

**FLASH REPORT**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Year Ended March 31, 2006**

**Name of the Company :** SEGA SAMMY HOLDINGS INC.  
**Code number :** 6460  
 (URL <http://www.segasammy.co.jp>)  
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Date of the Board of Directors meeting for the fiscal year closing      May 16, 2006

**1. Consolidated Operating Results for Year Ended March 31, 2006**

**(1) RESULTS OF CONSOLIDATED OPERATIONS**

	Net sales		Operating income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For Year ended March 31, 2006	553,240	7.3	119,144	13.4	66,221	30.9
For Year ended March 31, 2005	515,668	—	105,089	—	50,574	—

	Net income per share	Net income per share (Diluted)	Return on equity	Operating income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
For Year ended March 31, 2006	261.06	260.35	23.0	24.7	21.5
For Year ended March 31, 2005	410.53	400.95	19.5	23.9	20.4

(Note) (a) Equity in net earnings of affiliated companies for the fiscal year 2006 and 2005 were negative ¥229 million and ¥25 million, respectively.

(b) Weighted average number of shares outstanding for the fiscal year 2006 and 2005 were 251,103,036 shares and 122,335,930 shares, respectively.

(c) There was no significant change in the accounting policy between the years presented.

(d) Percentage for net sales, operating income and net income represent change from the prior year.

(e) Return on equity and Operating income to total assets in prior fiscal year are calculated by stockholders' equity and total assets for year ended March 31, 2005.

**(2) CONSOLIDATED FINANCIAL POSITION**

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Millions of Yen	Millions of Yen	%	Yen
March 31, 2006	522,914	316,679	60.6	1,254.14
March 31, 2005	438,991	258,954	59.0	2,067.91

(Note) The total numbers of shares outstanding were 251,974,783 shares and 124,968,006 shares at March 31, 2006 and 2005, respectively.

### (3) CONSOLIDATED CASH FLOWS

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at the year-end
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
For Year ended March 31, 2006	83,228	(54,706)	(21,152)	160,094
For Year ended March 31, 2005	77,762	(39,617)	(25,702)	151,253

(4) Scope of consolidation and equity method application  
The Company consolidated of its 72 subsidiaries, and 8 affiliated companies using the equity method.

(5) Change in scope of consolidation and equity method application  
Starting from this fiscal year, 20 companies were newly consolidated as subsidiaries and 9 companies as consolidated subsidiaries were excluded. 4 affiliated companies using the equity method were newly consolidated and 2 affiliated companies using the equity method were excluded.

### 2. Projection for Consolidated Results for Fiscal Year 2006(April 1,2006 – March 31,2007)

	Net sales	Operating income	Net income
	Millions of Yen	Millions of Yen	Millions of Yen
Interim	296,000	43,000	22,000
Entire - year	682,000	124,000	75,000

(Reference) Projected net income per share for the entire-year is ¥297.65 Yen.

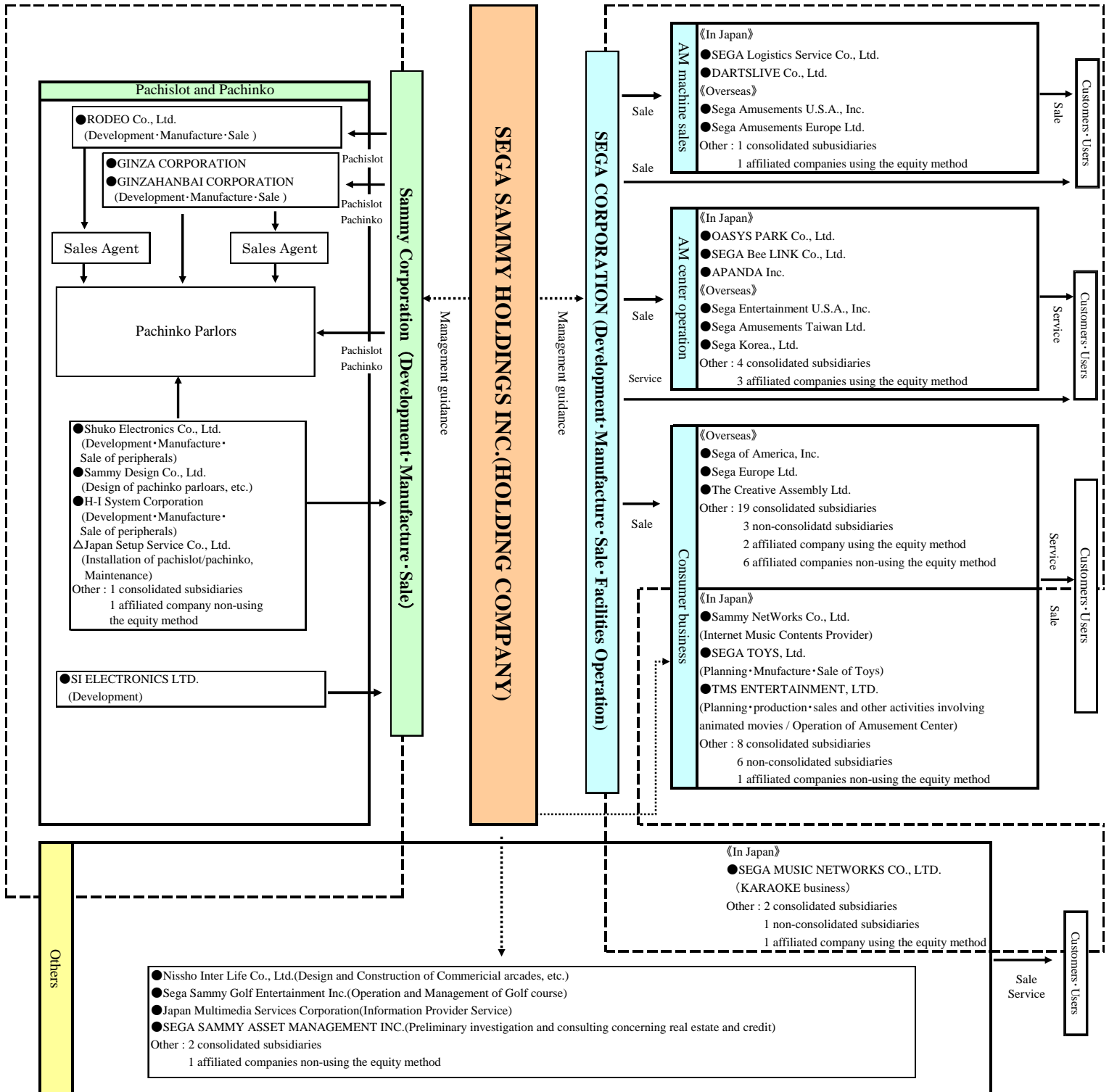
(Note)

Above estimate is made based on the information available at the date of announcement of this flash report and there may be a case that above estimate would differ form actual result due to various reasons.

# 1. Overview of the SEGA SAMMY Group

The SEGA SAMMY Group consists of SEGA SAMMY HOLDINGS INC., 82 subsidiaries and 17 affiliates. The core business domain of the SEGA SAMMY Group is the comprehensive entertainment business, comprising pachislot and pachinko machines, amusement machine sales, amusement center operations, consumer business and the other business.

Refer to the following chart for an overview of Group operations.



- (Note 1) In addition to the companies listed above, the SEGA SAMMY Group includes OS Capital U.S.A. Inc., (bearing with marketable securities investment funds), Sega Holdings U.S.A. Inc., (a holding company of subsidiaries in U.S.), Sega Holdings Europe Inc., (a holding company of subsidiaries in Europe.), SEGA R&D Holdings Ltd., (the holding company for R&D studios.) and SEGA SAMMY INVESTMENT INC. as consolidated subsidiaries
- (Note 2) See Consolidated companies listed in stock market  
SEGA TOYS, Ltd. (JASDAQ)  
Sammy NetWorks Co., Ltd. (The Mothers market of the Tokyo Stock Exchange)  
Nissho Inter Life Co., Ltd. (JASDAQ)  
TMS ENTERTAINMENT, LTD. (Second Section of the Nagoya Stock Exchange)

## **2. Management Policies**

### **(1) Basic Management Policies**

SEGA CORPORATION and Sammy Corporation on October 1, 2004 integrated their operations to build an even more powerful base as a comprehensive global entertainment organization. Combining the resources of the two companies, a holding company called SEGA SAMMY HOLDINGS was established with the aim of maximizing corporate value. The fiscal year ending March 31, 2006 is the second year since the two companies made a new start as the SEGA SAMMY Group. During the year under review, the Group took various measures to build a business framework that responds quickly and flexibly to changes in the operating environment and accelerate growth.

The core business domain of the SEGA SAMMY Group is the comprehensive entertainment business, comprising pachislot and pachinko machines, amusement machine sales, amusement center operations, and the consumer business.

Within this sphere, the Group targets markets worldwide in the quest to maximize and cross-fertilize its entertainment content and resources, ultimately aiming to promote business operations that target every age group. Moreover, the SEGA SAMMY Group is enhancing its presence in every applicable business field in a drive to become the world's leading name in comprehensive entertainment. To this end, the Group is committed to winning the trust and meeting the expectations of its stakeholders

### **(2) Basic Policy Concerning Distribution of Earnings**

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

In light of steady growth in operating results, the Company paid an interim dividend of ¥50 per share. This step is in line with the Company's policy of actively returning profits to shareholders. In addition, SEGA SAMMY HOLDINGS conducted a two-for-one stock split on September 30, 2005 as the date of record. As a result, for the fiscal year ending March 31, 2006, the Company now plans to pay a year-end dividend of ¥30 per share—¥10 higher than the initial forecast before the stock split, and ¥30 higher when compared against the forecast announced at the beginning of the fiscal year.

SEGA SAMMY HOLDINGS' policy is to effectively use retained earnings to boost its financial position and operating base, as well as for investments in line with business expansion, the establishment of new subsidiaries, and M&As.

### **(3) Approach, Policies, and Other Issues Concerning Reduction in the Trading Unit**

SEGA SAMMY HOLDINGS believes that reducing the trading unit of its shares is an effective means of widening the individual shareholder base and enhancing the liquidity of its shares. With the integration of SEGA and Sammy in October 2004, both companies were delisted prior to the establishment and listing of their parent company, SEGA SAMMY HOLDINGS. The trading unit was subsequently decided as 100 shares. The Company also conducted a two-for-one stock split on September 30, 2005 as the date of record. These and other actions have created conditions that make it easier for individuals to invest in SEGA SAMMY HOLDINGS.

The Company will continue to examine regularly further reductions in the trading unit, fully taking into account factors such as costs and benefits, while carefully monitoring trends in operating results and market developments.

#### **(4) Medium- to Long-term Strategies and Other Issues**

The SEGA SAMMY Group is engaged in a diverse array of entertainment businesses, ranging from pachislot and pachinko machines to commercial amusement machines, amusement center management, and home videogame software, as well as online games and services for mobile handsets. Operations also extend to toys and animation. Positioning these fields as core businesses, the Company's medium- to long-term strategies are focused on ensuring that it remains competitive in all these businesses in markets worldwide, while further expanding into fields peripheral to core businesses independently or through M&As and other means.

#### **(5) Issues to be Addressed**

Looking at the pachislot and pachinko machine business, the SEGA SAMMY Group will take steps to maintain its position as an industry leader boasting top market share in the pachislot business. The Group will reinforce the development of models that comply with revised regulations pertaining to the law in Japan governing gaming machines. While strengthening development, the SEGA SAMMY Group has formed a tie-up with GINZA CORPORATION that gives it the ability to develop multiple brands in the pachinko business, as it does in the pachislot business. These and other measures will help the Group to fulfill its medium-term goal of rapidly capturing a top share of the pachinko machine market.

At the same time, the SEGA SAMMY Group will work to provide a "pachinko parlor total service" that users enjoy while also meeting the needs of the pachinko parlor operators. This will be accomplished by drawing on the Group's collective strengths to offer peripheral equipment, as well as the planning, design and construction of pachinko parlors. Alongside these steps, the Company will also develop content derived from existing pachinko and pachislot machines.

In the amusement machine sales business in Japan, the SEGA SAMMY Group will work to increase installations while enhancing profitability. Specifically, steps will be taken to attract customers in wider age segments by offering a product lineup ranging from network-enabled, high-value-added products to family-oriented machines. For overseas markets, the goal is to improve the ratio of overseas sales to total sales by incorporating customer needs that differ by nation and region into product development.

In the amusement center operations business in Japan, strategic priorities will be given to continue developing the business model for children's card games through the success of "MUSHIKING: The King of Beetles," alongside developing new markets, including those overseas. Meanwhile, the SEGA SAMMY Group plans to formulate business strategies to develop large amusement centers that maximize investment returns while minimizing risks.

In the consumer business, the home videogame software market will see the emergence of next-generation game consoles. Against this backdrop, the SEGA SAMMY Group will boost development capabilities and push ahead with strategies based on a business structure focused on profitability.

In overseas markets, local product development will be essential to accurately respond to the specific needs of each market. Viewing this as an opportunity, the SEGA SAMMY Group will implement organizational reforms, including M&As, to reinforce its product lineup and acquire state-of-the-art development technologies. The goal is to sharpen the Group's competitive edge.

Finally, in the online game market, the SEGA SAMMY Group positions this promising growth field as a key pillar of operations over the medium and long terms. Plans call for making upfront investments to develop businesses in these markets, with the initial focus on establishing local operating bases. Efforts will also be made to reinforce content for mobile phones, toys, video, and other businesses, mainly at publicly listed subsidiaries.

#### **<TOKYO JOYPOLIS Accident>**

Following a fatal accident in which a customer fell from an attraction on April 18, 2005 at the TOKYO JOYPOLIS amusement center, SEGA CORPORATION, a Group company that operates this facility, has investigated its cause, led by an Accident Prevention Committee and involving external experts. Meanwhile, the Group has been taking actions to reform the company's internal framework so that it can run amusement centers that customers can enjoy safely with peace of mind. SEGA CORPORATION has implemented a range of detailed safety measures primarily comprising reforms of internal systems, including setting stricter safety standards and in-house rules, as well as educating employees and conducting inspections. Following these steps, TOKYO JOYPOLIS resumed operations on August 10, 2005.

As we welcome visitors once again to TOKYO JOYPOLIS, the Group wishes to use this opportunity to assure you that all SEGA SAMMY employees will make concerted efforts to carry out thorough safety control at its operations to

prevent any recurrence. Looking ahead, every effort will be made to create amusement centers that customers can enjoy safely with peace of mind.

#### **(6) Parent Company Issues**

None, since SEGA SAMMY HOLDINGS does not have a parent company.

#### **(7) Other Key Management Issues**

On December 27, 2005, Aruze Corp. filed a lawsuit at the Tokyo District Court for damages of ¥21,000 million against subsidiary Sammy Corporation in relation to the manufacture and sale of pachislot machines “Hokuto no Ken,” claiming infringement of patents owned by Aruze Corp.

Sammy Corporation believes that this case does not constitute an infringement of Aruze’s patent rights and will defend its position in court.

In addition, on October 28, 2005, subsidiary SEGA CORPORATION filed a petition at the Tokyo District Court for a provisional disposition to suspend the production, use, and sale, etc. of “DINOKING BATTLE CARD GAME,” an arcade game machine marketed by Taito Corporation. SEGA CORPORATION believed that this product had infringed its patent rights related to “The King of Beetle MUSHIKING.” However, during the trial, SEGA CORPORATION reached a settlement with Taito Corporation. Subsequently, on March 7, 2006, SEGA CORPORATION withdrew its petition for provisional disposition.

Going forward, the SEGA SAMMY Group will continue to respond appropriately against patent infringements to protect its intellectual property rights.

### **3. Operating Results and Financial Position**

#### **(1) Overview**

During the fiscal year ended March 31, 2006, the Japanese economy continued to face concerns over the impact of a series of major natural disasters in and outside Japan, soaring crude oil prices, and other issues. However, the nation’s economy continued to improve gradually, with improvement in the household sector following the corporate sector.

In this environment, the pachislot and pachinko industry continued to see increasing moves by machine manufacturers to develop models that conform to new regulations enacted in July 2004, when regulations pertaining to the law in Japan governing gaming machines were revised. Nonetheless, installations of pachinko and pachislot machines were flat, mainly due to the emergence of large-scale amusement centers. The situation is compounded by the declining number of pachinko parlors and players nationwide, making it imperative for the industry as a whole to attract a wider range of users to reinvigorate the market.

In the amusement machine sales industry, network-enabled game machines have garnered more attention, thanks to advancement in communications infrastructure. In addition, large-scale “satellite-model” videogame machines featuring card systems have steadily established a strong user base through a series of upgrades. These game machines now rank among the top in terms of sales.

In the amusement center operations business, as large-scale, multi-purpose amusement centers gain ground, amusement centers located within shopping malls that attract large numbers of customers have grown to become a community space for families. In particular, children’s card game machines helped to drive significant market growth.

In the home videogame software and toys industry, videogames for various new portable game consoles targeting wider age segments and new users proved extremely popular. This was particularly noteworthy amid challenging market conditions marked by industry realignment triggered by the integration and merger of major companies. This has been followed by growing expectations for the early launch of next-generation home videogame consoles with functions that will revolutionize traditional video game consoles. These and other developments have triggered fierce competition to develop new products targeting further growth in the market. In the run-up to the emergence of these next-generation videogame consoles, expectations of higher demand for software sales are growing, but more advanced requirements in hardware specifications are expected to increase R&D-related cost outlays. This is expected to further highlight differences between software developers in terms of product development capabilities and financial resources.

In this business environment, the fiscal year ended March 31, 2006 was the second year since SEGA and Sammy merged to form the SEGA SAMMY Group. Continuing from the previous fiscal year, the Group implemented the following business reorganization measures, as well as M&As targeting business expansion.

**<Main Business Reorganization and Expansion Measures in the Fiscal Year Ended March 31, 2006>**

- ① On April 1, 2005, SEGA CORPORATION absorbed certain operations spun off from Sammy Corporation through a corporate separation. This step was taken to allow Sammy to specialize in the pachislot, pachinko, and peripheral equipment businesses. This was accomplished by concentrating the Group's overlapping operations, such as Sammy's amusement machine sales and home videogame software business, at SEGA.
- ② On April 1, 2005, SEGA CORPORATION, Sega Amusement Co., Ltd., a subsidiary of SEGA, and Sammy Amusement Service Co., Ltd. merged to integrate the functions of the amusement center operations business, which were previously dispersed throughout the Group, and more closely coordinate the amusement machine sales and amusement center operations business.
- ③ On September 1, 2005, SEGA AMUSEMENTS U.S.A. Inc. (SAU) and Sammy USA Corporation (SUSA) merged to rationalize and raise the efficiency of commercial amusement machine development, manufacturing, and sales in North America.
- ④ On August 2, 2005, Sammy Corporation acquired shares of H-I System Corporation (H-I System), which specializes in hall computer systems and prize POS systems, and made it a consolidated subsidiary. This step was taken to increase earnings by (1) meeting diverse customer needs through providing total hall services and (2) expanding sales opportunities.
- ⑤ On October 7, 2005, the equity-method affiliate TMS ENTERTAINMENT, LTD. (TMS), which is principally engaged in the planning, production, and sale of animated cartoons, was made a consolidated subsidiary, after the shares of TMS were acquired up to the same day.
- ⑥ On October 26, 2005, Sammy Corporation acquired shares of GINZA CORPORATION and made it a consolidated subsidiary to reinforce the development of multiple brands in the pachinko and pachislot machines business.

In terms of business results, the SEGA SAMMY Group posted a favorable performance. This was supported by sales of the "Aladdin 2 Evolution" pachislot machine and "CR Hokuto No Ken" pachinko machine, with both retaining their predecessors' popularity; robust sales of "Star Horse 2 NEW GENERATION," a large-scale game machine supplied by the amusement machine sales business; and continued brisk sales in the children's card game business, including "MUSHIKING: The King of Beetles" and "Oshare Majo Love and Berry" in the amusement center operations business. The success of content for children's card games also carried over to the consumer business. In these and other ways, the Group is establishing a solid foundation for new content, while capturing group-wide synergies. This exertion of synergies among businesses is a key strength of the SEGA SAMMY Group.

As a result, consolidated net sales totaled ¥553,240 million and operating income was ¥119,144 million. The SEGA SAMMY Group booked impairment losses of ¥7,194 million on certain amusement centers as other expenses. Consequently, net income was ¥66,221 million.

Results by business segment were as follows.

### 《Pachislot and Pachinko Machines》

In the pachislot machine business, the SEGA SAMMY Group retained a top share of the market and introduced numerous models offering various game features and high entertainment value, posting total pachislot machine sales of 607 thousand units. This success was attributable to “Aladdin 2 Evolution,” which features Aladdin, a character synonymous with Sammy Corporation, as well as “Ore No Sora,” a game released under the RODEO brand and based on the popular comic book by the same title.

In the pachinko machine business, the SEGA SAMMY Group sold 288 thousand units of pachinko machines. Even though the business did not meet the initial target, this figure surpassed sales in the previous fiscal year. In particular, unit sales of “CR Hokuto No Ken,” the successor to the “Hokuto No Ken” series of pachislot machines, reached a record-high at Sammy Corporation.

In the pachinko ball, token dispensing machine, and other peripheral businesses, the SEGA SAMMY Group took steps to strengthen “pachinko parlor total services.” To this end, the Group acquired H-I System Corporation, which conducts businesses related to pachinko parlor computers and POS systems for prize items, and made it a subsidiary.

As a result of the above, net sales in this segment totaled ¥265,631 million, down 5.2% year on year, and operating income was ¥99,847 million, dropping 3.9%.

#### Main Pachislot Machines and Units sold

Variety	Units sold ( : Thousand )
Aladdin 2 Evolution	148
Ore No Sora	100
Ultraman Club ST	77
Pachislot Umimonogatari	63
Onimusha 3	51
Others	165
Total	607

#### Main Pachinko Machines and Unit Sold

Variety	Units sold ( : Thousand )
CR-Hokuto No Ken series	178
CR-ChoroQ series	30
CR-Sakigake Otokojuku series	29
CR-ChoroQ turbo series	27
Others	23
Total	288



### 《Amusement machine sales》

In the amusement machine sales business, although sales of existing prize games experienced a cyclic downturn, overall performance was strong, thanks to brisk sales of “satellite-model” products. These included “Sangokushi Taisen,” a network-enabled trading card game launched in the previous fiscal year that remained popular, and “Star Horse 2 NEW GENERATION,” the latest in the Star Horse series, featuring significant upgrades to a broad spectrum of game features. In addition, partial sales under original equipment manufacturing (OEM) agreements also made a positive contribution.

As a result, net sales in this segment were ¥71,512 million, up 13.0%, and operating income was ¥12,176 million, an increase of 64.0%.

### 《Amusement center operations》

In the amusement center operations business, following the enormous popularity of “MUSHIKING: the King of Beetles” mainly among boys in elementary school, “Oshare Majo Love and Berry,” which created a new genre based on the universal theme of interest in fashion among mothers and daughters, enjoyed steady increases in installations and card sales. Building on the business model provided by these two titles, the SEGA SAMMY Group also launched “DINOSAUR KING” in this product category. The success of special card game events held in various regions, mainly during holidays, also drew a strong crowd of children and their parents, making a significant contribution to results.

During the fiscal year under review, 14 new amusement centers were opened in Japan, including centers operated by TMS ENTERTAINMENT, LTD., the Group’s new consolidated subsidiary, while 52 locations were closed, resulting in a total of 462 locations on March 31, 2006.

As a result, net sales in this segment were ¥106,245 million, up 27.7%, and operating income was ¥9,244 million, an increase of 68.9%.

### 《Consumer Business》

In the consumer business, videogame software sales during fiscal 2005 totaled 16,400 thousand copies, comprising 4,100 thousand copies in Japan, 6,140 thousand in the U.S., 6,060 thousand in Europe, and 100 thousand in other regions. These sales were underpinned by better-than-forecast sales of “The King of Beetle MUSHIKING: Road to Greatest Champion.” Other strong sellers included “Ryu Ga Gotoku,” “Noryoku Trainer Portable by Professor Ryuta Kawashima, New Industry Creation Hatchery Center, Tohoku University,” as well as “Pro Yakyu Team wo Tsukuro! 3” and “Pro Soccer Club wo Tsukuro! Europe Championship,” the latest additions to the “Tsukuro!” series. Overseas, “Shadow the Hedgehog” and other “Sonic” series titles posted favorable results.

The SEGA SAMMY Group also performed well in content production for toys, mobile phones, and animation videos.

As a result, the consumer business posted net sales of ¥90,352 million, up 38.3%. The segment moved back into the black, posting operating income of ¥1,977 million. (Loss of ¥8,809 million in the prior year)

### 《Others》

This segment covers planning, design, management, construction, KARAOKE business, and other services involving commercial and other facilities. Segment sales totaled ¥19,497 million, down 17.8% and the operating loss was ¥1,712 million. (Loss of ¥541 million in the prior year)

## (2) Financial Position

Total assets as of March 31, 2006 were ¥522,914 million, an increase of ¥83,923 million from a year earlier. This was primarily attributable to acquisition of consolidated subsidiaries and an increase of retained earnings by net income. The Company remained on a sound financial footing with a current ratio of 241.2% even though the ratio was decreased by 15 points year on year.

Shareholders' equity was ¥316,679 million, up ¥57,725 million, largely due to ¥66,221 million in net income and ¥13,776 million in dividend payments.

As a result, the equity ratio rose from 59.0% at fiscal year-end in 2005 to 60.6%.

Operating activities provided net cash of ¥83,228 million. This mainly reflected income before income taxes of ¥111,923 million and income taxes paid of ¥45,766 million.

Investing activities used net cash of ¥54,706 million. The main uses of cash were for the purchase of tangible fixed assets of ¥26,331 million and investment in partnerships of ¥24,710.

Financing activities used net cash of ¥21,152 million, mainly for the payment of dividends of ¥13,776 million and repayment of long-term loan of ¥9,777 million.

Due to the above items, cash and cash equivalents as of March 31, 2006 were ¥160,094 million, an increase of ¥8,840 million from the beginning of the fiscal year.

### <Cash Flow Indices>

	March2005	March 2006
Equity ratio	59.0%	60.6%
Equity ratio (fair market value)	185.6%	230.2%
Redemption of debt	0.6 years	0.5 years
Interest coverage ratio	105.8 times	123.8 times

Notes: Equity ratio: Shareholders' equity/total assets

Equity ratio (fair market value): Market capitalization/total assets

Redemption of debt: Interest-bearing debt/operating cash flow

Interest coverage ratio: Operating cash flow/interest payments

1. All indicators are calculated using the consolidated financial results.
2. Market capitalization is calculated by multiplying the year-end share price with the number of shares issued and outstanding at year-end (excluding treasury stock).
3. Operating cash flow refers to Cash Flows from Operating Activities in the Consolidated Statements of Cash Flows.
4. Interest-bearing debt is the portion of debt recorded in the Consolidated Balance Sheets on which interest is being paid. Interest payments refer to interest paid as shown in the Consolidated Statements of Cash Flows.

### **(3) Outlook for the March 2006 Fiscal Year**

In fiscal 2006, the pachinko machine industry expects to see shipments of models compatible with revised regulations remain at a high level as in fiscal 2005. Meanwhile, pachislot manufacturers will likely benefit from continued favorable sales of pachislot machines based on previous industry standards. Models compatible with the revised regulations are expected to become mainstream in the second half of the fiscal year.

In the amusement machine sales and amusement center operations sectors, performance is projected to remain robust, thanks to the increases in the number of amusement centers in multipurpose commercial facilities and stand-alone locations, in addition to growth in existing markets.

In the consumer business in Japan, demand for portable game consoles is expected to remain high. In anticipation of the launch of next-generation game consoles by various companies in fiscal 2006, strong demand for game software is projected not only in Japan, but also in the North American and European markets.

In this business environment, the SEGA SAMMY Group, in its pachinko and pachislot business, is seeking to launch highly distinctive products by leveraging its advanced capabilities in planning and visual expression. Through a capital and business tie-up with GINZA CORPORATION, which specializes in the development, manufacture, and sale of pachinko and pachislot machines, the SEGA SAMMY Group aims to lay a stronger foundation in the pachislot machine business and unveil a variety of brands in the pachinko machine business. Based on this approach, the Group is targeting unit sales of 570 thousand for both pachislot and pachinko machines for the full fiscal year.

Furthermore, the SEGA SAMMY Group will not only launch high-quality amusement machines, but also offer improved “pachinko parlor total services” that meet a variety of needs, from peripheral equipment to designing pachinko parlors. In this undertaking, the Group also aims to create products that are easy to operate to attract more existing users, and untapped customer segments to pachinko parlors.

In the amusement machine sales business, the SEGA SAMMY Group will provide a combination of popular, long-selling products and new offerings. This will be done by leveraging one of SEGA’s key strengths—its extensive lineup of products.

In the amusement center operations business, the SEGA SAMMY Group expects to maintain its strong performance by opening new amusement centers, including centers specifically developed for multipurpose commercial facilities, in addition to renovating centers to reinvigorate existing operations. Moreover, the Group will reinforce its children’s card game business by focusing on “MUSHIKING: the King of Beetles” and “Oshare Majo Love and Berry,” and “DINOSAUR KING.” Finally, the Group will exploit the content created for children’s card games to develop videogame software, toys, and videos, with the ultimate goal of maximizing synergies within the Group.

Finally, in the consumer business, the SEGA SAMMY Group will take aggressive corporate restructuring and business expansion measures. To boost the development of the console business in growing overseas markets, the Group plans to purchase competitive titles and brands, and acquire overseas development companies to obtain advanced development capabilities. For fiscal 2006, the Group is projecting total game software sales of 6.7 million copies in Japan, 6.3 million in the U.S., and 8.9 million in Europe, for a total of over 21.9 million copies. In addition, the Group is determined to bolster its mobile phone content and toy businesses by mustering resources across the Group.

In light of the foregoing, for the fiscal year ending March 31, 2007, the Group is projecting consolidated net sales of ¥682,000 million, up 23.3% year on year, operating income of ¥124,000 million, an increase of 4.0%, and net income of ¥75,000 million, a rise of 13.3%.

The above projections assume the following currency exchange rates: U.S.\$1=¥110; £1=¥200; and 1 euro=¥135.

#### **[Caution With Regard to Operating Results Outlook]**

Statements in this report pertaining to market projections and the outlook for operating results reflect the assumptions and judgment of the Company’s management based on the most accurate information available at the time of release. Such statements carry inherent risks and uncertainties. Factors that may affect operating results include, but are not limited to, those discussed in the projections and outlook. Readers are cautioned that changes in a variety of factors could cause actual results to differ substantially from the aforementioned projections and outlook.

#### **(4) Operational Risk Information**

Risks that could affect the performance or operations of the SEGA SAMMY Group are given below. Further, the following is not a comprehensive list of the operational risks faced by the Group. However, based on an awareness of the following risks, the Group implements measures to prevent the occurrence of incidents arising from those risks and to respond to such incidents in the event of their occurrence.

In addition, forward-looking statements in the following text are the judgments of the Group as of March 31, 2006.

##### **① Statutory Regulations Affecting the Pachislot and Pachinko Businesses**

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

Also, in July 2004 revisions were enacted to regulations pertaining to the Entertainment Establishments Control Law that mainly curb the gambling characteristics and prevent the improper use of pachislot and pachinko machines.

Such regulatory revisions, the progress of new-machine development, the requirements of format examinations and official licenses, product malfunctions, user preferences, and the sales trends of competitors' products could have a significant impact on the Group's performance or operations.

##### **② Product Lifecycles**

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

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

Home videogame software is susceptible to changes in seasonal demand, which focuses on such periods as the run up to Christmas and New Year. If the Group is unable to supply new products during such selling periods, surplus inventory could result.

To mitigate risks associated with such inventories, the Group takes measures that include the use of common components, the shortening of lead times for components procurement, and the strengthening of inventory asset management. However, losses stemming from the disposal of inventory assets could result due to sales results that fall short of projections.

##### **③ Entry into Overseas Markets**

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

##### **④ Application of impairment accounting**

The SEGA SAMMY Group adopted impairment accounting from the first half of the fiscal year under review. This may result in the booking of impairment losses related to the Company's ability to recover capital expenditure based on operating performance in each business division and future cash flows, which could in turn affect the Group's operating results.

⑤ Management of Personal Information

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

⑥ Lawsuits

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

## CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2005 AND 2006

(Unit : Millions of Yen)

	Prior year (As of March 31,2005)		Current year (As of March 31,2006)		Change
	Amount	Percentage	Amount	Percentage	Amount
( A s s e t s )		%		%	
I Current Assets					
Cash and deposits	152,277		144,521		(7,755)
Notes and accounts receivable - trade	76,922		96,727		19,805
Allowance for doubtful accounts - current	(1,891)		(1,493)		397
Securities	—		19,497		19,497
Inventories	32,001		32,200		198
Income tax refunds receivable	—		15,655		15,655
Deferred taxes - current	6,023		6,277		253
Others	17,128		17,944		816
Total current assets	282,461	64.3	331,331	63.4	48,869
II Fixed assets					
Tangible fixed assets					
Buildings and structures	27,556		31,032		3,476
Rental equipment for amusement arcades	13,871		19,567		5,695
Land	22,257		20,698		(1,559)
Construction in progress	1,220		1,839		619
Others	8,282		9,515		1,233
Total tangible fixed assets	73,187	16.7	82,654	15.8	9,466
Intangible fixed assets					
Goodwill	3,404		11,266		7,861
Others	6,636		5,445		(1,190)
Total intangible fixed assets	10,040	2.3	16,712	3.2	6,671
Investments and other assets					
Investment securities	43,775		59,918		16,142
Long - term loan receivables	3,828		1,915		(1,912)
Lease deposits	19,117		18,073		(1,044)
Deferred taxes non - current	499		803		303
Others	15,623		19,967		4,344
Allowance for doubtful accounts non - current	(9,544)		(8,462)		1,082
Total investments and other assets	73,300	16.7	92,216	17.6	18,915
Total fixed assets	156,529	35.7	191,583	36.6	35,053
Total assets	438,991	100.0	522,914	100.0	83,923

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2005 AMD 2006

(Unit : Millions of Yen)

	Prior year (As of March 31,2005)		Current year (As of March 31,2006)		Change
	Amount	Percentage	Amount	Percentage	Amount
( Liabilities )		%		%	
I Current liabilities					
Notes and accounts payable - trade	57,139		62,133		4,993
Short - term bank loans and current portion of long - term debt	10,023		8,395		(1,627)
Redeemable bond within a year	3,278		2,000		(1,278)
Income taxes payable	12,507		29,221		16,713
Accrued employees' bonuses	1,722		1,871		149
Others	25,596		33,731		8,134
Total current liabilities	110,268	25.1	137,353	26.2	27,085
II Non-current liabilities					
Bonds payable	25,788		23,620		(2,168)
Corporate bond with stock acquisition rights	5,322		1		(5,321)
Long - term debt, less current portion	11,118		5,596		(5,521)
Severance and retirement allowance	6,036		7,490		1,454
Retirement benefits for directors and corporate auditors	1,162		1,276		114
Deferred taxes liabilities non - current	5,399		4,488		(911)
Others	6,437		7,095		657
Total non - current liabilities	61,265	14.0	49,569	9.5	(11,695)
Total liabilities	171,533	39.1	186,923	35.7	15,389
Minority interest	8,503	1.9	19,311	3.7	10,808
( Shareholders' equity )					
Common stock	27,291	6.2	29,953	5.7	2,661
Capital surplus	176,302	40.2	171,071	32.7	(5,230)
Retained earnings	133,760	30.5	193,721	37.1	59,960
Adjustment on revaluation of Land	(6,541)	(1.5)	(7,506)	(1.4)	(964)
Net unrealized holding gains on securities	10,792	2.4	11,756	2.3	964
Foreign currency translation adjustments	(9,425)	(2.1)	(8,767)	(1.7)	657
	332,179	75.7	390,228	74.7	58,048
Treasury stock	(73,225)	(16.7)	(73,549)	(14.1)	(323)
Total shareholders' equity	258,954	59.0	316,679	60.6	57,725
Total liabilities and shareholders' equity	438,991	100.0	522,914	100.0	83,923

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEAR ENDED MARCH 31, 2005 AND 2006

(Unit : Millions of Yen)

	Prior year From April 1,2004 To March 31,2005		Current year From April 1,2005 To March 31,2006		Change
	Amount	Percentage	Amount	Percentage	Amount
		%		%	
Net sales	515,668	100.0	553,240	100.0	37,572
Cost of sales	304,109	59.0	324,228	58.6	20,119
Gross profit	211,558	41.0	229,011	41.4	17,453
Selling, general and administrative expenses	106,469	20.6	109,867	19.9	3,398
Operating income	105,089	20.4	119,144	21.5	14,054
Other income (expenses) :					
Interest and dividend income	759		1,100		341
Gain on investments in partnerships	—		1,066		1,066
Reversal of allowance for doubtful receivables	1,325		508		(817)
Gain on change in equity of a subsidiary	2,251		1,065		(1,185)
Gain on sale of discontinued operation	742		26		(715)
Interest expenses	(803)		(634)		168
Sales discount	—		(954)		(954)
Loss from the prior – term adjustment	—		(673)		(673)
Loss on disposal of fixed assets	(907)		(818)		89
Loss on sale of fixed assets	(768)		(168)		599
Loss from revaluation of investment securities	(1,040)		(853)		186
Impairment losses	(325)		(7,194)		(6,869)
Loss of business reorganization	(2,944)		(317)		2,626
Loss from redemption of bonds	(10,606)		—		10,606
Others	(3,290)		627		3,918
Sub total	(15,607)	(3.0)	(7,220)	(1.3)	8,386
Income before income taxes and minority interest	89,482	17.4	111,923	20.2	22,441
Income taxes - current	32,437	6.3	46,796	8.4	14,358
- deferred	5,651	1.1	(3,018)	(0.5)	(8,670)
Total income taxes	38,089	7.4	43,778	7.9	5,688
Net income before minority interests	51,393	10.0	68,145	12.3	16,752
Minority interests	819	0.2	1,923	0.3	1,104
Net income	50,574	9.8	66,221	12.0	15,647



SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS  
FOR THE YEAR ENDED MARCH 31, 2005 AND 2006

(Unit : Millions of Yen)

	Prior year	Current year	Change
	From April 1,2004 To March 31,2005	From April 1,2005 To March 31,2006	
	Amount	Amount	
(Capital surplus)			
I Capital surplus at the beginning of year Beginning balance	154,340	176,302	21,961
II Increase			
1. Issuance of new stock	17,285	2,659	(14,625)
2. Issuance of new stock of wholly owned subsidiary before the stocks transfer	2,847	—	(2,847)
3. Gain on sale of treasury stock	3	7	4
4. Gain on sale of treasury stock of wholly owned subsidiary before the stocks transfer	1,826	—	(1,826)
III Decrease			
1. Dividends	—	(7,498)	(7,498)
2. Transfer of Capital surplus to Retained earnings	—	(220)	(220)
3. Bonuses to directors and corporate auditors	—	(180)	(180)
IV Capital surplus at the end of year	176,302	171,071	(5,230)
(Retained earnings)			
I Retained earnings at the beginning of year Beginning balance	101,837	133,760	31,922
II Increase			
1. Net income	50,574	66,221	15,647
2. Increase amount due to consolidation scope change	1,910	194	(1,716)
3. Transfer of Capital surplus to Retained earnings	—	220	220
4. Reversal of adjustment on revaluation of Land	276	2	(274)
III Decrease			
1. Dividends	—	(6,278)	(6,278)
2. Dividends of wholly owned subsidiary before the stock transfer	(7,432)	—	7,432
3. Bonuses to directors and corporate auditors	(525)	(372)	152
4. Loss of disposal of treasury stock of wholly owned subsidiary before the stocks transfer	(10,355)	—	10,355
5. Loss on sale of treasury stock of wholly owned subsidiary before the stocks transfer	(2,524)	—	2,524
6. Decrease amount due to consolidation scope change	—	(26)	(26)
IV Retained earnings at the end of year	133,760	193,721	59,960

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2005 AND 2006

(Unit : Millions of Yen)

	Prior year From April 1,2004 To March 31,2005	Current year From April 1,2005 To March 31,2006
	Amount	Amount
Cash flows from operating activities:		
Income before income taxes and minority interests	89,482	111,923
Depreciation and amortization	17,674	21,854
Impairment losses	325	7,194
Amount of transfer of equipment by amusement center operation business	(4,981)	(11,815)
Interest and dividend income	(759)	(1,100)
Interest expenses	803	634
Amortization of goodwill	720	1,782
Gain on change in equity of a subsidiary	(2,251)	(779)
Equity in losses (earnings) of affiliates	(25)	229
Loss on disposal/sales of fixed assets	1,354	845
Loss from revaluation of investment securities	1,040	853
Gain on investment in partnerships	(1,066)	(888)
Loss from redemption of bonds	10,606	—
Loss of business reorganization	2,944	317
Others	(4,395)	4,179
Changes in assets and liabilities:		
Increase (Decrease) in notes and accounts receivable	34,138	(14,805)
Decrease (Increase) in inventories	(3,947)	1,689
Decrease (Increase) in notes and accounts payable	(12,091)	1,237
Sub-total	129,569	123,352
Receipt of interest and dividend income	718	1,314
Payment of interest expenses	(735)	(672)
Payment of income taxes	(51,791)	(45,766)
Refund of Deposit for lawsuit	—	5,000
Net cash provided by operating activities	77,762	83,228

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2005 AND 2006

(Unit : Millions of Yen)

	Prior year From April 1,2004 To March 31,2005	Current year From April 1,2005 To March 31,2006
	Amount	Amount
Cash flows from investing activities:		
Decrease (Increase) in time deposit - net	(3,500)	366
Payment for purchase of securities	—	(3,498)
Proceeds from redemption of securities	—	500
Payment for purchase of tangible fixed assets	(24,416)	(26,331)
Proceeds from sales of tangible fixed assets	1,045	344
Payment for purchase of intangible fixed assets	(1,826)	(1,986)
Proceeds from sales of intangible fixed assets	1,828	24
Payment for acquisition of shares of affiliated companies	(2,234)	(6,802)
Proceeds from sale of shares of affiliated companies	—	210
Payment for purchase of investment securities	(2,897)	(2,241)
Proceeds from sales of investment securities	179	1,253
Payment for investment in partnerships	(2,060)	(24,710)
Proceeds from distribution of investment in partnerships	696	8,817
Payment for acquisition of consolidated subsidiaries - net	(2,677)	6,001
Proceeds from sales of consolidated subsidiaries - net	160	(240)
Decrease (Increase) in loans receivable – net	(1,789)	1,137
Lease deposits	(3,652)	(3,688)
Refund of deposits	2,265	1,918
Payment for acquisition of operation	—	(2,850)
Others	(738)	(2,930)
Net cash used in investing activities	(39,617)	(54,706)
Cash flows from financing activities:		
Decrease in short - term bank loans	(2,540)	(556)
Proceeds from issuance of long - term debt	1,707	3,105
Payment of long - term debt	(7,781)	(9,777)
Proceeds from issuance of bonds	193	194
Payment of redemption of bonds	(21,265)	(3,239)
Proceeds from issuance of stock to minority shareholders	4,956	3,440
Cash dividends paid for minority shareholders	(81)	(101)
Cash dividends paid	—	(13,776)
Payment for purchase of treasury stock	(444)	(378)
Proceeds from exercise of stock acquisition rights of wholly owned subsidiary before the stock transfer	7,261	—
Cash dividends paid of wholly owned subsidiary before the stock transfer	(7,432)	—
Others	(276)	(64)
Net cash used in financing activities	(25,702)	(21,152)
Effect of exchange rate changes on cash and cash equivalents	53	685
Net increase in cash and cash equivalents	12,495	8,054
Cash and cash equivalents at beginning of year	138,758	151,253
Net increase in cash and cash equivalents due to consolidation scope change	—	462
Net increase in cash and cash equivalents due to merger	—	323
Cash and cash equivalents at end of year	151,253	160,094

## SEGMENT INFORMATION

### A. Operations by product

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

(Unit: Millions of yen)

	Pachinko Pachislot	Amusement machine sales	Amusement center operations	Consumer business	Others	Total	Corporate and eliminations	Consolidated
Net sales -								
(1) Outside customers	280,109	63,304	83,193	65,341	23,719	515,668	—	515,668
(2) Inter segment	32	16,535	125	115	746	17,555	(17,555)	—
Total	280,141	79,840	83,319	65,456	24,466	533,223	(17,555)	515,668
Cost and expenses	176,210	72,416	77,847	74,266	25,007	425,748	(15,169)	410,578
Operating income (loss)	103,930	7,423	5,472	(8,809)	(541)	107,475	(2,386)	105,089
Assets	114,063	35,190	74,988	54,493	19,627	298,364	140,626	438,991
Depreciation	2,388	856	11,937	2,120	346	17,649	24	17,673
Capital expenditure	2,842	1,227	24,886	2,222	638	31,817	651	32,468

(Note)

1. The Company has 5 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
  - (1) Pachinko and pachislot … Development, manufacture and sale of Pachinko and pachislot machines and design for parlors
  - (2) Amusement machine sales … Development, manufacture and sale of game machines used in an amusement arcades
  - (3) Amusement center operations … Development, operation, rent and maintenance of Amusement center
  - (4) Consumer business … Development and sale of home video game software,  
Development, manufacture, and sale of toys  
Project and production of entertainment contents through cellular phone etc.
  - (5) Others … Project, design, management and construction of commercial establishment, etc.
3. General corporate expenses of ¥ 2,181 million, which mainly consist of expenses incurred by the submitting company's administrative department, are included in "Corporate and eliminations."
4. Corporate assets of ¥ 144,739 million, which mainly consist of expenses incurred by the submitting company's group management, are included in "Corporate and eliminations."

Current period (From April 1, 2005 to March 31,2006)

(Unit: Millions of yen)

	Pachinko Pachislot	Amusement machine sales	Amusement center operations	Consumer business	Others	Total	Corporate and eliminations	Consolidated
Net sales -								
(1) Outside customers	265,631	71,512	106,245	90,352	19,497	553,240	—	553,240
(2) Inter segment	1,182	5,756	11	376	1,333	8,660	(8,660)	—
Total	266,814	77,269	106,257	90,729	20,830	561,901	(8,660)	553,240
Cost and expenses	166,966	65,092	97,013	88,752	22,543	440,368	(6,271)	434,096
Operating income (loss)	99,847	12,176	9,244	1,977	(1,712)	121,532	(2,388)	119,144
Assets	121,843	41,777	91,099	89,599	13,424	357,743	165,170	522,914
Depreciation	2,482	1,505	17,147	2,411	716	24,262	(2,407)	21,854
Capital expenditure	6,944	1,467	24,576	3,502	928	37,419	230	37,650

(Note)

1. The Company has 5 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
  - (1) Pachinko and pachislot ... Development, manufacture and sale of Pachinko and pachislot machines and design for parlors
  - (2) Amusement machine sales ... Development, manufacture and sale of game machines used in an amusement arcades
  - (3) Amusement center operations ... Development, operation, rent and maintenance of Amusement center
  - (4) Consumer business ... Development and sale of home video game software,  
Development, manufacture, and sale of toys  
Project and production of entertainment contents through cellular phone etc.  
Planning, production and sale of animated movies.
  - (5) Others ... Project, design, management and construction of commercial establishment, etc.
3. General corporate expenses of ¥ 4,915 million, which mainly consist of expenses incurred by the submitting company's administrative department, are included in "Corporate and eliminations."
4. Corporate assets of ¥ 170,929 million, which mainly consist of expenses incurred by the submitting company's group management, are included in "Corporate and eliminations."

#### B. Geographical segment information

Geographical segment information was not presented as the sales and assets of consolidated domestic subsidiaries for the year ended March 31, 2006 and 2005 exceed 90% of consolidated net sales and assets

#### C. Overseas sales

Overseas sales was not presented as the overseas sales of the Company and its consolidated subsidiaries for the year ended March 31, 2006 and 2005 were less than 10% of consolidated net sales.