"MUSHIKING: The King of Beetles" has achieved more than 150 million cumulative card sales since the sale of cards for this game started, making a significant contribution to earnings. Furthermore, the concept for this game was used to develop and begin sales of a successful game called "Oshare Majo Love and Berry." This game targets elementary school-age girls, a market segment that is difficult to target with conventional

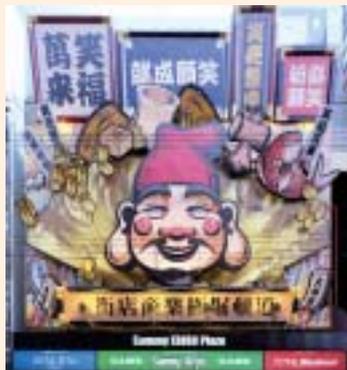
amusement center operations and machines. In July 2004, Sammy Ebisu Plaza opened to gain a foothold in the market for multifaceted entertainment facilities.

Due to the above items, net sales in this segment totaled ¥83,193 million and operating income was ¥5,472 million.

During the fiscal year, 24 locations were opened and 42 closed, resulting in 477 locations at the end of the fiscal year.



"MUSHIKING:  
The King of Beetles"  
© SEGA, 2003



Sammy Ebisu Plaza

## Consumer Business

During the past fiscal year, home videogame software sales totaled 11,790 thousand copies from 84 titles. There were 30 titles and 3,380 thousand copies in Japan, 26 titles and 4,530 thousand copies in the U.S. and 28 titles and 3,870 thousand copies in Europe.

In Japan, cumulative sales of "Jissen Pachislot Hisshoho! Hokuto No Ken" passed the one million mark. Also contributing to sales were "J. LEAGUE Pro Soccer Club wo Tsukurou! '04," "Shining Force NEO," the latest addition to the Shining Series, and other titles.

Outside Japan, the major contributors to sales were "Sonic Mega Collection Plus" in the U.S. and "Football

Manager" in Europe. Furthermore, membership increased for services that provide content for mobile phones, notably "Sammy 777 Town," a mobile phone pachislot web site, and a web site that supplies ring tones with excellent sound quality.

Due to the above items, net sales in this segment increased to ¥65,341 million. However, the segment recorded an operating loss of ¥8,809 million due to the postponement of the launch of certain home videogame titles to the preceding fiscal year, an increase in R&D expenditures and other items.



"Jissen Pachislot Hisshoho! Hokuto No Ken"  
home videogame software  
© Buronson • Tetsuo Hara  
© Sammy



"J. LEAGUE Pro Soccer Club wo Tsukurou! '04"  
home videogame software  
© SEGA, 2004  
© 1996 JFA © 2002 JFA.MAX  
© J. LEAGUE OFFICIALLY LICENSED PRODUCTS

## Others

This segment mainly represents the planning, design, management, installation and other services involving displays, commercial facilities and other facilities.

Segment sales totaled ¥23,719 million but there was an operating loss of ¥541 million.

## ② Important Issues

Through this management integration, the SEGA SAMMY Group has the resources to create a truly comprehensive and powerful entertainment organization. There is little overlap in business activities and customers at the two main subsidiaries, SEGA CORPORATION and Sammy Corporation. Furthermore, the integration provides mutually complementary strengths in business operations and enables these companies to stabilize their earnings. Other advantages include the ability to use assets more efficiently, such as by using content and development tools many times, and to procure jointly components used in pachinko and pachislot machine and amusement machine sales. Management therefore believes that substantial synergies can be captured through this integration.

The Group will leverage the globally powerful brands of SEGA CORPORATION along with the strong growth and profitability of Sammy Corporation, as well as bring together the sophisticated technology development skills of the SEGA SAMMY Group. The aim is to become the world's leading comprehensive entertainment organization by enhancing the Group's stature in all business fields through the provision of entertainment for people of all ages worldwide.

In February 2005, several news media organizations reported allegations of possible income tax law violations by the former president of consolidated subsidiary Sammy Corporation. We deeply regret the concern and misgivings that this incident has caused our shareholders and all other stakeholders. This situation

has forced us to recognize the inadequacy of the internal controls and functions we have relied upon to date. To rectify this, we are enacting the following initiatives to strengthen corporate governance and prevent the recurrence of similar incidents:

- (1) Ensure thorough compliance awareness
  - Request written pledges and promises from directors, executive officers and managers
  - Draft regulatory and ethical guidelines for directors and executive officers
  - Use in-house training programs to underscore compliance awareness at every level
- (2) Review systems and mechanisms related to purchasing transactions and rethink management procedures
  - Reinforce mutual monitoring capabilities among divisions responsible for decisions relating to the selection and management of business partners, purchasing methods and other aspects of relationships with business partners involved in purchasing transactions
- (3) Educate business partners on Group compliance standards
  - Assert impeccable business practices as the Group's compliance stance

The Group has launched projects aimed at strengthening its system of internal controls in the shortest possible timeframe and has enlisted the advice of outside experts by formally installing an Advisory Committee within its organizational structure. By using

this committee to offer input and monitor the total spectrum of management, the Group is ultimately seeking to strengthen its organization and systems.

The SEGA SAMMY Group recognizes that bolstering the corporate governance and compliance framework is a management issue of the highest priority and is encouraging Group-wide collaboration in this task as it moves boldly forward to enhance corporate governance.

On a different note, on April 18, 2005, a fatal mishap involving the *Viva! Skydiving* attraction at TOKYO JOYPOLIS, an amusement facility operated by consolidated subsidiary SEGA CORPORATION, claimed the life of a customer. We would like to take this opportunity to express our sincerest condolences for the tragic loss of life in this accident. We would also like to convey our deepest apologies for the enormous burden placed on everyone affected by this tragedy.

We would once again like to express our deepest condolences and sympathies to the family of the deceased, and we vow to respond to their needs with the utmost sincerity in their hour of bereavement. The SEGA SAMMY Group stands firm in its commitment to thoroughly investigate the causes that led to this incident to ensure that the necessary safety measures are in place to prevent this kind of tragedy from ever happening again.

The Group has cooperated fully with the authorities in the investigation conducted in the wake of this incident.

Following the accident, SEGA CORPORATION immediately moved to set up a special committee, chaired by SEGA president Hisao Oguchi, to examine measures to prevent accidents at the facility. Operations at TOKYO JOYPOLIS were halted, and a fact-finding mission and in-depth inquiry into the factors that led to the accident were conducted. In its findings, the committee concluded that improper management of the attraction was the root cause of the fatal accident.

To assure improved safety through more effective safety measures, the committee also carried out safety inspections of all attractions at TOKYO JOYPOLIS. This rigorous safety check covered both the mechanical and management-side of attraction operations. In addition to checking each attraction while in operation, the committee verified the overall condition of the attraction's machinery and its operating parameters, and looked for discrepancies between operating parameters and the operating manual. This inspection not only identified points for improving machinery at several attractions, but also revealed management shortcomings in the operating manual as well as in the reporting and contact framework. Another comprehensive safety check is under way, this time of the condition and safety of equipment and machinery at all of the Group's 400 amusement facilities across Japan.

The entire SEGA SAMMY Group is taking initiatives to prevent the recurrence of this type of accident. At the same time, it is reexamining safety measures for

attractions from the ground up. Efforts are largely being spearheaded through four initiatives outlined below. In a move to further improve safety measures by taking on board objective viewpoints, the SEGA SAMMY Group will select several third-party groups to serve as advisers that can evaluate and offer advice regarding the initiatives.

- (1) Establish reliable safety standards for each attraction
- (2) Upgrade operating manuals with reference to new safety standards
- (3) Upgrade in-house training systems and ensure strict observance of the operating manual
- (4) Enact proper monitoring to ensure overall implementation of safety measures

Not content to only target safety measures for its attractions, the entire Group is working to ensure proper safety measures for coping with threats posed by natural disasters, fire and theft are in place throughout the scope of its operations. To complement this, the SEGA SAMMY Group is upgrading its crisis-response manual and taking other steps to overhaul the entire crisis management framework.

By enacting these initiatives, the SEGA SAMMY Group is renewing its pledge to create amusement facilities that customers can enjoy with peace of mind.

## Issues in Each Business of the SEGA SAMMY Group

In the pachislot and pachinko industry, Japan enacted revisions in July 2004 to regulations pertaining to the law governing gaming machines, primarily for the purpose of tightening restrictions on payout percentages of pachinko and pachislot machines and strengthening measures to prevent fraud. Following these changes, the ability to offer outstanding game play and entertainment value has become even more critical in order to distinguish pachislot and pachinko machines from competitors' models. The situation has further spotlighted the differences in technological skill among different manufacturers. In this environment, the SEGA SAMMY Group is further refining its new product development skills to remain the industry leader. The Group will increase efforts to make products that target an even broader spectrum of age groups by working even harder at commercializing innovative ideas to supply more entertaining products. Through these activities, the Group intends to contribute to further industry development by attracting dormant game users back to the market.

In the pachislot machine business, the SEGA SAMMY Group has used its outstanding technology development expertise to supply products following regulatory revisions that, just as before, earn high marks from the market for their unparalleled appeal. The success of "Hokuto No Ken," the biggest hit ever in the pachislot

industry, is clear proof of this capability. In addition, the Group is enhancing planning and sales capabilities while rapidly incorporating video enhancement technologies. By further reinforcing the Group's already overwhelming lead in brand equity in this manner, the Group intends to preserve its number one position in terms of units sold each year.

In the pachinko machine business, actions were already started in May 2004 to bolster the R&D organization, such as by increasing the number of engineers. Due to the elimination of pachinko machine categories and other actions associated with regulatory revisions, the Group is free to develop a much more diverse range of models. Viewing the new regulations as an excellent opportunity, the Group plans to introduce new products incorporating unprecedented concepts to increase its share of the pachinko machine market.

In business activities other than pachislot and pachinko machine sales, the Group sells peripheral devices; designs, installs and performs other facility-related services for pachinko parlors; provides operational assistance, such as producing special events; develops and expands lineups of prize items; and supplies other services for operators of pachinko parlors.

In the amusement machine sales business, the Group is using its advanced technology to strengthen new product development skills. In addition, the Group is helping to energize and enlarge the market by using its

strength as a supplier of a full line of models, which can serve all customer segments, in order to supply popular mainstay products along with models that go in new directions. Outside Japan, the Group will conduct tightly focused sales activities while developing products that reflect the characteristics of each region as well as user needs. The overseas sales network and operating structure will be reinforced and sales channels enlarged. The objective is to increase market share in overseas markets as well as in Japan.

In the amusement center operations business, the Group will continue to adopt the customers' perspective to focus on "creating services" and "creating spaces." The aim is to be a driving force in the industry's development by creating markets that people of all ages can enjoy. In recent years, there has been growth in families and couples at amusement center operations, a trend that is adding vitality to the entire industry. In response, the Group has been actively creating new markets, most notably "MUSHIKING: The King of Beetles." Going farther, the Group is using entirely fresh concepts to create multifaceted entertainment facilities. Drawing on the collective strengths of the SEGA SAMMY Group, plans call for creating new forms of entertainment, beginning with a project at the Minato Mirai 21 district of Yokohama. The Group will also explore opportunities in Asia and other overseas regions for creating entertainment facilities that accurately target local needs.

In the consumer business, the home videogame software market in Japan remains extremely challenging. However, market expansion is predicted because of new hardware products like portable game consoles. Growth is expected to continue overseas, particularly in the U.S. and Europe. To succeed in this environment, the Group's central goal is strengthening the appeal of each of the products in its lineup. For this purpose, the Group is creating a more efficient and powerful management framework for new product development, such as by combining subsidiaries engaged in development programs with their parent companies. Another priority is reinforcing overseas new product development and sales capabilities, thereby making the Group more competitive outside Japan while quickly establishing a profitable base of operations.

### ③ Fund Procurement

During the past fiscal year, funds procured by the Group consisted mainly of ¥4,836 million in proceeds from the issue of shares accompanying the September 2004 listing of subsidiary Sammy Networks Co., Ltd. on the Mothers market of the Tokyo Stock Exchange.

The Group also received payments of ¥7,261 million from the exercise of stock acquisition rights.

### ④ Capital Expenditures

During the past fiscal year, the Group's capital expenditures totaled ¥32,775 million. Expenditures were largely for the purchase of land, buildings and structures amounting to ¥7,658 million for Sammy Ebisu Plaza, a multifaceted entertainment facility opened in July 2004, and ¥16,964 million for capital investments in amusement facilities operated by SEGA CORPORATION.



## ⑤ Consolidated and Non-consolidated Results of Operations and Financial Condition

### (1) Consolidated results of operations and financial condition

Item		FY2004 (From April 1, 2004 to March 31, 2005)
Net sales	(¥ million)	515,668
Ordinary income	(¥ million)	104,432
Net income	(¥ million)	50,574
Net income per share	(¥)	410.53
Total assets	(¥ million)	438,991
Net assets	(¥ million)	258,954

- Notes: 1. Figures shown in millions of yen have been rounded down to the nearest million.  
 2. Since this is the first fiscal period following the Company's establishment, there are no consolidated figures for prior years.  
 3. The fiscal year for reporting purposes covers the year ended March 31, 2005, whereas the past fiscal period on an operating basis was the six-month period that ended on March 31, 2005.  
 4. Net income per share is calculated based on the average number of shares outstanding during the period.

### (2) Non-consolidated results of operations and financial condition

Item		FY2004 (From October 1, 2004 to March 31, 2005)
Net sales	(¥ million)	2,294
Ordinary income (loss)	(¥ million)	(178)
Net income (loss)	(¥ million)	(220)
Net income (loss) per share	(¥)	(1.64)
Total assets	(¥ million)	325,981
Net assets	(¥ million)	319,974

- Notes: 1. Figures shown in millions of yen have been rounded down to the nearest million.  
 2. Since this is the first fiscal period following the Company's establishment, there are no consolidated figures for prior years.  
 3. The first fiscal period for reporting purposes was the six-month period that ended on March 31, 2005.  
 4. Net income per share is calculated based on the average number of shares outstanding during the period.

## ⑥ Other Information Concerning the Group

Subsidiary Sammy Corporation is currently the defendant in the following lawsuits alleging infringement on patents and other rights of third parties in conjunction with the manufacture and sale of pachislot machines.

In each case, the management of Sammy Corporation believes that no such infringement has occurred and will defend its position in court. However, depending on the final verdict, this litigation could have an adverse effect on the Group's operating results.

(1) Request for ¥10,066 million in damages by Aruze Corp.

On March 19, 2002, the Tokyo District Court ordered Sammy Corporation to pay ¥7,416 million to Aruze Corp. The verdict has been appealed to the Tokyo High Court.

(2) Request for ¥1,430 million in damages by Aruze Corp.

Suit was filed on March 26, 2001 at the Tokyo District Court. No verdict has yet been reached.

(3) Request for ¥5,145 million in damages by Aruze Corp.

Suit was filed on May 31, 2002 at the Tokyo District Court. No verdict has yet been reached.

(4) Request for ¥11,424 million in damages by Abilit Corporation.

Litigation was terminated on December 9, 2004 when Abilit Corporation withdrew its claim associated with a lawsuit related to a utility model.

Items (1) and (2) involve the same patents. The court invalidated both cases on December 25, 2002 due to the judgment of the Japan Patent Office that the applicable patents were not valid. Following this action, Aruze Corp. on January 27, 2003 filed a lawsuit with the Tokyo

High Court requesting that the invalidation judgment be reversed. The Tokyo High Court on February 21, 2005 dismissed the request of Aruze Corp. In response, Aruze Corp. appealed the verdict of the Tokyo High Court to the Japan Supreme Court on March 7, 2005. No verdict has yet been reached.

Concerning item (3) as well, the case was invalidated on November 17, 2003 because the Japan Patent Office reached the decision that the applicable patents were not valid. Following this action, Aruze Corp. on December 25, 2003 filed a lawsuit with the Tokyo High Court requesting that the invalidation judgment be reversed. The Tokyo High Court on February 15, 2005 dismissed the request of Aruze Corp. In response, Aruze Corp. appealed the verdict of the Tokyo High Court to the Japan Supreme Court on March 1, 2005. No verdict has yet been reached.

Concerning item (4) as well, the case was invalidated on June 5, 2003 because the Japan Patent Office reached the decision that the applicable utility model was not valid. Following this action, Abilit Corporation (formerly Takasago Electric Industry Co., Ltd.) on July 10, 2003 filed a lawsuit with the Tokyo High Court requesting that the invalidation judgment be reversed. The Tokyo High Court on October 19, 2004 dismissed the request of Abilit Corporation. In response, Abilit Corporation submitted a request to appeal the verdict of the Tokyo High Court to the Japan Supreme Court on November 5, 2004. The Supreme Court on March 17, 2005 reached the decision to refuse to hear this appeal, confirming the invalidation of the utility model.



In addition, SEGA CORPORATION and its group companies are defendants in the following litigation.

(1) Request for damages for violation of fiduciary duty (United States)

Conseco Health Insurance, a holder of the preferred stock of SEGA GAMEWORKS, L.L.C., a subsidiary of SEGA SAMMY HOLDINGS INC., has submitted a lawsuit in the state of California on March 12, 2004 requesting payment of more than US\$10 million for alleged damages resulting from SEGA GAMEWORKS, L.L.C. not respecting its rights as a shareholder. The defendants are SEGA Enterprises, Inc. (U.S.A.), in which Conseco Health Insurance is directly invested, and three SEGA GAMEWORKS, L.L.C. directors who have been supplied by SEGA CORPORATION. No verdict has yet been reached.

(2) Patent infringement lawsuit (United States)

SEGA Group company SEGA of America, Inc. and 12 other game software publishers have been named as defendants in a lawsuit filed on August 23, 2004 in the state of Texas alleging that the Nintendo Gamecube version of "Super Monkey Ball 2," a home videogame software product of SEGA CORPORATION, uses without permission the patented imaging technology of American Video Graphics. No verdict has yet been reached.



## II Overview of the Company (as of March 31, 2005)

### ① Major Business Segments of the Group

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

Segment	Main Business
Pachislot and pachinko machines	Development / manufacture / sales of pachinko and pachislot machines and design parlors
Amusement machine sales	Development / manufacture / sales of game machines used in amusement arcades
Amusement center operations	Development / operation of amusement centers
Consumer business	Development / sales of home video game software, Development / manufacture / sales of toys, Projects / production of entertainment contents for cellular phones, etc.
Others	Project / design / management / construction of commercial establishments, etc.

### ② Major Business Locations of the Group

- |  |   |
|--|---|
| <p>1. The company (SEGA SAMMY HOLDINGS INC.)<br/>Head Office (Minato-ku, Tokyo)</p>  | <p>② SEGA CORPORATION<br/>Head Office (Ota-ku, Tokyo)</p>   |
| <p>2. Office of the main subsidiaries<br/>① Sammy Corporation<br/>Head Office (Toshima-ku, Tokyo)<br/>Kawagoe Factory (Kawagoe, Saitama)<br/>Branches and Sales Offices (7 Branches, 23 Sales Offices)</p> | <p>③ Sega Amusement Ltd., others (Note)<br/>Amusement Game operating locations 477 locations<br/>Note: Sega Amusement Ltd. merged with SEGA CORPORATION on April 1, 2005.</p> |

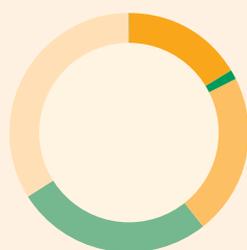
### ③ Shares Outstanding and Shareholders

① Number of shares authorized for issue . . . . .	400,000,000 shares
② Total shares issued and outstanding . . . . .	140,551,522 shares

Notes: 1. Upon the establishment of SEGA SAMMY HOLDINGS INC., there were 133,643,226 shares outstanding.  
2. The increase of 6,908,296 in shares outstanding was due to the exercise of stock acquisition rights.

③ Number of shareholders. . . . .	89,716
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### ④ Principal Shareholders (top 10)



Composition of Shareholders (%)

● Financial Institutions	16.29
● Securities Companies	1.29
● Other Companies	21.78
● Foreign Institutions and Individuals	26.64
● Japanese Individuals and Others	33.95
● SEGA SAMMY	0.05

Name of Shareholder	Investment in Sega Sammy Holdings		Sega Sammy Holdings Investment in Shareholders	
	Shares held	Voting rights (%)	Shares held	Voting rights (%)
Hajime Satomi	24,284,669	19.93	—	—
Sammy Corporation	10,989,658	—	84,658,430	100.00
FSC Co., Ltd.	7,086,420	5.81	—	—
The Master Trust Bank of Japan, Ltd. (Trustee)	6,048,200	4.96	—	—
Japan Trustee Services Bank, Ltd. (Trustee)	5,856,500	4.80	—	—
SS PLANNING CORPORATION	5,312,800	4.36	—	—
State Street Bank and Trust Company	4,864,900	3.99	—	—
SEGA CORPORATION	4,516,995	—	174,945,700	100.00
State Street Bank and Trust Company 505103	2,328,657	1.91	—	—
Goldman Sachs International	1,811,410	1.48	—	—

Notes: 1. As stipulated in Article 241-3 of the Japanese Commercial Code, SEGA SAMMY HOLDINGS INC. shares held by Sammy Corporation and SEGA CORPORATION do not have voting rights.  
2. Among the shares of common stock of SEGA SAMMY HOLDINGS INC. for which SEGA CORPORATION is given as the shareholder of record, 140 shares are not materially owned by SEGA CORPORATION.

### ⑤ Acquisition, Disposition and Holding of Treasury Stock

① Shares acquired	② Shares disposed
Purchase of shares constituting less than a trading unit	Common stock . . . . . 7,339 shares
Common stock . . . . . 84,342 shares	Total proceeds from disposition . . . . . ¥40 million
Total acquisition cost . . . . . ¥487 million	③ Treasury stock held at fiscal year-end
	Common stock . . . . . 77,003 shares



## ⑥ Stock Acquisition Rights

### Outstanding stock acquisition rights

Yen-denominated guaranteed convertible bonds due 2009 and issued in accordance with a resolution approved by the Board of Directors on October 1, 2004

As of March 31, 2005

Number of stock acquisition rights		4,071
Class of shares for stock acquisition rights		Common shares
Issue price of stock acquisition rights	(¥)	1,307,500
Number of shares for stock acquisition rights		1,063,490
Payment on exercise of stock acquisition rights	(¥)	5,005
Period for exercise of stock acquisition rights		November 1, 2004 – February 17, 2009
Issue price for shares upon exercise of stock acquisition rights and appropriation to capital	(¥)	Issue price: 5,005 Appropriated to capital: 2,503
Balance of corporate bonds with stock acquisition rights	(million)	5,322

## ⑦ Employees of the Group

Number of employees (change from end of previous year)	5,407 ( — )
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Notes: 1. No changes from the prior fiscal year are shown because this is the first fiscal period following the Company's establishment.  
2. The number of employees includes full-time staff and staff on loan, but not temporary employees.

## ③ Corporate Relationships

### (1) Relationships with important subsidiaries and affiliates

#### 1. Important subsidiaries and others

Company	Capital	Voting Rights (%)	Main Business
Sammy Corporation	¥18,221 million	100.0	Development / manufacture / sales of pachinko and pachislot 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 *1	Development / manufacture / sales of pachislot machines
Shuko Electronics Co., Ltd.	¥495 million	99.8 *1	Development / manufacture / sales of pachinko and pachislot peripherals
Sammy Design Co., Ltd.*4	¥40 million	100.0 *1	Planning / design / construction of pachinko halls
SI ELECTRONICS, LTD.	¥244 million	88.1 *1	Development / sales of LCD optical imaging system chips
SEGA LOGISTICS SERVICE LTD.	¥200 million	100.0 *1	Maintenance service, transportation, and warehouse business
SEGA AMUSEMENTS U.S.A., INC.	\$0 million	100.0 *1	Import / manufacture / sales of amusement equipment
SEGA AMUSEMENTS EUROPE LTD.	£21 million	100.0 *1	Import / manufacture / sales of amusement equipment
SEGA AMUSEMENT LTD.*3	¥1,000 million	100.0 *1	Amusement center operations
Sammy Amusement Service Co., Ltd.*3	¥450 million	100.0 *1	Operations / support of amusement centers Rental of amusement equipment
Sammy Networks Co., Ltd.	¥2,246 million	57.8 *1, 2	Internet music contents provider
SEGA TOYS, LTD.	¥560 million	63.3 *1, 2	Development / manufacture / sales of toys
SEGA MUSIC NETWORKS CO., LTD.	¥400 million	100.0 *1	Content service for information terminals
SEGA OF AMERICA, INC.	\$41 million	100.0 *1	Sales of home videogame software
SEGA ENTERPRISES, INC. (U.S.A.)	\$110 million	100.0 *1	Subsidiary company management Development / management of home video game software
SEGA EUROPE LTD.	£302 million	100.0 *1	General management of European affiliates group Sales of home videogame software
NISSHO INTER LIFE CO., LTD.	¥5,018 million	51.5 *1, 2	Planning / design / management / construction of displays and commercial facilities
SEGA SAMMY ASSET MANAGEMENT INC.	¥100 million	100.0	Preliminary investigation and consulting concerning real estate and credit

Notes: 1. Percentage of voting rights held includes rights of indirectly owned shares.

2. Beginning on April 1, 2005, the shares of Sammy Networks Co., Ltd., SEGA TOYS, LTD. and NISSHO INTER LIFE CO., LTD. were owned directly by SEGA SAMMY HOLDINGS INC. due to a reorganization of the Group's business units.

3. On April 1, 2005, SEGA AMUSEMENT LTD. and Sammy Amusement Service Co., Ltd. merged with SEGA CORPORATION due to a reorganization of the business units of the SEGA SAMMY Group.

4. On April 1, 2005, Sammy Design Co., Ltd. and AGORA DESIGN Co., Ltd. merged due to a reorganization of the business units of the SEGA SAMMY Group.



## 2. Affiliated company

Company	Capital	Voting Rights (%)	Main Business
TMS ENTERTAINMENT LTD.	¥8,816 million	34.9	Planning / production / sales and other activities involving animated movies

Notes: 1. Percentage of voting rights held includes rights of indirectly owned shares.

2. Beginning on April 1, 2005, the shares of TMS ENTERTAINMENT LTD. were owned directly by SEGA SAMMY HOLDINGS INC. due to a reorganization of the Group's business units.

### (2) Background of integration

1. For the purpose of further growing in the field of entertainment, SEGA CORPORATION and Sammy Corporation conducted a management integration that resulted in the October 1, 2004 establishment of SEGA SAMMY HOLDINGS INC.
2. As of February 28, 2005, Sammy Corporation sold all shares of Sammy Holding Co., Inc. to the managers of Sammy Holding Co., Inc., which owns Sammy Studios, Inc.
3. On January 21, 2005, SEGA SAMMY HOLDINGS INC. established subsidiary SEGA SAMMY ASSET MANAGEMENT INC. for the purpose of effectively using the holding company's cash flows and diversifying risks associated with investments in facilities and other developments.
4. As one means to strengthen the overseas new product development infrastructure, all shares of Visual Concepts Entertainment, Inc. were sold to Take-Two Interactive Software, Inc. on January 24, 2005.
5. On March 9, 2005, SEGA CORPORATION purchased all shares of The Creative Assembly Ltd. for the purpose of acquiring competitive titles and powerful brands used in Europe and the U.S. in the consumer business.

### (3) Results of integration

On a consolidated basis, net sales were ¥515,668 million, ordinary income was ¥104,432 million and net income was ¥50,574 million.



## ⑨ Major Lenders

There is no pertinent matter.

## ⑩ Directors and Corporate Auditors

Title	Name	Main Responsibilities
Chairman and CEO	Hajime Satomi	Chairman and CEO, Sammy Corporation Chairman and CEO, SEGA CORPORATION
Vice Chairman	Hisao Oguchi	President and COO, SEGA CORPORATION
Senior Managing Director	Keishi Nakayama	Executive for Secretary Office, Business Planning Department, Investor Relations Department and Public Relations Department
Managing Director	Kiyofumi Sakino	Executive for General Affairs Department, Legal & Compliance Department, Accounting & Finance Department and Audit Office
Director	Hideki Okamura	Managing Director, SEGA CORPORATION
Director	Yasuo Tazoe	Managing Director, SEGA CORPORATION
Standing Corporate Auditor	Kazutada Ieda	
Corporate Auditor	Akio Kioi	Attorney
Corporate Auditor	Ryoichi Arai	Standing Corporate Auditor, SEGA CORPORATION
Corporate Auditor	Toshio Hirakawa	Standing Corporate Auditor, Sammy Corporation

- Notes: 1. Kazutada Ieda, Akio Kioi, Ryoichi Arai and Toshio Hirakawa are all outside auditors as stipulated in Paragraph 1, Article 18 of the Law Concerning Special Measures Under the Commercial Code with Respect to Audit, etc., of Corporations.
2. Director Kenkichi Yoshida resigned on February 28, 2005.
3. SEGA SAMMY HOLDINGS INC. has adopted the executive officer system for the purpose of reaching management decisions faster, strengthening the oversight of business execution and reinforcing business execution functions. The Company has two executive officers: Koichi Fukazawa, general manager of Secretary Office and Investor Relations Department (executive for Business Planning Department and Public Relations Department), and Akira Sugano, general manager of Legal & Compliance Department (executive for Accounting & Finance Department and General Affairs Department).

## ⑪ Remuneration to Independent Auditors

- |  |   |
|--|---|
| <p>(1) Total remuneration paid by SEGA SAMMY HOLDINGS INC. and its subsidiaries . . . . ¥170 million</p> <p>(2) Total remuneration included in item (1) that was paid for audit certification under Article 2-1 of the Certified Public Accountant Law of Japan . . . . . ¥142 million</p> | <p>(3) Total remuneration included in item (2) paid to the independent auditors by SEGA SAMMY HOLDINGS INC. . . . . ¥10 million</p> |
|--|---|

Note: The contract between SEGA SAMMY HOLDINGS INC. and the independent auditors does not make a distinction between amounts paid for audits as prescribed by the Law Concerning Special Measures Under the Commercial Code with Respect to Audit, etc., of Corporations and audits as prescribed by the Securities and Exchange Law.



## III Significant Events Following the End of the Fiscal Year

### April 1, 2005 Business Reorganization

To make even more effective use of corporate resources following the integration that formed SEGA SAMMY HOLDINGS INC., the business operations of subsidiaries SEGA CORPORATION and Sammy Corporation, and the operations of these companies' subsidiaries, were reorganized into the following segments: pachislot and pachinko machines, amusement machine sales, amusement center operations, consumer business and other businesses. In conjunction with this action, the following reorganization was implemented.

#### Business reorganization effective April 1, 2005

- (1) Sammy Corporation has transferred its Amusement Related Business operations to SEGA CORPORATION through a spin-off of its AM Sales Division, Manufacturing Division, and Media Development Division.
- (2) The following companies that were subsidiaries or affiliates of SEGA CORPORATION and Sammy Corporation have become subsidiaries or affiliates of SEGA SAMMY HOLDINGS INC. For this purpose, SEGA CORPORATION conducted a spin-off of the related company management business of its Special Company Management Team within the Related Company Management Division. In addition, Sammy Corporation conducted a spin-off of the related company management business of the Special Company Management Group within the Accounting Division.
  - SEGA TOYS, LTD.
  - Wavemaster, Inc.
  - TMS ENTERTAINMENT LTD.
  - SAMMY NETWORKS CO., LTD.
  - NISSHO INTER LIFE CO., LTD.
  - Underground Liberation Force Inc.
  - Japan Multimedia Services Corporation
  - eAddress Corporation
  - SEGA SAMMY GOLF ENTERTAINMENT INC. (formerly Sammy Golf Entertainment Inc.)
- (3) SEGA CORPORATION, SEGA AMUSEMENT LTD. and Sammy Amusement Service Co., Ltd. merged with SEGA CORPORATION as the surviving entity.
- (4) The e-Commerce Division, which mainly represents a cell phone ring tone melody business and game distribution business, of SEGA MUSIC NETWORKS CO., LTD. was spun off and transferred to SEGA CORPORATION.
- (5) Wavemaster, Inc. and Underground Liberation Force Inc. merged with Wavemaster, Inc. as the surviving entity.
- (6) Sammy Design Co., Ltd. and AGORA DESIGN Co., Ltd. merged with Sammy Design Co., Ltd. as the surviving entity.



## Consolidated Balance Sheet (as of March 31, 2005)

(Unit: millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets:</b>	<b>282,461</b>	<b>Current liabilities:</b>	<b>110,268</b>
Cash and deposits	152,277	Notes and accounts payable–trade	57,139
Notes and accounts receivable–trade	76,922	Short-term bank loan and current portion of long-term debt	10,023
Inventories	32,001	Redeemable bond within a year	3,278
Deferred taxes–current	6,023	Income taxes payable	12,507
Others	17,128	Accrued employees' bonuses	1,722
Allowance for doubtful accounts–current	(1,891)	Others	25,596
<b>Fixed assets:</b>	<b>156,529</b>	<b>Non-current liabilities:</b>	<b>61,265</b>
<b>Tangible fixed assets:</b>	<b>73,187</b>	Bonds payable	25,788
Buildings and structures	27,556	Corporate bond with stock acquisition rights	5,322
Rental equipment for amusement arcades	13,871	Long-term debt, less current portion	11,118
Land	22,257	Accrued retirement benefits for employees	6,036
Construction in progress	1,220	Accrued retirement benefits for directors and corporate auditors	1,162
Others	8,282	Deferred taxes liabilities non-current	5,399
<b>Intangible fixed assets:</b>	<b>10,040</b>	Others	6,437
Goodwill	3,404	<b>Total liabilities</b>	<b>171,533</b>
Others	6,636	<b>Minority interest:</b>	
<b>Investments and other assets:</b>	<b>73,300</b>	Minority interest	8,503
Investment securities	43,775	<b>Shareholders' equity:</b>	
Long-term loan receivable	3,828	Common stock	27,291
Lease deposits	19,117	Capital surplus	176,302
Deferred taxes non-current	499	Retained earnings	133,760
Others	15,623	Adjustment on revaluation of land	(6,541)
Allowance for doubtful accounts non-current	(9,544)	Net unrealized holding gains on securities	10,792
<b>Total assets</b>	<b>438,991</b>	Foreign currency translation adjustments	(9,425)
		Treasury Stock	(73,225)
		<b>Total shareholders' equity</b>	<b>258,954</b>
		<b>Total liabilities and shareholders' equity</b>	<b>438,991</b>

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



## Consolidated Statement of Income (from April 1, 2004 to March 31, 2005)

(Unit: millions of yen)

Item	Amount	
<b>Ordinary items:</b>		
<b>Operating revenue:</b>		
Net sales		515,668
<b>Operating expenses:</b>		
Cost of sales	304,109	
Selling, general and administrative expenses	106,469	410,578
<b>Operating income</b>		<b>105,089</b>
<b>Non-operating income and expenses:</b>		
<b>Non-operating income:</b>		
Interest income	398	
Dividend income	361	
Equity in earnings of affiliates	25	
Gain on investment in partnerships	1,188	
Others	946	2,920
<b>Non-operating expenses:</b>		
Interest expenses	803	
Sales discount	1,049	
Non-operating commission expenses	419	
Others	1,304	3,576
<b>Ordinary income</b>		<b>104,432</b>
<b>Extraordinary items:</b>		
<b>Extraordinary income:</b>		
Reversal of allowance for doubtful receivables	1,325	
Gain on sale of discontinued operation	742	
Gain on change in equity of a subsidiary	2,251	
Others	783	5,103
<b>Extraordinary expenses:</b>		
Loss on revision of prior year loss	215	
Loss on disposal / sale of fixed assets	1,676	
Loss from revaluation of fixed assets	325	
Extraordinary depreciation	488	
Loss from revaluation of investment securities	1,040	
Amortization of goodwill	133	
Loss of business reorganization	2,944	
Loss from redemption of bonds	10,606	
Others	2,624	20,054
<b>Income before income taxes</b>		<b>89,482</b>
Income taxes—current	32,437	
Income taxes—deferred	5,651	38,089
<b>Minority interests</b>		<b>819</b>
<b>Net income</b>		<b>50,574</b>

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



## Notes to Consolidated Financial Statements

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

#### (1) Scope of consolidation

The consolidated financial statements of SEGA SAMMY HOLDINGS INC. (the “Company”) include the accounts of 61 consolidated subsidiaries and affiliates.

For a complete list of major consolidated subsidiaries, refer to the section “(1) Relationships with important subsidiaries and affiliates” under II. Overview of the Company, ③ Corporate Relationships”.

The Company has 10 non-consolidated subsidiaries, including AGORA DESIGN Co., Ltd. and SEGA KOREA, INC.

All 10 non-consolidated subsidiaries have been excluded from the scope of consolidation because the combined amounts in assets, net sales, net income and retained earnings applicable to the shares of the company have been immaterial.

#### (2) Application of the equity method

Six companies were accounted for under the equity method. Refer to the section “(1) Relationships with important subsidiaries and affiliates” under II. Overview of the Company, ③ Corporate Relationships” for a complete list of major equity-method affiliates.

The equity method was not applied to other non-consolidated subsidiaries and affiliates because the combined amount of these companies in net income (loss) and retained earnings applicable to the shares of the company have been immaterial.

#### (3) Fiscal year for consolidated subsidiaries

Consolidated subsidiaries whose fiscal year-ends differ from the consolidated balance sheet date are listed below. Necessary adjustments are made on consolidation for material transactions that occurred between the end of the fiscal years of these subsidiaries and the end of the consolidated balance sheet date. The financial accounts of SEGA R&D Holdings Ltd. are calculated on a provisional basis as of the consolidated balance sheet date (March 31).

Consolidated subsidiary	Fiscal year-end
SEGA R&D Holdings Ltd.	June 30
OS Capital USA, Inc.	December 31
Nissho Inter Life Co., Ltd.	March 20

The fiscal year-end of SEGA Europe Ltd. and its subsidiaries and affiliates has been changed to March 31. Previously, the fiscal year-end for these companies fell on the last day of February. Consequently, the income of SEGA Europe Ltd. and its subsidiaries and affiliates included in the consolidated financial statements is for a 13-month accounting period.

#### (4) Application of the pooling-of-interests method

SEGA SAMMY HOLDINGS INC. applies the pooling-of-interests method in respect to the business integration that preceded the Company’s formation, pursuant to “Consolidation Procedures for full Parent-Subsidiary Relationship Established Utilizing Share Exchange and Transfer System” (JICPA Accounting Committee Research Report No. 6), published on August 31, 2000.

(5) Accounting standards

① Valuation standards and accounting treatment for important assets

a. 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 shareholders' equity, with cost of sales determined by the moving-average method.

b. 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 Securities 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.

c. Derivatives

Derivatives are stated at fair market value.

d. Inventories

Inventories are stated at cost, cost being determined mainly by the gross-average method.

② Method for depreciating and amortizing important assets

Tangible assets

Depreciation is computed primarily using the declining-balance method.

However, buildings acquired after April 1, 1998 are depreciated using the straight-line method.

Useful life for primary assets is as follows:

Buildings / Structures:	2–50 years
Rental equipment for amusement arcade:	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.

Intangible assets:

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

③ Accounting for deferred assets

All expenses are expensed when incurred.

④ Accounting for allowances

a. Allowance for doubtful accounts

The reserve for doubtful accounts is provided in an 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. Accrued employees' bonuses

Accrued employees' bonuses are provided based on the estimated amount to be paid.

c. Accrued retirement benefits for employees

The Company and its consolidated subsidiaries provided allowance for employees' retirement benefits at the balance sheet date based on the estimated amounts of projected benefit obligations and the fair value of the plan assets at that date. Actuarial differences are treated as a lump-sum expense in the following fiscal year, except, SEGA CORPORATION and 3 other subsidiaries that amortize actuarial differences using the straight-line method over a fixed number of years (10 years), but no more than the average remaining service period for employees in service.



d. Accrued retirement benefits for directors and corporate auditors

The Company and certain domestic consolidated subsidiaries provide an allowance for directors' retirement bonuses to adequately cover payment of such bonuses at the end of the applicable period in accordance with internal regulations.

⑤ Accounting for lease transactions

Finance leases, which do not transfer ownership to lessees, are accounted for in the same manner as operating leases.

⑥ Accounting for significant hedge

a. Hedge accounting

The Company adopts deferred hedge accounting. However, special treatment (under special treatment, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed) is used for qualifying interest rate swap transactions. Moreover, allocation hedge accounting is applied to qualifying 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, investment securities.

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.

⑦ Accounting method of consumption taxes

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

(6) Valuation of consolidated subsidiaries' assets and liabilities

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

(7) Amortization of consolidated goodwill

Consolidated goodwill is amortized over the estimated number of years it takes to realize the benefits of goodwill as long as the reasonable estimation of this period is possible. In all other cases, goodwill is amortized equally over a period of 5 years.

(8) Appropriation of earnings

The consolidated statement of retained earnings is prepared based on retained earnings appropriations at the companies determined during the fiscal year.

## ② Notes to Consolidated Balance Sheet

(1) Accumulated depreciation of tangible assets . . . . . ¥65,492 million

(2) Assets pledged

Assets pledged		Covered for liabilities	
Bank deposits	¥20 million	Accounts payable	¥10 million
Note receivable	¥1,478 million	Accounts payable—other	¥1 million
Buildings / Structure	¥331 million	Short-term debt	¥949 million
Land	¥963 million	Long-term debt	¥422 million

(3) Debt guarantees . . . . . ¥322 million

(4) Balance of securitized notes receivable . . . . . ¥1,674 million

(5) Balance of endorsed notes receivable transferred . . . . . ¥11 million



## (6) Security loaned

Security loaned with ¥943 million is included in Investment securities

## (7) Total number and type of shares issued and outstanding at the fiscal year-end: total number and type of treasury stock held at the fiscal year-end

## Shares issued

and outstanding. . . . . 140,551,522 common shares

Treasury stock . . . . . 77,003 common shares

## Shares of parent company stock

held by consolidated

subsidiaries. . . . . 15,506,513 common shares

## (8) 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 shareholders' equity.

## 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

Decline in the book value of land at the consolidated fiscal year-end compose to the market value . . . . . ¥655 million

### ③ Notes to Consolidated Statement of Income

(1) Net income per share. . . . .	¥410.53
(2) Breakdown of major extraordinary items	
① Gain on transfer of business amounting to ¥742 million from the sale of shares of Visual Concepts Entertainment, Inc. in order to re-establish software strategy in the United States.	
② Extraordinary depreciation amounting to ¥488 million was booked for obsolescent intangible fixed assets at consolidated subsidiaries.	
③ Loss from revaluation of fixed assets amounting to ¥325 million from the downward revision of an expected loss on the sale of land, buildings and structures owned by the former Osaka branch of consolidated subsidiary Sammy Corporation in March 2005.	
④ Loss of business reorganization amounting to ¥2,944 million is broken down as follows:	
Loss on the sale of affiliated company shares. . . . .	¥621 million
Loss on revaluation of inventories . . . . .	¥1,720 million
Severance payment premiums. . . . .	¥355 million
Others . . . . .	¥246 million
Total . . . . .	¥2,944 million

The above figures represent losses from business restructuring following the business integration of consolidated subsidiaries SEGA CORPORATION and Sammy Corporation.



## Independent Auditors' Report (copy)

### Independent Auditors' Report

March 19, 2005

The Board of Directors  
SEGA SAMMY HOLDINGS INC.

KPMG AZSA & Co.

Shigeru Iwamoto (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Yuichi Yamada (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Eiji Mizutani (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the consolidated statutory report, that is the consolidated balance sheet and the consolidated statement of income of SEGA SAMMY HOLDINGS INC. for the 1st business period from October 1, 2004 to March 31, 2005 (the consolidated fiscal period is from April 1, 2004 to March 31, 2005) in accordance with Article 19-2(3) of the "Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki Kaisha". 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. Our audit procedures also include those considered necessary for the Company's consolidated subsidiaries.

As a result of the audit, in our opinion, the consolidated statutory report referred to above presents fairly the consolidated financial position of SEGA SAMMY HOLDINGS INC. and consolidated subsidiaries, and the consolidated results of their operations in conformity with related laws and regulations and the Articles of Incorporation of the Company.

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.



## Board of Corporate Auditors' Report (copy)

### Audit Report on Consolidated Financial Statements

This Board of Corporate Auditors, having received the consolidated financial statements (Consolidated Balance Sheet and Consolidated Statement of Income) for the First business year, from October 1, 2004 through March 31, 2005, and consulted with each of the Corporate Auditors on the methods and results of their audits, have prepared this audit report and hereby report as follows:

1. Method of Audit by Corporate Auditors in Outline:

In accordance with the auditing policies and apportionment of work specified by the Board of Corporate Auditors, each Corporate Auditor, has received the consolidated financial statements from the Directors and others, has examined documents and explanations from the statutory accountants and has examined the accounting documents and detailed statements auxiliary thereto.

2. Results of Audit:

The auditing methods and results of the statutory accountants, KMPG AZSA & Co., are recognized as being proper.

May 24, 2005

Board of Corporate Auditors, SEGA SAMMY HOLDINGS INC.

Kazutada Ieda, (Standing) Corporate Auditor

Akio Kioi, Corporate Auditor

Ryoichi Arai, Corporate Auditor

Toshio Hirakawa, Corporate Auditor

Note 1: Corporate Auditors Akio Kioi and Toshio Hirakawa are outside statutory auditors that fulfill the qualification requirement as provided in Article 18, Paragraph 1, of the Law for Special Exceptions to the Commercial Code Concerning Audits, etc., of Kabushiki Kaisha.

Note 2: Corporate Auditors Kazutada Ieda and Ryoichi Arai are outside statutory auditors that fulfill the qualification requirement as provided in Article 18, Paragraph 1, of the Law for Special Exceptions to the Commercial Code Concerning Audits, etc., of Kabushiki Kaisha prior to its amendment on May 1, 2005.



## Non-Consolidated Balance Sheet (as of March 31, 2005)

(Unit: millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets:</b>	<b>37,114</b>	<b>Current liabilities:</b>	<b>664</b>
Cash and deposits	36,833	Accounts payable–other	59
Prepaid expenses	140	Income taxes payable	140
Short-term loan receivable of affiliates	40	Accrued liabilities	331
Deferred taxes–current	77	Advanced received	0
Others	23	Deposits received	21
		Accrued employees' bonuses	58
		Others	52
<b>Fixed assets:</b>	<b>288,867</b>	<b>Non-current liabilities:</b>	<b>5,342</b>
<b>Tangible fixed assets:</b>	<b>593</b>	Bonds payable with stock acquisition rights	5,322
Buildings	278	Accrued retirement benefits for employees	0
Vehicles	48	Accrued retirement benefits for directors and corporate auditors	19
Tools, furniture and fixtures	266		
		<b>Total liabilities</b>	<b>6,007</b>
<b>Intangible fixed assets:</b>	<b>35</b>		
Trade mark rights	19	<b>Shareholders' equity</b>	
Software	16	<b>Common stock</b>	<b>27,291</b>
<b>Investments and other assets:</b>	<b>288,237</b>	<b>Capital surplus:</b>	<b>293,351</b>
Investments in affiliates	286,220	Additional paid-in capital	27,285
Investment securities	1,574	Capital surplus–others:	266,065
Lease deposits	222	Surplus from capital reduction	266,062
Deferred taxes non-current	17	Surplus from sale of treasury stock	3
Others	202		
		<b>Deficit</b>	<b>(220)</b>
		Undisposed deficit	220
		<b>Treasury stock</b>	<b>(447)</b>
<b>Total assets</b>	<b>325,981</b>	<b>Total shareholders' equity</b>	<b>319,974</b>
		<b>Total liabilities and shareholders' equity</b>	<b>325,981</b>

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



## Non-Consolidated Statement of Income (from October 1, 2004 to March 31, 2005)

(Unit: millions of yen)

Item	Amount	
<b>Ordinary items:</b>		
<b>Operating revenue:</b>		
Management fees	2,294	2,294
<b>Operating expenses:</b>		
Selling, general and administrative expenses	2,181	2,181
<b>Operating income</b>		<b>112</b>
<b>Non-operating income and expenses:</b>		
<b>Non-operating income:</b>		
Interest and dividends income	0	
Others	0	0
<b>Non-operating expenses:</b>		
Interest expenses	13	
Organization expenses	92	
Expenses proceeded from issuance of stock	147	
Expenses proceeded from issuance of bond	35	
Others	3	292
<b>Ordinary loss</b>		<b>178</b>
<b>Loss before income taxes</b>		<b>178</b>
Income taxes—current	136	
Income taxes—deferred	(95)	41
<b>Net loss</b>		<b>220</b>
<b>Unappropriated loss</b>		<b>220</b>

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



## Notes to Financial Statements

### ① Significant Accounting Policies

#### (1) Valuation of securities

Investments in subsidiaries and affiliates are stated at moving-average cost.

Other securities

Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains or losses on securities in shareholders' equity, 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 Securities and Exchange Law of Japan, is calculated based on the relevant financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

#### (2) Depreciation of fixed assets

##### 1. Tangible fixed assets

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:	15–50 years
Tools / Furniture:	5–8 years

##### 2. Intangible fixed assets

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

#### (3) Accounting for deferred assets

All expenses are expensed when incurred.

#### (4) Accounting for allowances

##### 1. Accrued employees' bonuses

Accrued employee bonuses are provided based on the estimated amount to be paid.

#### 2. Accrued retirement benefits for employees

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

#### 3. Accrued retirement benefits for directors and corporate auditors

The amount of the reserve required at the end of the fiscal year for directors' and corporate auditors' retirement benefits is based on company regulations. This allowance is stipulated under Article 43 of the Regulation for the Commercial Code.

#### (5) Accounting for lease transactions

Finance leases that do not transfer ownership to lessees are accounted for in the same manner as operating leases.

#### (6) Accounting method for consumption taxes

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

### ② Notes to Balance Sheet

#### (1) Accumulated depreciation of

tangible fixed assets . . . . . ¥21 million

#### (2) In addition to fixed assets listed on the balance sheet, significant fixed assets used on lease contracts included vehicles for sales

#### (3) Receivables from and payables to affiliates

Short-term receivables from affiliates . . . ¥50 million

Short-term payables to affiliates . . . . . ¥69 million

#### (4) Total number and type of shares issued and outstanding at the fiscal year-end: total number and type of treasury stock held at the fiscal year-end

Shares issued and

outstanding . . . . . 140,551,522 common shares

Treasury stock . . . . . 77,003 common shares

### ③ Notes to Statement of Income

#### (1) Transactions with affiliates

Net sales . . . . . ¥2,294 million

SG&A expenses . . . . . ¥67 million

Non-operating transactions . . . . . ¥209 million

#### (2) Net loss per share . . . . . ¥1.64



## Proposal for Appropriation of Unappropriated Retained Earnings

(Unit: yen)

Item	Amount
(Disposition of deficit)	
Undisposed deficit	220,194,554
Disposition:	
Reversal of surplus from capital reduction	220,194,554
Deficit to be carried forward	0
(Appropriation of retained earnings)	
Capital surplus – other	266,065,870,490
Paid-in capital and capital surplus reduction difference	266,062,754,138
Gain on disposal of treasury stock	3,116,352
Appropriation:	
Dividends	8,428,471,140
(Ordinary dividend of ¥40 per share)	
(Commemorative dividend of ¥20 per share to mark establishment of SEGA SAMMY HOLDINGS INC.)	
Bonuses to directors	180,000,000
(Amount paid to corporate auditors)	(5,000,000)
Reversal of surplus from capital reduction	220,194,554
Capital surplus – other carried forward	257,237,204,796
Surplus from capital reduction	257,234,088,444
Surplus from sale of treasury stock	3,116,352

(Note) Dividends do not include payments for 77,003 shares of treasury stock.



## Independent Auditors' Report (copy)

### Independent Auditors' Report

March 19, 2005

The Board of Directors  
SEGA SAMMY HOLDINGS INC.

KPMG AZSA & Co.

Shigeru Iwamoto (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Yuichi Yamada (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Eiji Mizutani (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the statutory report, that is the balance sheet, the statement of income, the business report (limited to accounting matters) and the proposal for appropriation of unappropriated retained earnings, and its supporting schedules (limited to accounting matters) of SEGA SAMMY HOLDINGS INC. for the 1st business period from October 1, 2004 to March 31, 2005 in accordance with Article 2(1) of the "Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki Kaisha". With respect to the aforementioned business report and supporting schedules, our audit was limited to those matters derived from the accounting books and records. 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. Our audit procedures also include those considered necessary for the Company's subsidiaries.

As a result of the audit, our opinion is as follows:

- (1) The balance sheet and the statement of income present fairly the financial position and the results of operations of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (2) The business report (limited to accounting matters) presents fairly the status of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (3) The proposal for appropriation of unappropriated retained earnings has been prepared in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (4) With respect to the supporting schedules (limited to accounting matters), there are no items to be noted that are not in conformity with the provisions of the Commercial Code.

The subsequent event stated in the business report may have a material effect on the financial position and the results of operations of the Company in business years subsequent to March 31, 2005.

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.



## Board of Corporate Auditors' Report (copy)

### Audit Report

This Board of Corporate Auditors, having received reports from and consulted with each of the Corporate Auditors on the methods and results of their audits concerning the performance by the Directors of their duties during the First business year, from October 1, 2004 through March 31, 2005, have prepared this audit report and hereby report as follows:

1. Method of Audit by Corporate Auditors in Outline:

In accordance with the auditing policies and apportionment of work specified by the Board of Corporate Auditors, each Corporate Auditor, in addition to attending meetings of the Board of Directors and other important meetings, has received reports on business from the Directors and others, has examined documents and so on containing important decisions, has investigated the conditions of business and assets at the Company and other important places of business, has requested the Company's subsidiaries to report on their operations, has visited significant subsidiaries where necessary and has investigated their conditions of business and assets. In addition, the Corporate Auditors have received reports and explanations from the statutory accountants and have examined the accounting documents and detailed statements auxiliary thereto. In addition to the above methods, where necessary the Corporate Auditors have obtained reports from the Directors and others and have examined in detail the circumstances in connection with competitive dealings by Directors, reciprocally profitable dealings between Directors and the Company, the furnishing of benefits or profits by the Company gratuitously, out-of-the-ordinary dealings between the Company and subsidiaries or stockholders and the acquisition and disposition by the Company of its own shares.

2. Results of Audit:

- (1) The auditing methods and results of the statutory accountants, KMPG AZSA & Co., are recognized as being proper.
- (2) The business report is recognized as being in accordance with laws and regulations and the Articles of Incorporation and as properly indicating the conditions of the Company.
- (3) Reviewing the item on the agenda concerning the appropriation of retained earnings in light of the conditions of the Company's assets and other circumstances, there are no matters that ought to be pointed out.
- (4) As the auxiliary detailed statements correctly indicate the matters that should be recorded therein, there are no matters that ought to be pointed out.
- (5) With respect to the performance of their duties by the Directors, no improper acts or material facts that violated laws and regulations or the Articles of Incorporation are recognized. Further, no breach of his duty by a Director was recognized in connection with competitive dealings by Directors, reciprocally profitable dealings between Directors and the Company, the furnishing of benefits or profits by the Company gratuitously, out-of-the-ordinary dealings between the Company and subsidiaries or shareholders, acquisition and disposition by the Company of its own shares and so on.

With respect to competitive transactions by Directors, transactions involving conflicting interests between Directors and the Company, offering of advantage by the Company for no consideration, transactions not customary in nature between the Company and its subsidiaries or shareholders, acquisitions and dispositions by the Company of treasury stock, etc., we find no breach by Directors of their duties.

Further, a former president of the Company's subsidiary Sammy Corporation is under investigation in relation to allegations of Income Tax Law violations. In addition, during the current fiscal year, on April 18, 2005, there was a fatal accident at the TOKYO JOYPOLIS facility, which is operated the Company's subsidiary SEGA CORPORATION. We will continue to implement rigorous audits of the progress, etc., of the implementation compliance programs and measures to prevent the recurrence of accidents.

May 24, 2005

Board of Corporate Auditors, SEGA SAMMY HOLDINGS INC.

Kazutada Ieda, (Standing) Corporate Auditor  
Akio Kioi, Corporate Auditor  
Ryoichi Arai, Corporate Auditor  
Toshio Hirakawa, Corporate Auditor

Note 1: Corporate Auditors Akio Kioi and Toshio Hirakawa are outside statutory auditors that fulfill the qualification requirement as provided in Article 18, Paragraph 1, of the Law for Special Exceptions to the Commercial Code Concerning Audits, etc., of Kabushiki Kaisha.

Note 2: Corporate Auditors Kazutada Ieda and Ryoichi Arai are outside statutory auditors that fulfill the qualification requirement as provided in Article 18, Paragraph 1, of the Law for Special Exceptions to the Commercial Code Concerning Audits, etc., of Kabushiki Kaisha prior to its amendment on May 1, 2005.

# Consolidated Financial Statements (unaudited)

Sammy Corporation

## Consolidated Balance Sheets

Item	(As of March 31, 2005)	(As of March 31, 2004)
<b>Assets</b>		
Current assets	231,632	200,081
Fixed assets	61,511	99,191
Tangible fixed assets	27,823	22,999
Intangible fixed assets	3,151	3,727
Investments and other assets	30,537	72,464
<b>Total assets</b>	<b>293,143</b>	<b>299,272</b>

(Unit: millions of yen)

Item	(As of March 31, 2005)	(As of March 31, 2004)
<b>Liabilities</b>		
Current liabilities	74,048	113,042
Non-current liabilities	28,110	68,360
<b>Total liabilities</b>	<b>102,159</b>	<b>181,403</b>
<b>Minority interest</b>		
Minority interest	7,720	4,882
<b>Shareholders' equity</b>		
Common stock	18,221	15,374
Capital surplus	21,037	16,364
Retained earnings	119,502	86,378
Net unrealized holding gains on securities	24,569	10,352
Foreign currency translation adjustments	(67)	32
Treasury stock	—	(15,515)
<b>Total shareholders' equity</b>	<b>183,263</b>	<b>112,987</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>293,143</b>	<b>299,272</b>

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



## Consolidated Statements of Income (unaudited)

(Unit: millions of yen)

Item	(From April 1, 2004 to March 31, 2005)	(From April 1, 2003 to March 31, 2004)
Net sales	327,560	251,226
Gross profit	164,457	127,488
Operating income	98,957	71,676
Ordinary income	96,368	68,330
Net income	48,576	32,196

## Consolidated Statements of Cash Flows (unaudited)

(Unit: millions of yen)

Item	(From April 1, 2004 to March 31, 2005)	(From April 1, 2003 to March 31, 2004)
Net cash provided by operating activities	62,250	36,581
Net cash used in investing activities	(16,648)	(57,368)
Net cash used in financing activities	(42,644)	61,128
Effect of exchange rate changes on cash and cash equivalents	55	(70)
Net increase in cash and cash equivalents	3,012	40,270
Cash and cash equivalents at beginning of year	66,838	26,567
Cash and cash equivalents at end of year	69,850	66,838

## Segment Information (unaudited)

(From April 1, 2004 to March 31, 2005)

(Unit: millions of yen)

	Pachislot and Pachinko	Amusement arcade equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales and operating income (loss)							
Net sales							
(1) Outside customers	280,117	9,458	6,067	31,916	327,560	—	327,560
(2) Inter-segment	24	100	356	544	1,026	(1,026)	—
Total	280,141	9,559	6,424	32,461	328,587	(1,026)	327,560
Cost and expenses	169,683	10,911	9,099	31,240	220,934	7,668	228,602
Operating income (loss)	110,458	(1,351)	(2,674)	1,220	107,652	(8,695)	98,957

# Consolidated Financial Statements (unaudited)

## SEGA CORPORATION

### Consolidated Balance Sheets

Item	(As of March 31, 2005)	(As of March 31, 2004)
<b>Assets</b>		
Current assets	112,551	106,156
Fixed assets	93,996	82,760
Tangible fixed assets	45,224	40,595
Intangible fixed assets	6,890	4,508
Investments and other assets	41,880	37,655
Deferred charge	8	139
<b>Total assets</b>	<b>206,555</b>	<b>189,055</b>

(Unit: millions of yen)

Item	(As of March 31, 2005)	(As of March 31, 2004)
<b>Liabilities</b>		
Current liabilities	44,883	48,454
Non-current liabilities	29,165	42,100
<b>Total liabilities</b>	<b>74,048</b>	<b>90,555</b>
<b>Minority interest</b>		
Minority interest	836	537
<b>Shareholders' equity</b>		
Common stock	60,000	127,582
Capital surplus	65,943	2,171
Retained earnings	18,701	15,459
Adjustment on revaluation of land	(6,541)	(6,265)
Net unrealized holding gains on securities	2,927	1,488
Foreign currency translation adjustments	(9,360)	(8,825)
Treasury stock	—	(33,649)
<b>Total shareholders' equity</b>	<b>131,670</b>	<b>97,962</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>206,555</b>	<b>189,055</b>

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



## Consolidated Statements of Income (unaudited)

(Unit: millions of yen)

Item	(From April 1, 2004 to March 31, 2005)	(From April 1, 2003 to March 31, 2004)
Net sales	194,947	191,257
Gross profit	47,978	52,570
Operating income	6,341	14,480
Ordinary income	6,244	12,617
Net income	1,767	8,760

## Consolidated Statements of Cash Flows (unaudited)

(Unit: millions of yen)

Item	(From April 1, 2004 to March 31, 2005)	(From April 1, 2003 to March 31, 2004)
Net cash provided by operating activities	17,343	21,583
Net cash used in investing activities	(22,200)	(9,095)
Net cash used in financing activities	(22,659)	(41,399)
Effect of exchange rate changes on cash and cash equivalents	63	(528)
Net increase in cash and cash equivalents	(27,453)	(29,438)
Cash and cash equivalents at beginning of year	71,922	101,361
Cash and cash equivalents at end of year	44,469	71,922

## Segment Information (unaudited)

(From April 1, 2004 to March 31, 2005)

(Unit: millions of yen)

	Amusement machine sales	Amusement center operations	Consumer business	Total	Corporate and elimination	Consolidated
Net sales and operating income (loss)						
Net sales						
(1) Outside customers	57,947	78,975	58,023	194,947	—	194,947
(2) Inter-segment	14,981	125	36	15,142	(15,142)	—
Total	72,928	79,100	58,060	210,090	(15,142)	194,947
Cost and expenses	62,601	73,456	66,326	202,384	(13,777)	188,606
Operating income (loss)	10,327	5,644	(8,265)	7,706	(1,365)	6,341



# Medium-Term Business Plan

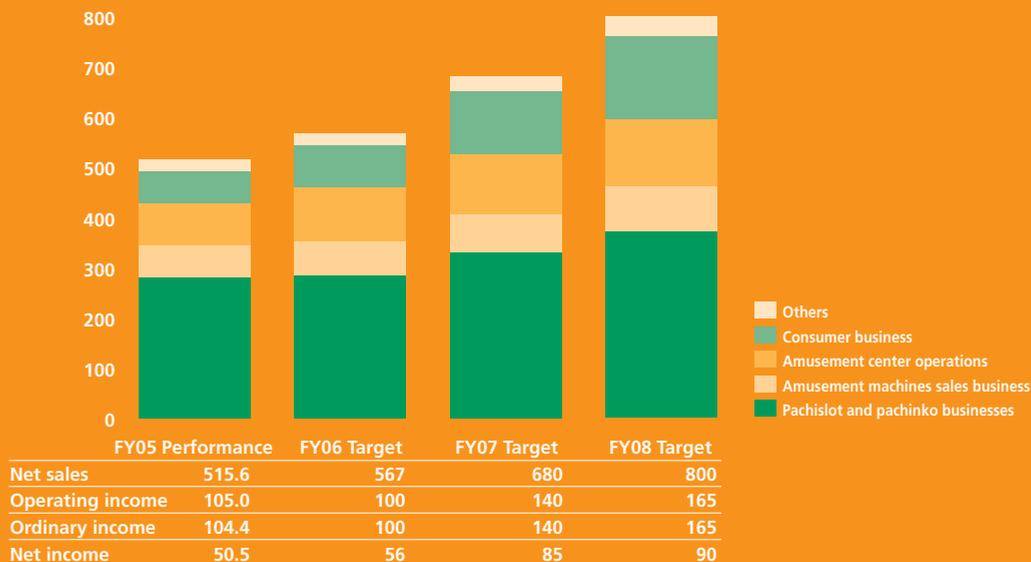
At the start of the current fiscal year, SEGA SAMMY HOLDINGS established a medium-term business plan that covers the period through March 2008. That plan calls for the realization of net sales of ¥800 billion and operating income of ¥165 billion in fiscal 2008, the plan's final year.

Although the plan seeks ongoing high growth for the pachislot and pachinko businesses, it sets out even more ambitious growth targets for the amusement machine sales business, amusement center operations, the consumer business and other businesses. As a result, those operations will generate a higher percentage of net sales and operating income. Through those efforts, we will rectify the overdependence of net sales on pachislot and pachinko machines to become a comprehensive entertainment company that generates revenues from a wide spectrum of business types.

The ultimate goal of the management merger is to create the World's No. 1 Comprehensive Entertainment Company by leveraging the limitless synergies among the operational companies of SEGA CORPORATION, Sammy Corporation and other Group companies.

## Medium-Term Business Plan

Net Sales (billions of yen)



\* For details of business plans for respective segments, please see the Company's web site: <http://www.segasammy.co.jp>

# IR Information

## Internet Broadcast (Streaming) of the General Meeting of Shareholders

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SEGA SAMMY HOLDINGS INC. extends an invitation to view the scheduled Internet broadcast (streaming) of its General Meeting of Shareholders at the Company's web site on June 24, 2005 (Friday).

URL: <http://www.segasammy.co.jp/live.html>

### Access ID

A dedicated shareholders' access ID is required to view the Internet broadcast. Your access ID is the shareholders' number on the bottom right of the exercise of voting rights form mailed to you.

The password is the shareholders' seven-digit postcode. Further, for shareholders that have changed address since April 1, 2005, the postcode included in the exercise of voting rights form has been registered as your password. Therefore, please use that postcode to view the broadcast.

## IR Information Center

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Working to build trust through interactive communication with its shareholders and other investors, SEGA SAMMY HOLDINGS has established an IR Information Center.

If you have any inquiries regarding share, corporate or other information, please do not hesitate to contact us at:

Tel: +81-3-6215-9954

9:00-18:00 (except weekends, national holidays and Company nonbusiness days)

E-mail: [ir@mail.segasammy.co.jp](mailto:ir@mail.segasammy.co.jp)

## Web Site

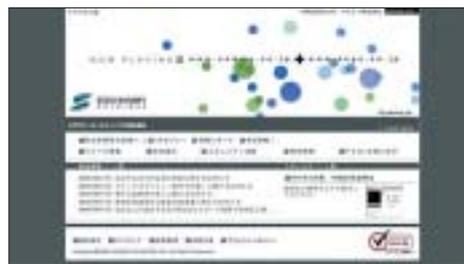
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In addition to the latest IR data, press releases and other information, SEGA SAMMY HOLDINGS' web site includes a variety of special features aimed at furthering your understanding of the SEGA SAMMY Group's overall operations. Also, the web site has links to Group companies' web sites, which offer up-to-date product information for your use.

SEGA SAMMY HOLDINGS Web Site

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

(Using only your e-mail address, you can subscribe to our IR data e-mail distribution service.)





## SEGA SAMMY HOLDINGS INC.

Shiodome Sumitomo Building,  
1-9-2 Higashi Shimbashi, Minato-ku,  
Tokyo 105-0021, Japan

### SHARE INFORMATION

#### Stock Code

6460

#### Unit of Trading

100 shares

#### Fiscal Year-End

March 31

#### Ordinary General Meeting of Shareholders

June

#### Date of Record

March 31

(September 30 for interim dividends, if paid)

Advance, public notification given when  
required for other dividend payments.

#### Newspaper Used for Notifications

*Nihon Keizai Shimbun*

The Company includes balance sheets  
and statements of income at its web site  
([www.segasammy.com](http://www.segasammy.com)) in lieu of public  
notification of settlements of accounts.

#### Transfer Agent

UFJ Trust Bank Limited  
1-4-3, Marunouchi, Chiyoda-ku,  
Tokyo 100-0005, Japan

#### Administrative Office of Transfer Agent

Securities Agent Department,  
UFJ Trust Bank Limited  
7-10-11, Higashisuna, Koto-ku,  
Tokyo 137-8081, Japan  
Telephone: +81-3-5683-5111

#### Agency

UFJ Trust Bank Limited  
branches in Japan

#### American Depositary Receipts

Depository Bank:  
The Bank of New York  
101 Barclay Street,  
New York, NY 10286, U.S.A.  
Telephone: +1-212-815-2042  
U.S. Toll Free: 888-269-2377  
(888-BNY-ADRS)

Symbol: SGAMY  
CUSIP: 815794102  
Exchange: OTC  
Ratio: 4:1