

Business Report

Report and Reference for the Fourth Ordinary General Meeting of Shareholders

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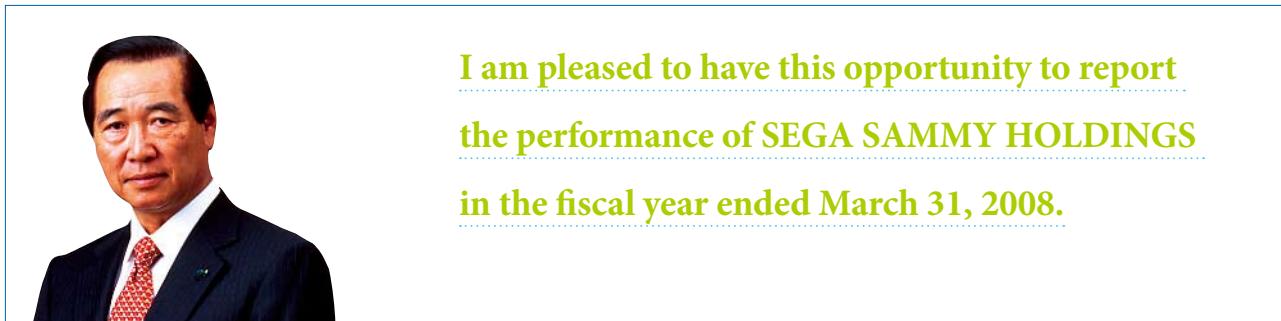
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**I am pleased to have this opportunity to report
the performance of SEGA SAMMY HOLDINGS
in the fiscal year ended March 31, 2008.**

In the past fiscal year, SEGA SAMMY HOLDINGS recorded a substantial decline in net sales, to ¥458.9 billion, and, for the first time in the Group's history, an ordinary loss of ¥8.2 billion. This performance was attributable to lower unit sales of both pachislot machines and pachinko machines, weak same – center sales in the Amusement Center Operations segment, and — despite solid results in videogame software overseas — sluggish sales of videogame software in the domestic market. We regret that we were unable to meet the expectations of our shareholders and investors, and on behalf of everyone at SEGA SAMMY, I would like to take this opportunity to offer our apologies.

In this situation, we implemented a variety of restructuring initiatives in the second half of the year under review. Specifically, SEGA decided to sell or close about 110 amusement centers with low profitability or future potential. In addition, to establish a cost structure that is aligned with earning power, SEGA has offered voluntary retirement to about 400 people. In addition, we have decided to discontinue an entertainment complex in the central ward of the Minato Mirai 21 development zone, which had previously been a key focus of the Group's efforts.

As a result, we recorded extraordinary losses totaling ¥38.8 billion and a net loss of ¥52.4 billion. We apologize once again for disappointing our shareholders, and we ask for your understanding in regard to the measures that we have taken to place our business development activities on a sound foundation and to ensure future improvement in our performance.

The Group realizes that the revival of its core operations is necessary to meet the expectations of its shareholders. Accordingly, we are working to strengthen our pachinko machine business and to improve the performance of the Amusement Center Operations division and domestic consumer businesses. Also, to record further growth as a comprehensive entertainment company, it is important that we continue to open up new fields of business.

As one facet of these initiatives, SEGA and Sammy, the Group's core companies, implemented a new management system on May 1, 2008.

Having realized a series of restructuring initiatives and paved the way for prompt improvement of profitability and a new stage of growth, SEGA transitioned to a new management system. Okitane Usui, previously Director and General Manager of the Amusement Business Group Division, has become SEGA's President and Representative Director (Chief Operating Officer). Furthermore, SEGA has changed its organizational system to facilitate the rapid reflection in operational administration of top management's thinking.

Sammy has also implemented a new system. Keishi Nakayama, SEGA SAMMY HOLDINGS' Executive Vice President and Representative Director, has become Sammy's President, Representative Director (Chief Operating Officer). To record continued growth, the SEGA SAMMY Group must improve the profitability of the pachislot and pachinko machine business, centered on Sammy. With the pachislot machine market adversely affected by new regulatory revisions, Sammy has positioned the pachinko machine business as a key growth field over the medium to and long term and is working to reinforce its development capabilities. In the future, Keishi Nakayama will lead management reforms and resolutely implement thorough restructuring measures.

As CEO of both SEGA and Sammy, I will work together with Mr. Usui and Mr. Nakayama to implement management reforms at each company from a Groupwide perspective.

To achieve long term growth, everyone at the Group will work together and strive to make continued progress under the new system. I would like to ask for your continued support in the years ahead.

May 2008



Hajime Satomi
Chairman of the Board and
Chief Executive Officer



(Report and Reference the Fourth Ordinary General Meeting of Shareholders)
From April 1, 2007 to March 31, 2008

1. Group's Current Condition

① Business Development and Results

During the fiscal year ended March 31, 2008, the Japanese economy gradually improved as solid corporate profits led to improvements in capital expenditures and employment. However, the second half brought an increasingly uncertain outlook because of concerns about a slowdown in the U.S. economy brought on by the sub-prime loan crisis and the impact on individual consumption of increases in gasoline and food prices fueled by soaring crude oil and grain prices.

In this environment, the pachislot and pachinko industry underwent a period of major transition during which, by the end of September 2007, nearly all existing pachislot machines were replaced by models that meet new standards in response to the revisions enacted in July 2004 to regulations pertaining to the law in Japan governing gaming machines. Although the number of pachinko parlors and users continues to decline, machine manufacturers and pachinko parlors are endeavoring to expand the user base: for instance, manufacturers are actively developing and supplying innovative models that conform to the new regulations, while parlor operators are introducing low ball-rental charges.

In the amusement machine industry, large medal game machines and large-scale videogame machines featuring card systems remain highly popular among users and are driving demand in the market.

In the amusement center industry, the popularity of kids' card game machines, which have been driving market growth, has run its course. The new games that meet a variety of needs from customer segments, including families and casual players, are expected.

In the home videogame software industry, the new game platforms became popular, and demand for videogame software continues to increase.

In this business environment, the SEGA SAMMY Group, carrying on with initiatives from the previous year, formed capital and business tie-ups with leading companies targeting business expansion in each field. The Group also implemented business realignment measures to reallocate of resources effectively within the Group.



<Main Measures in the Fiscal Year Ended March 31, 2008>

- ① The Company concluded a basic agreement on a strategic business alliance with Sanrio Company, Ltd., with the aim of contributing to mutual development and growth. Sanrio has a portfolio of highly valuable characters which it licenses worldwide.
- ② To strengthen its relationship with TAIYO ELEC Co., Ltd., in pachinko machines, pachislot machines, arrange ball machines, jankyu machines, and other entertainment-related business areas, Sammy Corporation converted TAIYO ELEC into a subsidiary through a capital increase through a third-party allocation.
- ③ As part of an initiative to increase operating efficiency in the amusement machine sales business, the Company dissolved Sega Amusements Singapore Pte. Ltd. and Sega Korea Ltd.
- ④ As a measure to transform itself into a consistently profitable company, SEGA CORPORATION implemented an employee voluntary early retirement program for the purposes of reducing fixed costs through optimization of personnel and of recovering cost flexibility.
- ⑤ In response to rapid changes in the business environment surrounding the Group, the Company decided to cancel the development of an entertainment complex in the Minato Mirai 21 Central District in the City of Yokohama, Kanagawa Prefecture, in order to focus on the Group's core businesses.

Turning to operating results, although some main pachislot machine titles were favorably received by pachinko parlors and users, overall unit sales fell short of the planned level and machine sales fell by 142 thousand units from the previous fiscal year, to 380 thousand units. In the pachinko machine business, the Group was unable to sell unique machines that could gain market acceptance, and postponed the launch of certain main titles until the fiscal year ending March 2009. Consequently, pachinko machine sales fell by 24 thousand units from the previous fiscal year, to 108 thousand units. In the amusement machine sales business, sales of large medal games and other products remained brisk, while in the amusement center operation business, revenue from existing amusement centers decreased from the previous fiscal year. In the consumer business, sales of videogame software in overseas markets increased year on year, but decreased in Japan.

As a result of the foregoing, net sales for the fiscal year under review were ¥458,977 million (a decrease of 13.1% year on year), and the Company posted an ordinary loss of ¥8,224 million (compared with ordinary income of ¥81,287 million in the previous fiscal year). Due to the factors including the impairment losses on China-related businesses and amusement centers, a cancellation fee accompanying the discontinuation of development of an entertainment complex in the Minato Mirai 21 Central District, and a loss from revaluation of investment securities, the Company recorded a net loss of ¥52,470 million (compared with net income of ¥43,456 million in the previous fiscal year).



Results by business segments were as follows.

Pachislot and Pachinko Machines

In the pachislot machine business, the SEGA SAMMY Group sold 380 thousand units of pachislot machines overall by introducing various models that comply with the new regulations, including the Sammy brand models “Pachislot Hokuto No Ken 2 Ranse Haoden Tenha no Sho” and “Pachislot Hokuto No Ken 2 Next Zone,” successor models with even more improved visual features than their predecessors “Pachislot Hokuto No Ken” and “Pachislot Hokuto No Ken SE,” which became unprecedented top-sellers. Other such models included the Rodeo brand model “Devil May Cry 3,” and the GINZA brand model “Ring Ni Kakero 1.” Profitability in the pachislot machine business was lower than in the previous fiscal year owing to the provision of a pachislot machine rental service for a limited time period during the first half of the fiscal year. This was

Main Pachislot Machines and Units Sold

Variety	Brand	Units sold (Thousand)
Pachislot Hokuto No Ken 2 Ranse Haoden Tenha no Sho	(Sammy)	116
Ring Ni Kakero 1	(Ginza)	52
Devil May Cry 3	(Rodeo)	48
Pachislot Urusei Yatsura	(Ginza)	27
Pachislot Hokuto No Ken 2 Next Zone	(Sammy)	19
Others		115
Total		380



“Pachislot Hokuto No Ken 2 Next Zone”
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part of an industry-wide cooperative measure to support the adoption of new-format machines by pachinko halls.

In the pachinko machine business, despite strong sales of Sammy brand model “CR Sakura Taisen,” which uses content from SEGA CORPORATION's popular game “Sakura Taisen,” and of TAIYO ELEC brand titles, the SEGA SAMMY Group was unable to provide unique machines that could gain market acceptance. The Group also postponed the launch of certain main titles to improve game quality. For these reasons, overall pachinko machine sales were held to 108 thousand units.

As a result, net sales in this segment were ¥146,466 million (a decrease of 31.5% year on year), and operating income was ¥8,443 million (a decrease of 88.1% year on year).

Results by business segment were as follows.

Main Pachinko Machines and Unit Sold

Variety	Brand	Units sold (Thousand)
CR Sakura Taisen	(Sammy)	41
CR Densetsu No Miko	(Taiyo Elec)	19
CR King Kong	(Taiyo Elec)	10
Others		36
Total		108



“CR Sakura Taisen”
© SEGA © RED © Sammy



Amusement Machine Sales

In the amusement machine sales business, “MJ4,” the online mahjong game, “SANGOKUSHI TAISEN 3,” the third installment of the popular trading card game series, “DERBY OWNERS CLUB 2008 feel the rush,” the large medal game “StarHorse2 THIRD EVOLUTION,” and other games were popular, however, the launch of some major titles were postponed.

As a result, net sales were ¥75,401 million (a decrease of 5.3% year on year), and operating income was ¥7,152 million (a decrease of 38.8% year on year).



“DERBY OWNERS CLUB 2008
feel the rush”

Amusement Center Operations

In the amusement center operations business, sales at existing centers were lower than in the previous fiscal year. Similarly, in the kids’ card game machine business, “Dinosaur King” recorded strong sales by capturing synergies with an animated television series. However, the popularity of other content tapered off, leading to a sharp overall year-on-year decline in sales volume of kids’ cards.

During the fiscal year under review, 12 new amusement centers were opened in Japan, while 92 locations were closed or sold. As a result, the Group had a total of 363 amusement centers as of March 31, 2008.

As a result, net sales in this segment were ¥91,234 million (a decrease of 12.2% year on year), and operating loss was ¥9,807 million (compared with operating income of ¥132 million in the previous fiscal year).



“MJ4”





Consumer Business

In the consumer business, videogame software sales were 26,990 thousand copies, an increase of 5,720 thousand copies from the previous fiscal year. By region, sales were 2,570 thousand copies in Japan, 12,060 thousand copies in the U.S., 12,270 thousand copies in Europe, and 70 thousand copies in other regions.

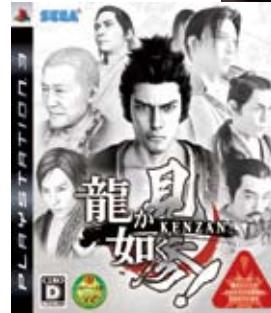
In overseas markets, videogame software sales increased year on year as a result of favorable sales of titles such as “Mario & Sonic at the Olympic Games,” which is themed on the Beijing Olympic Games. In Japan, however, sales decreased year on year, even though “Ryu Ga Gotoku Kenzan!,” the third title in the “Ryu Ga Gotoku” series achieved a measure of popularity. R&D costs increased year on year.

In the toy sales division, sales were weak in Japan, but overseas sales were buoyant, especially for “BAKUGAN.” In addition, the Group performed well in contents for mobile phones, but overseas sales of animated videos were weak.

As a result, net sales in this segment were ¥142,265 million, an increase of 18.7% year on year, and operating loss was ¥5,989 million, compared with operating income of ¥1,748 million in the previous fiscal year.

Others

This segment covers planning, design, management, construction and other services involving commercial and other facilities and information providing services. Segment sales totaled ¥10,797 million, a decrease of 45.0% year on year, and operating loss was ¥74 million, compared with operating loss of ¥1,345 million in the previous fiscal year.



“Ryu Ga Gotoku Kenzan!”



② Issues to be Addressed

In the pachislot and pachinko machine business, as market conditions undergo drastic changes in the pachislot machine business, the SEGA SAMMY Group will strive to maintain market share in this business by bringing together development expertise and increasing the sophistication of its technologies. At the same time, in the pachinko machine business, where market conditions are firm, the Group must seek to increase its market share by strengthening development capabilities and internal collaboration among Group companies.

In the amusement machine business, the Group will seek a broad range of users by providing various products, from high value added products to the products for family users, that meet user needs. In overseas markets, the Group must provide the products that meet local needs at competitive price.

In the amusement center operations business, the Group will continue closing or selling unprofitable amusement centers as part of ongoing business restructuring. Also the Group will seek effective business operation by fundamental review on the functions of headquarter, and it will be the Group's business challenge to recover the profits by strengthening sales force for each machine category, and improving supports for the operation of the amusement centers.

In the consumer business, the Group must improve development efficiency and profitability as business challenge in the domestic consumer business market. In overseas markets, the Group must acquire licenses and reinforce local development capabilities to create products that accurately reflect local needs. In mobile phone contents, toy sales, video, and other businesses, the Group must reinforce these operations, mainly by listed subsidiaries.

③ Fund Procurement, etc.

(1) Fund Procurement

Starting the previous fiscal year, the SEGA SAMMY Group

implemented a cash management system (CMS) for the Company, Sammy Corporation, and SEGA CORPORATION to centralize the procurement and utilization of Group funds and promote the effective use of Group resources.

In addition, the Company concluded commitment line contracts totaling ¥50 billion. This step was taken to reinforce the Company's CMS and ensure the liquidity of funds over the medium and long terms. During the fiscal year under review, the Company signed a new contract with three foreign banks to support the Group's overseas expansion strategy. As a result, the Company has commitment line contracts with a total of nine banks by the syndicate method.

During the fiscal year under review, the Company obtained ¥15 billion as funds for operations, primarily through bond issues by SEGA CORPORATION.

(2) Capital Expenditures

The Group's capital expenditures totaled ¥50,422 million, including ¥23,829 million for increasing Pachislot and Pachinko machine rental assets and other investments in the pachinko pachislot business. In addition, there were ¥15,910 million in capital expenditures related to amusement centers operated by SEGA Corporation and other companies.

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

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

(4) Business Transfer from Other Companies

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



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

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

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

① On September 1, 2007, SEGA CORPORATION, a Company

subsidiary, sold its shareholdings in SEGA MUSIC NETWORKS CO., Ltd., which was thereby excluded from the Company's scope of consolidation.

② On December 25, 2007, Sammy Corporation, a Company subsidiary, underwrote a capital increase through a third-party allocation from TAIYO ELEC Co., Ltd., making TAIYO ELEC a Company subsidiary.

③ On December 25, 2007, the Company sold part of its shareholdings in Nissho Inter Life Co., Ltd., converting the latter from a subsidiary to an equity-method affiliate.

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

Item / Fiscal Year		FY 2004 (From April 1, 2004 To March 31, 2005)	FY 2005 (From April 1, 2005 To March 31, 2006)	FY 2006 (From April 1, 2006 To March 31, 2007)	FY2007 (From April 1, 2007 To March 31, 2008)
Net sales	(¥ million)	515,668	553,240	528,238	458,977
Ordinary income (loss)	(¥ million)	104,432	119,500	81,287	(8,224)
Net income (loss)	(¥ million)	50,574	66,221	43,456	(52,470)
Net income (loss) per share	(¥)	410.53	261.06	172.47	(208.26)
Total assets	(¥ million)	438,991	522,914	549,940	469,642
Net assets	(¥ million)	258,954	316,679	358,858	281,627

Notes:

- Figures shown in millions of yen have been rounded down to the nearest million.
- The prior 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.
- Net income (loss) per share is calculated based on the average number of shares outstanding during the period.
- Pursuant to a resolution passed by the Board of Directors on August 31, 2005, the Company conducted a two-for-one stock split on November 18, 2005. Net income per share for the fiscal year ending March 31, 2006, has been calculated assuming the stock split was conducted at the beginning of the fiscal year.
- Effective as of the third fiscal year, in order to evaluate the Company's net assets, the Company and its subsidiaries adopted the Accounting Standard Related to Indication of Net Assets on Balance Sheets (Financial Accounting Standard No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the Implementation Guidance for the Accounting Standard, etc., Related to Indication of Net Assets on Balance Sheets (Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).
- Details for fiscal 2007 are discussed in "④ Business Development and Results".



5 Major Business Segments

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

Segment	Main Business
Pachislot and Pachinko machines	Development, manufacture, and sales of Pachinko and Pachislot machines. Development, manufacture and sales and maintenance of Pachislot and Pachinko peripherals. Design for parlors.
Amusement machine sales	Development, manufacture and sales of game machines used in an amusement arcades
Amusement center operations	Development, operation, rental, and maintenance of amusement center.
Consumer business	Development and sale of home video game software. Development, manufacture, and sale of toys. Planning and production of entertainment content through cellular phone etc. Planning, production, and sale of animated movies.
Others	Project, design, management, and construction of commercial establishment, etc.

6 Major Business Locations of the Group

(1) The company: SEGA SAMMY HOLDINGS INC.

Head Office (Minato-ku, Tokyo)

(2) Office of the Main Subsidiaries

① Sammy Corporation

Head Office: Toshima-ku, Tokyo

Kawagoe Factory: Kawagoe, Saitama

Branches and Sales Offices: 7 Branches, 31 Sales Offices

② SEGA CORPORATION

Tokyo Head Office: Ohta-ku, Tokyo

Amusement Center Operating Locations: 318 locations

(3) Employees of the Group

Number of employees (change from end of previous year) 7,665 (69 down)

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



7 Material Parent Company and Subsidiaries

(1) Relationships with Parent Company

There is no pertinent matter.

(2) Relationships with Subsidiaries

Company	Capital	Voting Rights (%)	Main business
Sammy Corporation	¥18,221 million	100.0%	Development / manufacture / sales of pachislot and pachinko machines
SEGA CORPORATION	¥60,000 million	100.0%	Development / manufacture / sales of game machines used in amusement arcades Development / operations of amusement centers Development / sales of home videogame software
RODEO Co., Ltd.	¥100 million	65.0% ^(Note 1)	Development / manufacture / sales of pachislot machines
Sammy Systems Co., Ltd.	¥179 million	100.0% ^(Note 1)	Development / manufacture / sales of pachislot and pachinko peripherals
Sammy Rental Service Co., Ltd.	¥160 million	100.0% ^(Note 1)	Rental / maintenance of pachislot and pachinko machines
Sammy Design Co., Ltd.	¥40 million	100.0% ^(Note 1)	Planning / design / construction of pachinko parlors
SI ELECTRONICS LTD.	¥244 million	88.1% ^(Note 1)	Development / sales of LCD optical imaging system chips
GINZA CORPORATION	¥10 million	49.0% ^(Note 1)	Development / manufacture / sales of pachislot and pachinko machines
TAIYO ELEC Co., Ltd.	¥5,125million	50.9% ^(Note 1)	Development / manufacture / sales of pachislot and pachinko machines
Sega Logistics Service Co., Ltd.	¥200 million	100.0% ^(Note 1)	Maintenance service, transportation, and warehouse business
Sega Amusements U.S.A., Inc.	US\$3 million	100.0% ^(Note 1)	Import / manufacture / sales of amusement equipment
Sega Amusements Europe Ltd.	£22 million	100.0% ^(Note 1)	Import / manufacture / sales of amusement equipment
Sega Entertainment U.S.A., Inc.	US\$0 million	100.0% ^(Note 1)	Operations of amusement centers
Sammy NetWorks Co., Ltd.	¥2,330 million	56.3%	Internet music contents provider
SEGA TOYS, LTD.	¥1,729 million	52.3%	Development / manufacture / sales of toys
TMS ENTERTAINMENT, LTD.	¥8,816 million	55.7%	Planning / production / sales and other activities involving animated movies
Sega of America, Inc.	US\$41 million	100.0% ^(Note 1)	Sales of home video game software
Sega Enterprises, Inc. (U.S.A.)	US\$110 million	100.0% ^(Note 1)	Development / management of home video game software
Sega Europe Ltd.	£10 million	100.0% ^(Note 1)	Sales of home video game software
Sega Publishing Europe Limited	£0 million	100.0% ^(Note 1)	Sales of home video game software
SEGA SAMMY INVESTMENT & PARTNERS INC.	¥100 million	100.0%	Real estate management and investment advisory

Notes:

- Percentage of voting rights held includes rights of indirectly owned shares.
- Shuko Electronics Co., Ltd. merged with H-I System Corporation on April 1, 2007 and changed its name to Sammy Systems Corporation. SEGA SAMMY ASSET MANAGEMENT INC. changed its name to SEGA SAMMY INVESTMENT AND PARTNERS INC. on September 1, 2007.



8 Main Banks and Borrowings

Lenders	(Unit: millions of yen) Balance of loan payable
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	14,300 million
Sumitomo Mitsui Banking Corporation	13,783 million
Others	6,361 million
Total	34,444 million

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

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

For the distribution of surplus, SEGA SAMMY HOLDINGS paid interim and plans to pay year-end dividends of ¥30 per share and ¥15 per share, respectively, for the fiscal year ended March 31, 2008. This reflects the Group's policy of paying dividends to shareholders stably.

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

10 Other Significant Events of the Group

On December 27, 2005, Aruze Corporation filed a lawsuit against subsidiary Sammy Corporation, claiming financial damages of ¥21.0 billion and other sanctions for the alleged infringement of two Aruze patents, specifically patents No. 3069092 and No. 3708056, by Sammy in relation to the manufacture and sale of "Hokuto No Ken" pachislot machines. Subsequently, on May 22, 2007, the Tokyo District Court handed down its judgment to dismiss Aruze Corporation's claim. As Aruze Corporation was dissatisfied with this judgment, it filed an appeal with the Intellectual Property High Court on June 4, 2007, and that appeal is currently under examination.

Sammy Corporation has filed a demand for a trial for invalidation in relation to the rights applicable in this case.

With regard to Patent No. 3069092, the Japan Patent Office ruled that the patent was partially invalid on October 2, 2007, and a revocation of the trial decision had been under trial at the Intellectual Property High Court. However, as Aruze Corporation filed

an application for a correction trial, the case was sent back to the appeal examiner (Japan Patent Office) on March 21, 2008.

With regard to Patent No. 3708056, the Japan Patent Office issued notification on October 17, 2006, of its ruling to invalidate the patent, and a revocation of the trial decision had been under trial at the Intellectual Property High Court. However, as the court dismissed Aruze Corporation's claim for a revocation of the trial decision on November 14, 2007. Aruze Corporation filed a petition for a final appeal and acceptance of a final appeal with the Supreme Court on November 27, 2007. However, the court dismissed Aruze Corporation's final appeal on May 8, 2008, and the invalidate of the patent was confirmed.

Sammy Corporation believes that this case does not constitute an infringement of Aruze's patents, but the SEGA SAMMY Group's business results may still be affected depending on the outcome of the trial.

Since 2005, SEGA CORPORATION has been engaged in investigating the development of a multi-purpose facility focused on entertainment in the Minato Mirai 21 Central District. However, in the face of a drastic change in the management environment surrounding the SEGA SAMMY Group, SEGA CORPORATION determined that it was essential to suspend this development project and focus on its core business in order to rapidly rebuild its earnings.

SEGA CORPORATION concluded a land purchase contract with the Yokohama City Land Development Corporation for blocks 55, 56 and 57 of the Central District within the Minato Mirai 21 development zone in February 2007. It planned to purchase block 58 at the end of March 2008, but following the decision at this time, the purchase of block 58 has been withdrawn. As a result, at the end of the fiscal year ended March 31, 2008, SEGA SAMMY HOLDINGS posted an extraordinary loss of approximately ¥5,580 million, which included the payment of a breach-of-contract penalty based on the contract with the Yokohama City Land Development Corporation and the relinquishment of a deposit based on an agreement covering the planned purchase of block 58. As the result of the decision based on the circumstances of the SEGA SAMMY Group alone, the Group intends to respond as sincerely as possible to the parties with which it has so far been cooperating, including the City of Yokohama and the Yokohama City Land Development Corporation.



2. Shares Outstanding and Shareholders

1 Number of Shares Authorized for Issue

800,000,000 shares

2 Total Shares Issued and Outstanding

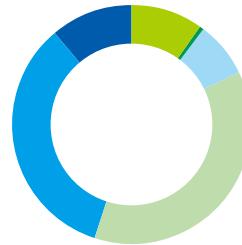
283,229,476 shares

3 Number of Shareholders

99,035

4 Principal Shareholders (top 10)

Name of shareholder	Investment in SEGA SAMMY HOLDINGS	
	Shares held	Voting rights (%)
Hajime Satomi	43,569,338	17.45
Mellon Bank, NA Treaty Clients Omnibus	33,221,522	13.30
SEGA SAMMY HOLDINGS INC.	31,292,007	—
Hero and Company	20,141,569	8.06
FSC Co., Ltd.	14,172,840	5.67
State Street Bank and Trust Company	11,249,971	4.50
The Master Trust Bank of Japan, Ltd. (Trustee)	7,601,600	3.04
Japan Trustee Services Bank, Ltd. (Trustee)	3,877,400	1.55
JPMorgan Chase Bank, N.A. 380055	3,735,532	1.49
The Bear Stearns Companies, Inc.	2,978,556	1.19



Composition of Shareholders	(%)
Financial Institutions	9.86
Financial Instruments Firm	0.61
Other Companies	7.54
Foreign Institutions and Individuals	37.07
Japanese Individuals and Others	33.87
SEGA SAMMY HOLDINGS INC.	11.05



3. Company's Share Subscription Rights

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

Resolutions of the Ordinary General Meeting of Shareholders	June 20, 2006
Number of individuals with rights Company directors	2 (Note 1)
Number of share subscription rights	250 (1 right allows for the purchase of 100 shares)
Class of shares for share subscription rights	Common stock
Number of shares for share subscription rights	25,000
Payment on exercise of share subscription rights	¥510
Capital contribution upon exercise of share subscription rights	¥4,235
Period for exercise of share subscription rights	August 15, 2008 – July 30, 2010
Terms and conditions for exercise of share subscription rights	(Note 2)
Matters concerning the transfer of share subscription rights	When transferring share subscription rights, approval must be obtained from the Board of Directors

Notes:

1. Two directors that retired at the Ordinary General Meeting of Shareholders on June 19, 2007, were excluded from these rights.
2. Terms and conditions for exercise of share subscription rights are as follows:
 - ① The grantee shall be Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company or any of its subsidiaries when he or she exercises the rights, unless he or she loses such position by law or under the Articles of Incorporation or regulations of the Company or any of its subsidiaries or either ② or ③ applies:
 - ② Notwithstanding ① above, even in the event that the grantee loses his or her position as the Company's Director, Executive Officer, or employee, the grantee may exercise share subscription rights that are unexercised when such position is lost if any of a through c applies:
 - a. Where the loss of such position is due to expiration of the term of office or amendment of law;
 - b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction, or where the grantee is transferred to a subsidiary of the Company at the Company's convenience;
 - c. Where, immediately after the loss of such position, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, or Counsel of the Company, or Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of any of the Company's subsidiaries.
 - ③ Notwithstanding ① above, even in the event that the grantee loses his or her position as Director, Executive Officer, or employee of any of the Company's subsidiaries, the grantee may exercise share subscription rights that are unexercised when such position is lost if any of a through c applies:
 - a. Where the loss of such position is due to expiration of the term of office or amendment of law;
 - b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction, or where the grantee is transferred to the Company or another subsidiary of the Company at the Company's convenience;
 - c. Where, immediately after the loss of such position, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company or any of its subsidiaries.
 - ④ No lien or any other disposition of share subscription rights is permitted.
 - ⑤ Other terms and conditions regarding the exercising of share subscription rights will be set forth in the share subscription rights Allotment Agreement to be entered into with the grantee.



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

There is no pertinent matter.



4. Company Directors and Corporate Auditors

① Directors and Corporate Auditors

Title	Name	Main Responsibilities
Chairman of the Board and Chief Executive Officer	Hajime Satomi	Chairman and CEO, Sammy Corporation CEO, SEGA CORPORATION
Executive Vice President and Representative Director	Keishi Nakayama	Executive for Group Executive Office, Group Communications Office, Corporate Strategy and External Affairs
Vice Chairman and Director	Hisao Oguchi	Representative Director, SEGA CORPORATION
Senior Managing Director	Tadashi Ishida	Executive for Administrative Division, Corporate Governance Committee
Director	Toru Katamoto	President and COO, Sammy Corporation
Director	Akio Kioi	Attorney
Director	Yuji Iwanaga	Attorney
Standing Corporate Auditor	Kazutada Ieda	
Corporate Auditor	Toshio Hirakawa	Standing Corporate Auditor, Sammy Corporation
Corporate Auditor	Hisashi Miyazaki	Standing Corporate Auditor, SEGA CORPORATION
Corporate Auditor	Mineo Enomoto	Corporate Auditor, SEGA CORPORATION

Notes:

1. Akio Kioi and Yuji Iwanaga are outside director as stipulated in Article 2, Clause 15 of the Company Law.
2. Toshio Hirakawa and Mineo Enomoto are outside corporate auditor as stipulated in Article 2, Clause 16 of the Company Law.
3. Akio Kioi and Yuji Iwanaga were newly elected and assumed office as directors, and Hisashi Miyazaki and Mineo Enomoto were newly elected and assumed office as corporate auditors at the Ordinary General Meeting of Shareholders held on June 19, 2007.
4. The Company has adopted the executive officer system to speed up decision-making, strengthen oversight of business execution, and reinforce business execution functions. The Company has four executive officers: Hideo Yoshizawa, Division Manager of the Administrative Division; Koichi Fukazawa, Division Manager of the Corporate Strategy and External Affairs; Tetsushi Ikesa, Division Manager of the Corporate Governance Committee; and Takatoshi Akiba, Division Manager of the Group Communications Office and Group Executive Office.

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

Title	Number of individuals	Remuneration, etc.	Summary
Director	8	¥274 million	
Corporate Auditor	2	¥18 million	
Total	10	¥293 million	

Notes:

1. Remuneration, etc., includes stock options in the amount of ¥7 million (¥7 million for Directors).
2. The remuneration limit for Directors is ¥600 million, pursuant to the resolution at the Ordinary General Meeting of Shareholders on June 20, 2006
3. The remuneration limit for Corporate Auditors is ¥50 million, pursuant to the resolution at the Ordinary General Meeting of Shareholders of Sammy Corporation on June 25, 2004, and at the Ordinary General Meeting of Shareholders of SEGA Corporation on June 29, 2004.



3 Additional Material Positions Held by Outside Directors and Corporate Officers

Title	Name	Company where additional position held	Additional position	Relationship
Outside Director	Akio Kioi	Sammy Corporation	Outside Corporate Auditor	Company subsidiary
Outside Director	Yuji Iwanaga	—	—	—
Outside Corporate Auditor	Toshio Hirakawa	Sammy Corporation	Outside Corporate Auditor	Company subsidiary
Outside Corporate Auditor	Mineo Enomoto	SEGA CORPORATION	Outside Corporate Auditor	Company subsidiary

Note: One of the relatives within the third degree of kinship of outside corporate auditor Mr. Enomoto serves as an employee of SEGA CORPORATION, a subsidiary of SEGA SAMMY HOLDINGS.

4 Main Activities of Outside Directors and Corporate Auditors

Title	Name	Major Activities
Outside Director	Akio Kioi	He attended 16 Board of Directors meetings out of the 17 meetings held during the year (9 out of 10 regular meetings) and expressed his opinion on professional and managerial view points as an attorney. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors.
Outside Director	Yuji Iwanaga	He attended 15 Board of Directors meetings out of the 17 meetings held during the year (all of the 10 regular meetings) and expressed his opinion on professional and managerial view points as an attorney. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors.
Outside Corporate Auditor	Toshio Hirakawa	He attended 22 Board of Directors meetings out of the 22 meetings held during the year (all of the 12 regular meetings) and expressed his opinion on managerial view points. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors. He also attended 15 Corporate Auditors meetings out of 15 meetings held during the year exchanging the opinions on auditing results and deliberating the significant issues related to audits.
Outside Corporate Auditor	Mineo Enomoto	He attended 12 Board of Directors meetings out of the 17 meetings held during the year (8 out of 10 regular meetings) and expressed his opinion on professional and managerial view points as an attorney. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors. He also attended 10 Corporate Auditors meetings out of 11 meetings held during the year exchanging the opinions on auditing results and deliberating the significant issues related to audits.

Note: Attendances by outside directors Mr. Kioi and Mr. Iwanaga and outside corporate auditor Mr. Enomoto since their appointment at the Annual General Meeting of Shareholders held in June 2007.

5 Liability Limitation Agreements for Outside Directors and Corporate Auditors

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

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

(Outline of Liability Limitation Agreement)

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

6 Total Remuneration, etc., to Outside Directors and Corporate Auditors

	Number of individuals	Remuneration, etc.	Remuneration, etc., from subsidiary
Total remuneration, etc., to outside Directors and Corporate Auditors	4	¥45 million	¥13 million



5. Independent Auditors

1 Name

KPMG AZSA & Co.

2 Liability Limitation Agreement with Independent Auditors

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

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

(Outline of Content of Liability Limitation Agreement)

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

3 Remuneration, etc.

Remuneration, etc

Remuneration, etc., related to the fiscal year under review	¥66 million
Total of cash and other profits that should be paid to independent auditors by the Company and its subsidiaries	¥ 305 million

Notes:

1. The Company pays its independent auditors for "Advice Related to Internal Controls Evaluation," which is a service other than those set forth in Article 2, Section 1, of the Certified Public Accountant Law.
2. The Company's subsidiary, Japan Multimedia Services Corporation and Sega Europe Ltd. is audited by auditors that differ from Company's.

4 Policy Regarding Determination of Termination or Not Reappointing

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



6. Outline of Resolutions Regarding Preparation of Internal Control System and so forth to Ensure Appropriate Business Execution

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

(1) System to Ensure the Efficient Implementation of Directors’ Duties and Compliance with Laws and the Articles of Incorporation

Establish a Group CSR Charter and Group Code of Conduct, and Representative Directors will repeatedly communicate the spirit of such charter and code to employees in administrative post, in order to thoroughly establish compliance with laws as a condition for all corporate activities. These efforts will reflect the Company’s fundamental policy of fulfilling its social responsibility as a member of society and provide a basis for establishing a compliance system that comprises such policy. In addition, in the interest of further strengthening corporate governance, the Board of Directors will make efforts to build an effective internal controls system and to secure a system for compliance with laws and the Articles of Incorporation for the Company as a whole, so that the Company’s business execution is appropriate and sound. Also, the Board of Corporate Auditors will audit the effectiveness and functionality of this internal controls system, and make efforts to identify and correct issues early through regular inspection.

(2) System Related to the Retention and Management of Information Related to the Implementation of Directors’ Duties

Representative Directors will appoint the Director in charge of the Administrative Division as the person in charge of the entire Company with respect to preservation and management of information related to execution of Directors’ duties. Information related to execution of Directors’ duties will be recorded in writing or electronic media based on the Company regulations etc., and preserved and managed so that the Directors and Corporate

Auditors are able to appropriately and accurately view such information and also so that such information is easy to search.

(3) Regulations and Other Systems Regarding Risk Management for Loss

With respect to risks related to the Company’s business, each relevant division and department will analyze and identify anticipated risks and clarify the risk management system. The Internal Audit Department and Internal Control Department will audit each division’s and department’s risk management and report the results regularly to the management decision-making body and executive and supervisory management organization.

(4) System to Ensure that Directors’ Duties are Implemented Efficiently

Adopt a corporate auditor system for efficient implementation of Directors’ duties, as well as for Company Directors and Corporate Auditors to be well-informed about the Group’s businesses and promptly and appropriately make decisions for the Group. The system should also enable appropriate and efficient implementation of duties under rules related to authorities and decision-making based on the Regulations of the Board of Directors, and so forth.

(5) System to Ensure Appropriate Compliance with Law, and the Articles of Incorporation Concerning the Performance of Employees’ Duties

- ① Grant the Corporate Governance Committee CSR subcommittee, which governs the Company’s and Group’s CSR activities, compliance-related governing functions. Establish a Group CSR Charter and Group Code of Conduct as a code or standards of conduct so that executives and employees in administrative posts can act in compliance with law, the Articles of Incorporation, Company regulations, and social norms. Make the foregoing known thoroughly inside the



Company and promote compliance.

- ② Establish a “Hot Line” system that enables an employee to report in the interest of public good any violation of law, the Articles of Incorporation, Company regulations, or conduct in violation of social norms. Also establish a system that enables the person in charge promptly to report any material matters to the Board of Directors and Board of Corporate Auditors. Also, protect such an informant, and authorize the Company Compliance Department and so forth, and outside counsel as recipients of an informant’s report outside the ordinary reporting line, as part of a system that maintains transparency and accurately addresses relevant issues.

(6) System to Ensure that the Businesses of the Group, Comprised of the Company, its Parent, and its Subsidiaries, are Executed Properly

Hold meetings for the Group’s Directors and Group’s Corporate Auditors, where various problems in the Group or governance matters with material risks are addressed. The Company’s Internal Audit Department will conduct audits for the benefit of the Group as a whole, and efforts will be made to ensure to the extent possible that information is shared among members of the Group and businesses are properly executed.

(7) Matters Regarding Employees whom Corporate Auditors Request to Assist them in the Performance of their Duties

Establish a Corporate Auditor’s Office as an organization that reports directly to the Board of Corporate Auditors, and employees, in such office will assist the Corporate Auditors’ duties under their direction and order.

(8) Matters Related to the Independence of Corporate Auditors’ Staff from Directors Described in the Previous Clause

- ① An employee who assists a Corporate Auditor’s duties is a dedicated employee who is not directed or supervised by Directors.
- ② Appointment, termination, personnel transfer, evaluation, disciplinary action, revision of wages, and so forth, of or involving employees described in the previous section will require prior agreement of the Board of Corporate Auditors.

(9) System to Enable Directors or Employees to Report to Corporate Auditors and other Systems Related to Reporting to Corporate Auditors

- ① Directors and employees promptly must report to the Board of Corporate Auditors material violations of law or the Articles of Incorporation or illegal conduct related to performance of duties or risks of conspicuous harm to the Company that they learn.
- ② Directors and employees must report promptly to the Board of Corporate Auditors decisions that materially affect the Company’s business or organization, results of internal audits, or results of evaluation of the internal control system associated with financial reports.

(10) Systems Established to Ensure the Efficacious Performance of Auditing Responsibilities by Corporate Auditors

- ① Representative Directors regularly will meet with Corporate Auditors, exchange opinions related to Company management, in addition to business reports, and otherwise communicate effectively with them.
- ② The Board of Directors will ensure Corporate Auditors’ participation in important work-related meetings to ensure that the Company’s business is executed properly.
- ③ The Board of Corporate Auditors will use attorneys, certified public accountants, and other outside advisors, as necessary for itself, and its opportunities to receive advice related to audit work will be guaranteed.



Consolidated Balance Sheet (As of March 31, 2008)

		(Unit: millions of yen)	
Item	Amount	Item	Amount
Assets		Liabilities	
Current Assets		Current liabilities	
Cash and deposits	101,539	Notes and accounts payable – trade	49,496
Notes and accounts receivable – trade	72,541	Short – term bank loans and current portion of long – term debt	27,455
Marketable securities	2,495	Redeemable bond within a year	5,716
Inventories	51,435	Income taxes payable	3,180
Income tax refunds receivable	9,561	Accrued expense	33,292
Deferred taxes – current	5,998	Accrued employees' bonuses	2,791
Others	32,037	Accrued directors' and corporate auditors' bonuses	130
Allowance for doubtful accounts – current	(571)	Allowance for game points earned by customers	129
		Others	10,670
Fixed Assets	194,604	Non-current liabilities	55,151
Tangible fixed assets	104,029	Bonds payable	25,679
Buildings and structures	28,597	Long-term debt, less current portion	6,988
Amusement game machines	14,099	Severance and retirement allowance	9,269
Land	48,810	Retirement benefits for directors and corporate auditors	2,094
Construction in progress	1,026	Deferred taxes liabilities non-current	435
Others	11,495	Deferred taxes liabilities for adjustment on revaluation of Land	960
		Others	9,723
Intangible fixed assets	20,217	Total liabilities	188,014
Goodwill	13,524	Net Assets	
Others	6,692	Shareholders' equity	278,253
Investments and other assets	70,358	Common stock	29,953
Investment securities	35,608	Capital surplus	171,092
Long-term loan receivables	2,187	Retained earnings	150,888
Lease deposits	21,970	Treasury stock	(73,680)
Deferred taxes non – current	3,689		
Others	14,332	Accumulated gains (losses) from valuation and translation adjustments	(18,733)
Allowance for doubtful accounts non – current	(7,430)	Unrealized gains on securities, net of taxes	597
		Unrealized losses on hedging derivatives, net of taxes	(2)
		Land revaluation difference, net of taxes	(6,980)
		Foreign currency translation adjustments	(12,347)
		Share subscription rights	1,070
		Minority interests	21,038
Total assets	469,642	Total net assets	281,627
		Total liabilities and net assets	469,642

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



Consolidated Statement of Income (From April 1, 2007 to March 31, 2008)

Item	Amount	(Unit: millions of yen)
Net sales		458,977
Cost of sales		338,573
Gross profit		120,403
Selling, general and administrative expenses		126,232
Operating loss		5,829
Non-operating income		
Interest income	752	
Dividends income	379	
Gain on investment in partnerships	602	
Income from operation of lease asset	427	
Others	634	2,796
Non-operating expenses		
Interest expense	627	
Equity in losses of affiliated companies	293	
Sales discount	338	
Non-operating commission expenses	90	
Bad debt expenses	447	
Loss on investment in partnerships	586	
Foreign currency exchange loss	1,053	
Penalty payment for cancellation of game center lease agreement	1,102	
Others	652	5,191
Ordinary loss		8,224
Extraordinary income		
Gain on the prior – term adjustment	529	
Gain on sale of fixed assets	93	
Reversal of allowance for doubtful receivables	361	
Gain on sale of investment in securities	4,440	
Gain on change in equity of a subsidiary	13	
Liquidation income from consolidation subsidiaries	693	
Others	792	6,925
Extraordinary expenses		
Loss from the prior – term adjustment	91	
Loss on disposal of fixed assets	1,470	
Loss on sale of fixed assets	177	
Impairment losses	9,218	
Loss from revaluation of investment securities	12,355	
Amortization of goodwill (impaired)	929	
Loss on cancellation of amusement center under development	5,580	
Premium allowance of retirement	2,761	
Cost of product recall	2,245	
Others	4,011	38,842
Loss before income taxes		40,141
Income taxes-current	9,902	
Income taxes-deferred	2,640	12,543
Minority interests		213
Net loss		52,470

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



Consolidated Statement of Changes in Net Assets (From April 1, 2007 To March 31, 2008)

(Unit: millions of yen)

	Shareholders' equity				
	Common Stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
Balances as of March 31, 2007	29,953	171,096	221,172	(73,656)	348,565
Changes in the term					
Dividend of retained earnings			(15,116)		(15,116)
Net loss			(52,470)		(52,470)
Effect from change of accounting policies of foreign subsidiaries			(862)		(862)
Purchase of treasury stock				(38)	(38)
Sale of treasury stock		(3)		13	9
Consolidation scope change			(1,309)		(1,309)
Reversal of land revaluation difference			(524)		(524)
Total changes in the term	—	(3)	(70,284)	(24)	(70,312)
Balances as of March 31, 2008	29,953	171,092	150,888	(73,680)	278,253

	Accumulated gains (losses) from valuation and translation adjustments							
	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Total accumulated losses from revaluation and translation	Share subscription rights	Minority interest	Total net assets
Balances as of March 31, 2007	4,779	(17)	(7,505)	(7,752)	(10,496)	454	20,334	358,858
Changes in the term								
Dividend of retained earnings								(15,116)
Net loss								(52,470)
Effect from change of accounting policies of foreign subsidiaries								(862)
Purchase of treasury stock								(38)
Sale of treasury stock								9
Consolidation scope change								(1,309)
Reversal of land revaluation difference			524		524			—
Changes in the item except Shareholders' equity (Net amount)	(4,181)	14		(4,594)	(8,761)	615	704	(7,442)
Total changes in the term	(4,181)	14	524	(4,594)	(8,237)	615	704	(77,230)
Balances as of March 31, 2008	597	(2)	(6,980)	(12,347)	(18,733)	1,070	21,038	281,627

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



Notes to Consolidated Financial Statements

① Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

(1) Scope of Consolidation

Number of consolidated subsidiaries: 77

For a complete list of major consolidated subsidiaries, refer to the section "1 Group's Current Condition" under "⑦ Material Parent Company and Subsidiaries" of "(2) Relationships with subsidiaries."

Effective as of the fiscal year under review, the following became the Company's consolidated subsidiaries: TAIYO ELEC Co., Ltd., which was previously an equity-method affiliate, due to additional stock acquisition; IT Communications Co., Ltd., through stock acquisition; TMS MUSIC CO., LTD., and three other companies, because of the increased importance of their business to the Group; and Sega Australia Pty. Ltd., which was newly established with the Company's investment.

Effective as of the fiscal year under review, the following companies were excluded from the scope of consolidation: Sammy Networks Beijing Co., Ltd., because of the decreased importance of its business to the Group; H-I System Corporation and three other companies, due to mergers with consolidated subsidiaries; Nissho Inter Life Co., Ltd., and six other companies, because of the sale of the Company's shareholdings; and Sega.Com Asia Networks, Inc. and four other companies, due to corporate liquidation.

Number of non-consolidated subsidiaries: 9

The Company has nine non-consolidated subsidiaries, including United Source International Ltd., SEGA Software (Shanghai) Co., Ltd., etc.

All nine non-consolidated subsidiaries are excluded from the scope of consolidation because the combined amounts in assets, net sales, net income, and retained earnings applicable to the equity interest of the Company are immaterial.

(2) Application of the Equity Method

Number of equity-method affiliates: 9

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

In addition, as a result of the sale of the Company's shareholdings, Nissho Inter Life Co., Ltd., changed from a consolidated subsidiary to an equity-method affiliate.

Number of non-consolidated subsidiaries and affiliates were not accounted for by the equity method: 16

Sixteen non-consolidated subsidiaries and affiliates were not accounted for by the equity method, including Liverpool Co., Ltd., and Micott & Basara Inc., etc.

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 equity interest of the Company are immaterial.

(3) Fiscal Year for Consolidated Subsidiaries

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

Consolidated subsidiary	Fiscal year-end
Sega Amusements Taiwan Ltd.	December 31
Shanghai New World Sega Recreation Co., Ltd.	December 31
Sega Network China Co., Ltd.	December 31
Sega Beijing Mobile Entertainment Co., Ltd.	December 31
Sem Communications Pte. Ltd.	December 31
5 investment in partnerships	December 31

(4) Accounting Standards

① Valuation standards and accounting treatment for important assets

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

b. Other marketable securities

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

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

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

d. Derivatives

Derivatives are stated at fair market value.



- e. Inventories
Inventories are stated at cost, cost being determined mainly by the gross-average method.
- ② Method for depreciating and amortizing important assets
- a. Tangible assets
Depreciation is computed primarily using the declining-balance method.
However, buildings (excluding attached equipment) acquired after April 1, 1998, are depreciated using the straight-line method.
Useful life for primary assets is as follows:
Building / Structure : 2-50 years
Amusement game machine : 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.
(Changes in significant accounting policies used in preparation of consolidated financial statements)
Effective April 1, 2007, the company changed the revised depreciation method based on the revised Corporation Tax Law <Law on Partial Revision of the Income Tax Law, Etc., Law No.6 of March 30, 2007, and Cabinet Order for the Partial Revision of the Corporation Tax Law Enforcement Order, Cabinet Order No.83 of March 30, 2007> for tangible fixed assets acquired on or after April 1, 2007.
As a result, if a comparison is made with the previous fiscal year on a consolidated basis based on the same method, gross profit decreased by ¥2,553 million, while the operating loss increased by ¥2,680 million, the ordinary loss and the loss before income taxes increased by ¥2,685 million.
(Additional information)
Regarding tangible fixed assets acquired on or before March 31, 2007, the residual values are depreciated in accordance with the revised Corporation Tax Law. When the depreciated value of a tangible fixed asset reaches residual values in a certain fiscal year, the residual values of the asset is depreciated in an equal amount over five years from the next fiscal year. The adoption had minor impact on the Consolidated Statement of Income for the March31, 2008.
- b. Intangible assets
Depreciation is computed using the straight-line method. We adopt the straight-line method over the useful life (within 5 years) for Software for internal use.
- ③ Accounting for deferred assets
Founding expense : All expenses are expensed when incurred.
Stock issue expense : All expenses are expensed when incurred.
Bond issue expense : All expenses are expensed when incurred.
- ④ Accounting for allowances
- a. Allowance for doubtful accounts
The reserve for doubtful accounts is provided in amount sufficient to cover possible losses estimated as a historical write-off ratio of bad debts for general receivables, with the addition of required amounts for doubtful accounts and bankrupt receivables based on a case-by-case assessment of the possibility of collection.
- b. Accrued employees' bonuses
Accrued employees' bonuses are provided based on the estimated amount to be paid.
- c. Accrued directors' and corporate auditors' bonuses
The estimated amount of bonuses for the fiscal year under review was recorded to meet the bonus payments to Directors and Corporate Auditors.
- d. Allowance for game points earned by customers
In order to prepare for expenses associated with the redemption of points earned by customers, an estimated amount related to future redemption has been posted in the fiscal year under review.
- e. Severance and retirement allowance
The Company and its consolidated subsidiaries provide allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are charged to income in the succeeding period except for SEGA CORPORATION and three other subsidiaries that recognize actual gains and losses as expenses using the straight-line method over ten years commencing from the succeeding period. Prior service cost is charged to income when incurred except for SEGA CORPORATION and three other subsidiaries that recognize prior service cost as expenses using the straight-line method over ten years.
- f. 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 for consumption taxes
Consumption taxes and local consumption taxes are accounted using the net-of-tax method.
- (5) Valuation of Consolidated Subsidiaries' Assets and Liabilities
The assets and liabilities of consolidated subsidiaries are evaluated using the fair value including the portion attributable to minority shareholders.
- (6) Matters Concerning the Amortization of Goodwill and Negative Goodwill
If the duration of the effect of goodwill can be rationally estimated, amortization has been based on the estimated number of years of duration, in other cases, amortization has been based on the five-year-period straight line method.
- (7) Change in Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements From the fiscal year under review, the Company promptly applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18, issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006). In principle, the Company unified accounting standards for foreign subsidiaries and carried out necessary revisions in terms of consolidated account settlement procedures.

As a result, the operating loss, ordinary loss, and loss before income taxes increased by ¥642 million, respectively.

Earned surplus at the beginning of the fiscal year decreased by ¥862 million, and accordingly earned surplus decreased by the same amount.

(8) Changes in Presentation

(Consolidated Balance Sheet)

In the previous fiscal year's consolidated balance sheet, accrued expense was included in "others" under "current liabilities." However, its value has now exceeded 5% of total liabilities and net assets, and it is therefore separately itemized in the consolidated balance sheet for the fiscal year under review. The value of accrued expense included in "others" under "current liabilities" for the previous fiscal year was ¥20,482 million.

(Consolidated Statement of Income)

① In the previous fiscal year's consolidated statement of income, income from operation of lease asset was included in "others" under "non-operating income." However, its value has now exceeded 10% of total non-operating income, and it is therefore separately itemized in the consolidated statement of income for the fiscal year under review. The value of income from operation of lease asset included in "others" under "non-operating income" for the previous fiscal year was ¥141 million.

② In the previous fiscal year's consolidated statement of income, penalty payment for cancellation of game center lease agreement was included in "others" under "non-operating expenses." However, its value has now exceeded 10% of total non-operating expenses, and it is therefore separately itemized in the consolidated statement of income for the fiscal year under review. The value of penalty payment for cancellation of game center lease agreement included in "others" under "non-operating expenses" for the previous fiscal year was ¥5 million.



2 Notes to Consolidated Balance Sheet

(1) Accumulated depreciation of tangible fixed assets
¥112,645 million

(2) Assets pledged

Assets pledged		Covered for liabilities	
Time deposit	¥25million	Accounts payable – trade	¥3million
Notes receivable	¥388million	Accrued expense	¥0million
Buildings / Structures	¥1,526million	Short – term debt	¥1,577million
Land	¥2,426million	Long – term debt	¥2,992million

(3) Guarantee of Obligations

Guaranteed Party	Details	Amount
Dimps Corporation	Guarantee of bank loan	¥400 million
Orix Premium Ltd.	Lease liabilities guarantee	¥181 million
Electronic Authentication System Association	Joint guarantee under lease agreement	¥33 million
FIELDS CORPORATION	Joint guarantee of affiliated union	¥10 million
Sega Shanghai & Co., Ltd.	Joint guarantee of bank borrowings	¥42 million

(4) Security loaned

Investment securities include ¥249 million in securities loaned.

(5) Revaluation of land

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

Revaluation method

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

Date of the revaluation March 31, 2002

(6) Outstanding balance of overdraft account: ¥44,022 million
Outstanding balance of commitment line: ¥52,408 million
The amount of ¥30,000 million in the overdraft account is limited to the outstanding balance of the commitment line. Pursuant to the commitment line contract, any amount exceeding the limit shall be repaid by the following business day.

3 Notes to Consolidated Statement of Income

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

¥65,384 million

(2) Breakdown of major extraordinary items

① Breakdown of gain on the prior-term adjustment.

Revision to royalties in previous fiscal year ¥529 million

② Breakdown of gain on sale of fixed assets

Buildings / Structures	¥28 million
Tools, furniture and fixture	¥57 million
Other tangible fixed asset	¥3 million
Other intangible fixed asset	¥3 million
Total	¥93 million

③ Breakdown of loss from the prior-term adjustment

Revision to prepaid expenses in previous fiscal year ¥91 million

④ Breakdown of loss on disposal of fixed assets

Buildings / Structures	¥1,118 million
Tools, furniture and fixture	¥260 million
Other tangible fixed asset	¥11 million
Other intangible fixed asset	¥79 million
Total	¥1,470 million

⑤ Breakdown of loss on sale of fixed assets

Buildings / Structures	¥95 million
Amusement game machines	¥69 million
Tools, furniture and fixture	¥9 million
Land	¥3 million
Other intangible fixed asset	¥0 million
Total	¥177 million



⑥ Breakdown of impairment loss.

(Unit: millions of yen)

Use	Location	Type	Impairment loss
Amusement facilities	Chu-oh-ku, Chiba	Buildings / Structures	1,413
		Other tangible fixed assets	46
		Other intangible fixed assets	0
	Minato-ku, Tokyo	Buildings / Structures	253
		Other tangible fixed assets	517
		Other intangible fixed assets	0
	Higashi-ku, Sapporo	Buildings / Structures	333
		Other tangible fixed assets	78
		Other intangible fixed assets	0
	Motosu-shi, Gifu	Buildings / Structures	273
		Other tangible fixed assets	19
		Other intangible fixed assets	3
	Chu-oh-ku, Osakashi	Buildings / Structures	132
		Other tangible fixed assets	1
		Other intangible fixed assets	0
	China	Buildings / Structures	468
		Amusement game machines	771
		Other tangible fixed assets	99
	U.S.A	Goodwill	467
		Other intangible fixed assets	491
Okayamashi, Okayama and 26 other locations	Buildings / Structures	756	
	Amusement game machines	18	
	Other tangible fixed assets	254	
	Other intangible fixed assets	0	
Pachislot and Pachinko business	Hiroshimashi, Hiroshima, etc.	Buildings / Structures	99
		Goodwill	511
		Other tangible fixed assets	163
		Other intangible fixed assets	301
		Lease assets	132
Consumer Business	China	Goodwill	1,077
		Other tangible fixed assets	27
		Other investment and other assets	0
Assets for business	Ota-ku, Tokyo and 4 other locations	Buildings / Structures	181
		Amusement game machines	7
		Other tangible fixed assets	263
		Other intangible fixed assets	32
		Lease assets	15
Total			9,218

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. If the market value of any asset or asset group has decreased conspicuously, or it is expected to continuously generate negative cash flow from operations, its book value is reduced to its

recoverable value, and such reduction is recorded as an "impairment loss" under "extraordinary expenses." Recoverable values for amusement centers in China and the U.S. are determined based on the value in use and calculated by discounting 15%(China) or 17% (U.S.) of future cash flows.



④ Notes to Consolidated Statement of Changes in Net Assets

(1) Issued Stock

(Unit: shares)

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

(2) Treasury Stock

(Unit: shares)

Type of stock	End of previous fiscal year	Increase	Decrease	End of fiscal year under review
Common stock	31,276,992	20,735	5,720	31,292,007

(Outline of Causes of Change)

The main causes of the increase are as follows:

Increase due to repurchase of fractional shares 20,735 shares

The main causes of the decrease are as follows:

Decrease due to request to purchase fractional shares 5,720 shares

(3) Share subscription rights

Company	Breakdown	Underlying stock type	Number of underlying shares				Balance at end of fiscal year under review (¥ million)
			End of previous fiscal year	Increase	Decrease	End of fiscal year under review	
Company	Stock options	—	—	—	—	—	1,008
Consolidated subsidiaries	—	—	—	—	—	—	62
Total			—	—	—	—	1,070

(4) Dividends

① Dividend amount

Resolution	Type of Stock	Total dividend (¥ million)	Dividend per share (¥)	Record date	Effective date
Board of Directors Meeting on May 16, 2007	Common stock	7,558	30	March 31, 2007	June 4, 2007
Board of Directors Meeting on November 9, 2007	Common stock	7,558	30	September 30, 2007	December 10, 2007



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

Resolution	Type of Stock	Resource of dividend	Total dividend (¥ million)	Dividend per share (¥)	Record date	Effective date
Board of Directors Meeting on May 15, 2008	Common stock	Retained earnings	3,779	15	March 31, 2008	June 3, 2008

⑤ Note Regarding Per Share Information

Net assets per share	¥1,030.09
Net loss per share	¥208.26

⑥ Note Regarding Material Subsequent Events

There is no pertinent matter.



Independent Auditors' Report

Independent Auditors' Report

Date May 13, 2008

The Board of Directors
SEGA SAMMY HOLDINGS INC.

KPMG AZSA & Co.
Eiji Mizutani (Seal)
Designated and Engagement Partner
Certified Public Accountant

Michitaka Shishido (Seal)
Designated and Engagement Partner
Certified Public Accountant

Hiroyuki Nakamura (Seal)
Designated and Engagement Partner
Certified Public Accountant

We have audited the consolidated statutory report, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the related notes of SEGA SAMMY HOLDINGS INC. as of March 31, 2008 and for the year from April 1, 2007 to March 31, 2008 in accordance with Article 444(4) of the Corporate Law. The consolidated statutory report is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

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

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

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

(1) As discussed in Note 1.(4) to the consolidated financial statements, effective April 1, 2007, SEGA SAMMY HOLDINGS INC. and consolidated domestic subsidiaries changed its method of recording depreciation for tangible fixed assets acquired on or after April 1, 2007 in accordance with revisions of the Corporation Tax Law.

(2) As discussed in Note 1.(7) to the consolidated financial statements, effective April 1, 2007, SEGA SAMMY HOLDINGS INC. and consolidated foreign subsidiaries adopted early the new accounting standards for practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements.

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.



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Non-Consolidated Balance Sheet (As of March 31, 2008)

(Unit: millions of yen)

Item	Amount
Assets	
Current assets	39,743
Cash and deposits	39,361
Prepaid expenses	86
Others	295
Fixed assets	310,569
Tangible fixed assets	2,479
Buildings	377
Structures	4
Vehicles	30
Tools, furniture and fixtures	438
Land	1,249
Construction in progress	378
Intangible fixed assets	374
Trade - mark right	13
Software	358
Others	2
Investments and other assets	307,716
Investment securities	14,218
Investment in affiliates	284,793
Other investment securities of affiliates	7,933
Long - term loan receivable of affiliates	67
Long - term prepaid expense	2
Others	701
Total assets	350,313

Item	Amount
Liabilities	
Current liabilities	108,021
Accounts payable - other	19
Accrued expenses	252
Deposits received of affiliates	107,458
Deposits received	15
Accrued employees' bonuses	89
Others	185
Non-current liabilities	203
Severance and retirement allowance	9
Retirement benefits for directors and corporate auditors	194
Total liabilities	108,225
Net assets	
Shareholders' equity	241,535
Common stock	29,953
Capital surplus	287,177
Additional paid-in capital	29,945
Capital surplus - other	257,231
Retained earnings	41,181
Retained earnings - other	41,181
Earned surplus carried forward	41,181
Treasury stock	(116,775)
Accumulated gains (losses) from valuation and translation adjustments	(455)
Unrealized gains on securities, net of taxes	(455)
Share subscription rights	1,008
Total net assets	242,088
Total liabilities and net assets	350,313

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



Non-Consolidated Statement of Income (From April 1, 2007 to March 31, 2008)

(Unit: millions of yen)

Item	Amount	
Operating revenue		
Management fees	6,914	6,914
Operating expenses		
Selling, general and administrative expenses	6,359	6,359
Operating income		555
Non-operating income		
Interest income	103	
Interest on marketable securities	70	
Dividends income	392	
Gain on investment in partnerships	79	
Income from operation of lease asset	427	
Others	18	1,091
Non-operating expenses		
Interest expense	470	
Non-operating commission expense	81	
Loss on investment in partnerships	253	
Others	86	891
Ordinary income		755
Extraordinary income		
Reversal of allowance for doubtful receivables	47	
Others	5	52
Extraordinary expenses		
Loss on disposal of fixed asset	22	
Loss on sale of investment in affiliates	1,121	
Loss from revaluation of investment securities	12,048	
Loss from revaluation of investment in affiliates	6,519	
Others	11	19,723
Loss before income taxes		18,915
Income taxes – current	4	
Income taxes – deferred	64	68
Net loss		18,983

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



Non-Consolidated Statement of Changes in Net Assets (From April 1, 2007 To March 31, 2008)

(Unit: millions of yen)

	Shareholders' equity								
	Common Stock	Capital surplus			Retained earnings			Treasury stock	Total shareholders' equity
		Additional paid-in capital	Capital surplus -other	Total capital surplus	Retained earnings-other		Total Retained earnings		
					General reserve	Earned surplus carried forward			
Balance as of March 31, 2007	29,953	29,945	257,243	287,188	30,000	45,281	75,281	(116,758)	275,664
Change in the item									
Reserve of general reserve					20,000	(20,000)	—		—
Reversal of general reserve					(50,000)	50,000	—		—
Dividends of retained earnings						(15,116)	(15,116)		(15,116)
Net loss						(18,983)	(18,983)		(18,983)
Purchase of treasury stock								(38)	(38)
Sale of treasury stock			(11)	(11)				21	9
Total changes in the item	—	—	(11)	(11)	(30,000)	(4,100)	(34,100)	(16)	(34,129)
Balance as of March 31, 2008	29,953	29,945	257,231	287,177	—	41,181	41,181	(116,775)	241,535

	Accumulated gains (losses) from valuation and translation adjustments		Share subscription rights	Total net assets
	Unrealized gains on securities, net of taxes	Total accumulated losses from revaluation and translation adjustments		
Balance as of March 31, 2007	(505)	(505)	429	275,588
Change in the item				
Reserve of general reserve				—
Reversal of general reserve				—
Dividends of retained earnings				(15,116)
Net loss				(18,983)
Purchase of treasury stock				(38)
Sale of treasury stock				9
Changes in the item except shareholders' equity (net amount)	50	50	578	628
Total changes in the item	50	50	578	(33,500)
Balance as of March 31, 2008	(455)	(455)	1,008	242,088

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



Individual Notes

① Notes Regarding Material Matters Related to Accounting Policies

1. Valuation standards and accounting treatment for assets

(1) Valuation standards and methods for securities

- ① Investments in subsidiaries and affiliates are stated at moving-average cost.
- ② Other securities
Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains or losses on securities in net assets, with cost of sales determined by the moving average method.

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

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

2. Depreciation 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	2~50 years
Tools/Furniture	2~20 years

(Changes in accounting policy)

Effective April 1, 2007 the Company changed the revised depreciation method based on the revised Corporation Tax Law <Law on Partial Revision of the Income Tax Law, Etc., Law No.6 of March 30, 2007, and Cabinet Order for the Partial Revision of the Corporation Tax Law Enforcement Order, Cabinet Order No.83 of March 30, 2007> for tangible fixed assets acquired on or after April 1, 2007.

This change had minor impact on the Non-Consolidated Statements of Income for the March 31, 2008.

(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 allowances

(1) Accrued employees' bonuses

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

(2) Severance and retirement allowance

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

(3) 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.

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

(1) Accounting for lease transactions

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

(2) Accounting method for consumption taxes

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

5. Changes in presentation

(1) Non-Consolidated Balance Sheet

In the previous fiscal year's non-consolidated balance sheet, income tax refunds receivable was separately itemized. However, its value in the fiscal year under review amounts to ¥203 million, making it materially insignificant. Consequently, it is included in "others" under "current assets" for the fiscal year under review.

(2) Non-Consolidated Statement of Income

In the previous fiscal year's non-consolidated statement of income, income from operation of lease asset was included in "others" under "non-operating income." However, its value has now exceeded 10% of total non-operating income, and it is therefore separately itemized in the non-consolidated statement of income for the fiscal year under review. The value of income from operation of lease asset included in "others" under "non-operating income" for the previous fiscal year was ¥141 million.



2 Notes to Balance Sheet

(1) Accumulated depreciation of tangible fixed assets	¥223 million
(2) Receivables from and payables to affiliates	
Short-term receivables from affiliates	¥21 million
Short-term payables to affiliates	¥107,501 million
Long-term receivables from affiliates	¥67 million

3 Notes to Statement of income

(1) Transactions with affiliates	
Management fees	¥6,914 million
SG&A expenses	¥163 million
Non-operating transactions	¥1,036 million

7 Notes Regarding Transactions with Related Parties

(1) Subsidiaries and Affiliates

(Unit: millions of yen)

Type	Name	Voting rights (%)	Relationship	Name of transactions	Transaction amount (Note 1)	Accounts	Balance at end of fiscal year
Subsidiary	Sammy Corporation	100.0	Management guidance to the company, interlocking directorate	Management fees (Note 2)	3,180	—	—
				Deposits received (Note 3)	—	Deposits received of affiliates	94,309
				Interest on deposit (Note 3)	377	—	—
Subsidiary	SEGA CORPORATION	100.0	Management guidance to the company, interlocking directorate	Management fees (Note 2)	3,733	—	—
				Deposits received (Note 3)	—	Deposits received of affiliates	13,148
				Interest on deposit (Note 3)	44	—	—
Subsidiary	SEGA SAMMY INVESTMENT INC.	100.0	Interlocking directorate	Debt forgiveness (Note 4)	2,677	—	—
				Payback of loan receivables (Note 5)	2,570	—	—
				Purchase of investment in affiliates (Note 6)	2,468	—	—
				Interest on loan receivable (Note 5)	17	—	—
				Dividend in liquidation	5	—	—
Subsidiary	Global Entertainment Fund	— (Note 8)	Management of Funds	Contribution of investment funds (Note 7)	2,538	—	—
				Distribution of cash (Note 7)	2,550	—	—

Notes:

- Consumption taxes are not included in transaction amounts.
- The amount of the Management fee is decided based on the Company's necessary expenses.
- Cash management system transactions are used for the purpose of uniformly and efficiently procuring and managing funds within the Group, and interest is determined with consideration to market interest rates.
- The uncollectible amount of loans provided to SEGA SAMMY INVESTMENT INC., a subsidiary, has been categorized as a debt waiver.
- Interest on loans is decided with consideration to market interest rates.
- Acquisition of shares of TMS ENTERTAINMENT, LTD., a subsidiary.
- Capital investment and cash dividend are based on silent partnership agreement.
- The Company's equity interest in the silent partnership is 100%



(2) Directors, Key Individual Shareholders, etc.

(Unit: millions of yen)

Type	Name	Voting rights (%)	Relationship	Name of transactions	Transaction amount (Note 1)	Accounts	Balance at end of fiscal year
Company in which Directors or their relatives own majority voting rights	FSC Co., Ltd. (Note 2)	5.67%	Insurance representative	Payment of insurance premium (Note 3)	14	Prepaid expenses	4
			Subcontractor	Payment of outsourcing fees (Note 3)	10	—	—
Directors and their relatives	Hajime Satomi	17.45%	Chairman of the Board and Chief Executive Officer of the Company	Lease of a business jet (Note 4)	302	—	—

Notes:

1. Consumption taxes are not included in transaction amounts.
2. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% of the voting rights of FSC Co., Ltd.
3. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
4. Transaction prices are based on actual current prices.

8 Note Regarding Per Share Information

Net assets per share	¥956.90
Net loss per share	¥75.35

9 Note Regarding Material Subsequent Events

There is no pertinent matter.



Independent Auditors' Report

Independent Auditors' Report

Date May 13, 2008

The Board of Directors
SEGA SAMMY HOLDINGS INC.

KPMG AZSA & Co.
Eiji Mizutani (Seal)
Designated and Engagement Partner
Certified Public Accountant

Michitaka Shishido (Seal)
Designated and Engagement Partner
Certified Public Accountant

Hiroyuki Nakamura (Seal)
Designated and Engagement Partner
Certified Public Accountant

We have audited the statutory report, comprising the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and its supporting schedules of SEGA SAMMY HOLDINGS INC. as of March 31, 2008 and for the 4th business year from April 1, 2007 to March 31, 2008 in accordance with Article 436(2) ① of the Corporate Law. The statutory report and supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory report and supporting schedules based on our audit as independent auditors.

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

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

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



Board of Corporate Auditors' Report (copy)

Audit Report

The Board of Corporate Auditors has received the reports of the audit procedures and results concerning the execution of the duties of the Directors during the 4th fiscal year from April 1, 2007 through March 31, 2008 prepared by each of the auditors. After discussing the reports, we have prepared this Audit Report and report as follows.

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

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

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

Furthermore, we monitored and verified whether the independent auditor maintained its independence and implemented appropriate audits, and we received reports from the independent auditor regarding the performance of its duties and sought explanations as necessary. In addition, we received notice from the independent auditor that "systems for ensuring that duties are performed properly" (matters set forth in each Item of Article 159 of the Corporate Calculation Regulations) were maintained in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary. Based on the above methods, we examined the financial statements (balance sheet, statement of income, statement of changes in net assets, and summary chart of notes) and supporting schedules, and the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and consolidated summary chart of notes) and consolidated supporting schedules related to the relevant Fiscal Year.

2. Result of audit

(1) The Report of Business Operations

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

As described in the business report, regarding Japan Fair Trade Commission's recommendation on violation to "Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors" by our subsidiary, SEGA CORPORATION, the SEGA SAMMY Group thoroughly strives to prevent a reoccurrence and comply with the relevant laws and regulations.

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

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

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

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

May 15, 2008

Board of Corporate Auditors, SEGA SAMMY HOLDINGS INC.

Kazutada Ieda, Standing Corporate Auditor

Toshio Hirakawa, Outside Auditor

Hisashi Miyazaki, Corporate Auditor

Mineo Enomoto, Outside Auditor



SEGA opens "Tsukutte Hashiro! Dekoboko Motors," a children's driving experience attraction, at the Tressa Yokohama commercial complex.

At the Tressa Yokohama commercial complex, which opened on March 27, 2008, in Yokohama City, Kanagawa Prefecture, SEGA has opened "Tsukutte Hashiro! Dekoboko Motors," a children's driving experience attraction.

The *Dekoboko Motors* is a kart-type attraction that was developed for this complex in accordance with the the concept of "Build it and Go!". By combining large, original urethane blocks (about 10 times larger than typical block toys), children can freely make the bodies for the electric go-karts which can actually be driven and raced on a course in the facility. The course includes a simulated gas station at which children can pretend to fill up their go-karts.

The *Dekoboko Motors* attraction enables children to freely express their creativity, and to have fun, as families work together to make a car and then drive it.

Overview of Tsukutte Hashiro!

Dekoboko Motors

- Location: First Floor, South Building, 700 Morooka-cho, Kohoku-ku, Yokohama City, Kanagawa Prefecture
- Tel: 045-548-7057
- Opening: March 27, 2008 (Thursday)
- Floorspace: About 495 square meters (about 150 tsubo)
- Hours: 10:00 am to 8:00 pm
- Regular holiday: Open all year, whenever Tressa Yokohama is open
- Target customers: Three years old and up
 - *Usage restrictions are based on usage agreement
 - *Children must be accompanied by guardian
- Charge: ¥840/30 minutes (including tax)
 - *Extensions ¥420/15 minutes (including tax)



Videogame software for Wii™ video game system and Nintendo DS™ system – Mario & Sonic at the Olympic Games™ ships more than 5 million units worldwide

Mario & Sonic at the Olympic Games™ made its worldwide debut on November 22, 2007, when it was launched for the Wii™ video game system and it was subsequently launched for the Nintendo DS™ system on January 17, 2008. And total shipments of these two titles in Japan, North America, and Europe, have already passed 5 million units.

These two titles are licensed through a worldwide partnership with the exclusive interactive entertainment software licensee of the International Olympic Committee—International Sports Multimedia Ltd (Head office: Georgia, United States; Chairman and CEO Raymond Goldsmith). The titles were developed by SEGA in cooperation with Nintendo. This is the first time that the Mario™ and Sonic™ characters, two of the entertainment industry's most adored icons, have appeared together in a software title. The setting for the sports game is the Beijing Olympic Games, which are scheduled to open in August 2008. These titles are published by SEGA across Europe and North America and by Nintendo in Japan, and as the start of Beijing Olympic Games in August draws closer, further growth in unit sales is expected.



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SUPER MARIO characters ©2007 NINTENDO
SONIC THE HEDGEHOG characters © SEGA



IR Information

IR Information Center

Working to build trust through two-way 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 holidays)

E-mail: ir@mail.segasammy.co.jp

IR Web Site

<http://www.segasammy.co.jp/english/ir/index.jsp>



Securities 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 is given when required
for other dividend payments.

Method of Announcements

Internet

(www.segasammy.co.jp/english/index.html)

In the event that announcements cannot be provided through
the Internet, they will be listed in the Nihon Keizai Shimbun.

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Shareholder Register Manager

Mitsubishi UFJ Trust and Banking Corporation

Contact

Securities Agent Department,
Mitsubishi UFJ Trust and Banking Corporation
7-10-11, Higashisuna, Koto - ku,
Tokyo 137-8082, Japan

Agency

Mitsubishi UFJ Trust and Banking Corporation branches in Japan

American Depositary Receipts

Depository bank:

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

Symbol: SGAMY

CUSIP: 815794102

Exchange: OTC

Ratio: 4:1