

FunBiz

CONSOLIDATED SIX-MONTH REPORT (April 1, 2008 – September 30, 2008)

Vol. 5





By providing entertainment filled with
dreams and **excitement**
to people throughout the world,
we will strive to enrich our
society and **culture.**

This report contains "forward-looking statements" as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based on management's assumptions and beliefs taking into account information currently available to it. Such statements in this report are forward-looking and therefore subject to risks and uncertainties that could cause actual results, performance, or events to differ materially from those in such statements.

To Our Shareholders



Chairman of the Board
and Chief Executive Officer
Hajime Satomi

I am pleased to have this opportunity to report the performance of SEGA SAMMY HOLDINGS in the six-month period ended September 30, 2008.

Consolidated net sales totaled ¥200,446 million, and the Company posted an operating loss of ¥7,578 million, an ordinary loss of ¥8,484 million, and a net loss of ¥9,554 million.

In the same period of the previous fiscal year, replacement demand of pachislot machines rose due to the simultaneous replacement of old-format machines with new-format machines following revisions to regulations pertaining to the Entertainment Establishments Control Law of Japan. In comparison, in the six-month period under review, unit sales of pachislot machines declined. Moreover, in Amusement Center Operations, under the influence of sluggish consumer spending, sales at existing centers were weak. Consequently, sales declined year on year and we posted an operating loss. However, these factors were incorporated into our initial plans, and in Consumer Business, sales of home video game software were brisk in both the overseas and domestic markets. As a result, sales and profits both exceeded initial plans.

In the pachinko machine business, the Company released *Pachinko CR Hokuto No Ken*, the first title coming out of its new development system. This title has been highly evaluated in the marketplace, with orders substantially exceeding our plans, and we have succeeded in increasing our share of pachinko machine installations. In the pachislot machine business, there was a partial amendment of Standards for Interpretation of Technical Specifications in March 2008. Under our new development system, we are working to develop and supply differentiated products that meet those amended specifications, to activate the market, and to expand our sales.

In Amusement Machine Sales Business, products with high profit margins and domestic sales each contributed a higher percentage of sales, and as a result the profit margin improved year on year. We expect the operating environment in the amusement industry to remain challenging in the second half of the fiscal year and beyond. Accordingly, we will strive to steadily secure revenue and profits through continued sales of major titles that had been launched by the end of the six-month period under review.

Amusement Center Operations have been adversely affected by sluggish consumer spending, particularly in suburban areas, and existing-center sales in the six-month period were down year on year. However, accompanying the installation of major titles, signs of a recovery have been visible from the first quarter through the second quarter. Moving forward, we will work to improve revenue and profit at existing centers through the increased installation of major titles and the continued implementation of sales-strengthening measures, which had already begun to show results by the end of the six-month period.

In Consumer Business, sales of home video game software were favorable in Japan and overseas. In the second half of the fiscal year, we plan to launch major titles, such as *Sonic Unleashed*, which is principally targeted at overseas markets, and *Ryu-Ga-Gotoku 3*, which is aimed at the domestic market.

We expect the future course of the economic situation and the operating environment to remain unclear. However, with firm resolve, we will push ahead with reform, thereby building a strong revenue and profit structure and recording solid progress over the medium to long term. I would like to ask our stakeholders for their continued support.

November 2008

A handwritten signature in black ink that reads "Hajime Satomi". The signature is fluid and cursive.

Chairman of the Board and Chief Executive Officer



President, Representative Director, and COO,
Sammy Corporation
Keishi Nakayama

Sammy has secured the overwhelming support of pachislot and pachinko players by continually providing the market with machines that offer new entertainment value. However, Sammy, even with these types of strengths, was unable to respond to changes in the operating environment stemming from regulatory revisions, and subsequently recorded a substantial decline in profits in the previous fiscal year. Looking back to previous fiscal years, at one point Sammy was recording operating income of nearly ¥100 billion a year. However, if the Sammy of that period was truly a strong Sammy, the company should have been able to handle any operating environment, no matter how much it fluctuated. That is the mission that I have set for myself: to build a truly strong Sammy that has a solid revenue and profit structure which can transcend any type of operating environment.

To maintain our top share of the pachislot machine market, we will work to develop and supply differentiated products. At the same time, we will give priority to the allocation of further resources to the pachinko machine market, which offers substantial room for us to expand our market share, and work to build a revenue and profit structure that can generate steady profits even in a changing environment. We have positioned the fiscal year ending March 2009 as a year for Sammy to implement bold management reforms for the purpose of returning to a path of growth. We will implement specific initiatives under the themes of strengthening development capabilities, strengthening marketing, improving profit margins by reducing costs, and reinforcing motivation and attitudes. Over the past few years, Sammy has not been able to meet everyone's expectations. We have taken that failure seriously, and are moving forward we will steadily implement management reforms, ensure that those reforms generate results, and earn the trust of our shareholders.

I would like to ask for your continued support in the years ahead.



President, Representative Director, and COO,
SEGA CORPORATION
Okitane Usui

"Our creativity is our most important competitive advantage." In accordance with this motto, we have created a number of hit products. It is this exceptionally high level of creativity and innovation that is SEGA's strength in the field of digital entertainment, and it is a strength that competitors cannot duplicate. My mission is to unleash SEGA's DNA, which has generated multiple successes, to build SEGA once again into a powerful global brand, and to steadily connect our initiatives to our results.

We have adopted the slogan "CHANGE 2011 – Revitalizing SEGA" as our in-house medium-term vision, and on that basis we will implement reforms and revitalize our operations over the three years to 2011. We have formulated three management objectives: optimization of core operations, rapid achievement of profitability in new domains, and expansion of profits and stable generation of cash flows. To achieve these objectives, we are implementing specific management strategies.

To achieve growth for SEGA and strong increases in revenue and profits, we will remove any outdated approaches and systems that will block our progress. All of our employees must avoid simply relying on what worked in the past. Rather, targeting the advancement of SEGA, they need to decisively reform their approach so that we are all working together to revitalize SEGA.

I would like to ask our shareholders and other stakeholders for their continued support.



Jewel House
© 2008 SANRIO/SEGA TOYS

Jewelpet Series Toys Launched

SEGA TOYS, LTD.

SEGA TOYS has commenced sales of products based on the *Jewelpet* characters for girls, which were developed jointly with Sanrio Co., Ltd. *Jewelpet* marks the first step in the collaborative relationship between the SEGA SAMMY Group and Sanrio. Using a motif of cute animals, the *Jewelpet* development concept was “multiple characters for girls with more multifaceted preferences.” Available products include the *Web Gurumi* series, the first web-based toys for girls in Japan, and *Jewel House*. The products are on sale not only in conventional toy stores but also in stores directly operated by Sanrio. In addition, through licensing activities, development has been expanded to include apparel, stationery, sundries, and other products.



Web Gurumi

Debut of Pachinko CR Hokuto No Ken with Maximum Entertainment Value

SAMMY CORPORATION

In September 2008, Sammy began sales of *Pachinko CR Hokuto No Ken*, which faithfully reproduces the world of the popular *Hokuto No Ken* manga. The product is available in two versions – the *Kenshiro Version*, which boasts a high ratio of jackpot percentage increases, and the *Raoh Version*, which offers large one-time jackpots. Improvement to a wide range of features, such as the cabinet and the staging, ensure a powerful presence in pachinko halls, and with “Battle Mode” that draws on *Hokuto No Ken*, this product offers maximum entertainment value which is sure to capture the attention of players. In addition to *Hokuto No Ken* fans, this title can be enjoyed by many other pachinko enthusiasts.



Pachinko CR Hokuto No Ken Kenshiro Version
© 1983 Buronson & Tetsuo Hara
© 2007 NSP, Approved No. SAE-307
© Sammy



FANTASY STAR ZERO
© SEGA

Entirely New Entry in FANTASY STAR Series Launched for Nintendo DS®

SEGA CORPORATION

In December 2008, *FANTASY STAR ZERO*, the latest entry in SEGA’s leading network RPG, will launch for the Nintendo DS®. *FANTASY STAR ZERO* features a new world, story, and characters. In addition to “Story Mode,” which can be enjoyed by one person, the new product is compatible with wireless communications and Nintendo Wi-Fi for multiplayer action with up to four people. *FANTASY STAR ZERO* can be also played with people in other locations. Furthermore, through the new “Visual Chat” function, players can communicate through characters or pictures drawn with a stylus, enabling enjoyment of an entirely new RPG experience.

Platform: Nintendo DS® Launch date: December 25, 2008 (plan) Price: ¥5,040 (including tax)



Sonic Unleashed— The new Sonic shows off his wild side when it gets dark!

SEGA CORPORATION

Sonic Unleashed (*Sonic World Adventure* in Japan) is the latest title in the *Sonic the Hedgehog* series, SEGA's popular game that has sold more than 53 million units worldwide. In this title, after *Sonic* is lured into a trap by *Dr. Eggman*, he transforms into a beast – *Sonic the Werehog* – at night. The daytime *Sonic* offers nonstop high-speed action, while the nighttime *Sonic* has powerful fighting capabilities and the ability to stretch his arms, and offers athletic action. In this way, the title enables players to enjoy two different types of action.

North America:
Platform: Xbox360®/PLAYSTATION®2/Wii®/PLAYSTATION®3
Launch date: Winter 2008
Europe:
Platform: Xbox360®/PLAYSTATION®2/Wii®/PLAYSTATION®3
Launch date: Winter 2008

Sonic Unleashed © SEGA

Latest Title in *Ryu-Ga-Gotoku* Series Launched for PLAYSTATION®3

SEGA CORPORATION

In spring 2009, we will launch *Ryu-Ga-Gotoku 3* for the PLAYSTATION®3. This title is the latest in the *Ryu-Ga-Gotoku* series (*YAKUZA* series released in the U.S. and Europe), a human drama for more-mature audiences that has surpassed 2.3 million units sold. The series features a solid storyline and transcends the boundaries of previous games.

Ryu-Ga-Gotoku 3 is set in 2009 in Tokyo and Okinawa. Featuring realistic street scenes, it is an exciting human drama that blends such elements as love, compassion, and betrayal. In addition to the story, it features superb casting, with leading actors doing the voices; an original score by Eikichi Yazawa; and a tie-up with fashion magazine *Koakuma Ageha*. *Ryu-Ga-Gotoku 3* is an entertainment product that takes the series to new levels in terms of both quality and quantity.

Platform: PLAYSTATION®3 Launch date: Spring 2009 (plan)
Price: To be determined



Ryu-Ga-Gotoku 3
© SEGA

Pachislot and Pachinko Machine Business



Pachinko CR Hokuto No Ken
Raoh Version
© 1983 Buronson & Tetsuo Hara
© 2007 NSP, Approved No. SAE-307
© Sammy

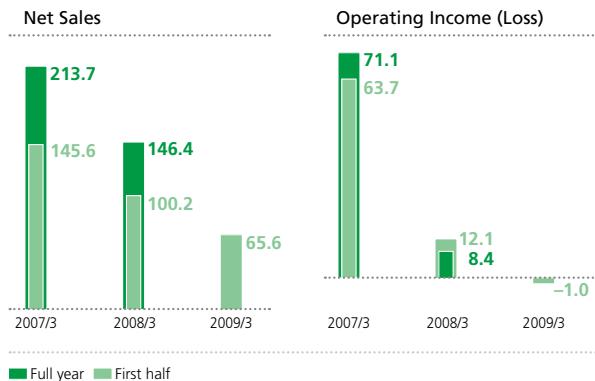
In the pachislot and pachinko industry, the installment of pachinko models offering more diverse gameplay remained strong as the industry responded to recent revisions to regulations pertaining to the Entertainment Establishments Control Law of Japan. The partial amendment in March 2008 of Standards for Interpretation of Technical Specifications for pachislot machine business is expected to invigorate the pachislot machine market by stimulating the development and supply of highly innovative pachislot machines with an emphasis on outstanding gameplay.

In the pachinko machine business, the Company released *Pachinko CR Hokuto No Ken*, a major title for the fiscal year, under the Sammy brand. The title had already sold more than 120 thousand units by the close of the first half of the year. Other titles, such as *CR SAMURAI CHAMPLOO*, sold under the TAIYO ELEC brand performed well. As a result, overall pachinko machine sales were 154 thousand units for the period. In the pachislot machine business, although the Company launched *Pachislot Momotaro Dentetsu* under the Sammy brand and *Pachislot THE BLUE HEARTS* under the Ginza brand, the release of other models planned for the second quarter was delayed until the second half of the year. As a result, overall pachislot machine sales amounted to 55 thousand units for the period.

As a result, the segment recorded net sales of ¥65,655 million and an operating loss of ¥1,065 million for the period under review.

Pachislot and Pachinko Machine Business

(Billions of yen)



Amusement Machine Sales Business

In the amusement industry, market conditions remain harsh due mainly to sluggish consumer spending. The industry is poised for the launch of new game machines that will meet a wide range of customer needs, including those of families and casual players, and drive the market forward.

In the Amusement Machine Sales Business, the Company released major titles for the year, including the *WORLD CLUB Champion Football Intercontinental Clubs 2006-2007* trading card game, the latest installment in this popular series, and *GALILEO FACTORY*, a large medal game.

The segment recorded net sales of ¥36,083 million, and operating income of ¥4,641 million.

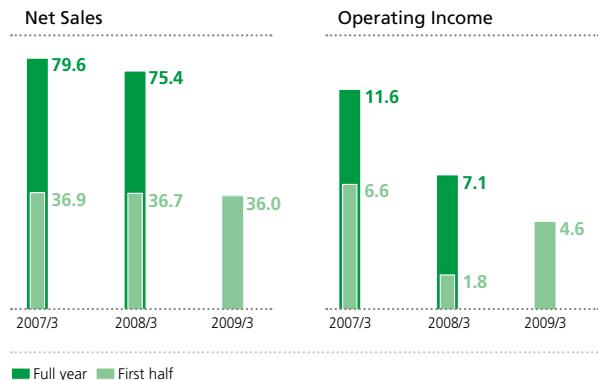


WORLD CLUB Champion Football Intercontinental Clubs 2006-2007
© SEGA

The game is made by Sega in association with Panini.
© Panini S.p.A. All Rights Reserved

Amusement Machine Sales Business

(Billions of yen)



Amusement Center Operations

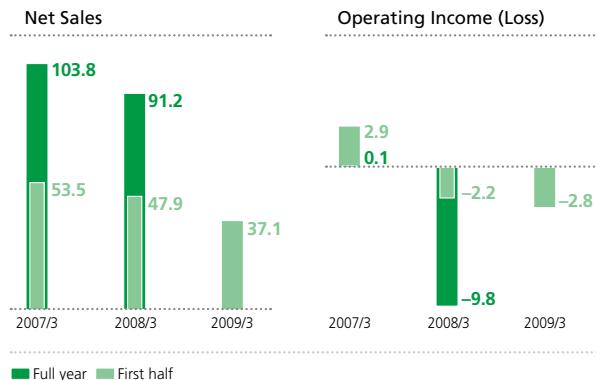
In the amusement center operations industry, against a background of sluggish consumer spending, management conditions remained challenging, especially in centers not located in urban areas.

The Amusement Center Operations segment was adversely affected by sluggish consumer spending, particularly in suburban areas, and existing-center sales were down year on year. However, signs of a recovery were seen from the first quarter through the second quarter. The Company has closed 19 amusement centers in Japan, principally centers that have shown low profitability and low prospects for improvement. On the other hand, as a result of 3 openings, the number of amusement centers totaled 347 at the end of the period.

The segment recorded net sales of ¥37,173 million and an operating loss of ¥2,822 million.

Amusement Center Operations

(Billions of yen)



Consumer Business



PHANTASY STAR PORTABLE
© Sega

In the home video game software industry, as the penetration of current-generation systems advanced, demand for home video game software continued to increase, centered on overseas markets.

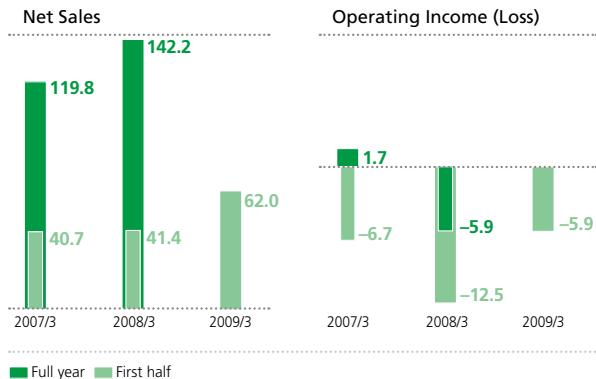
In the Consumer Business segment, overseas home video game software sales were driven by favorable sales of titles released in the previous fiscal year, such as *Mario & Sonic at the Olympic Games*, and titles such as *IRON MAN*, licensed from the popular film of the same name. In Japan, sales of *PHANTASY STAR PORTABLE* and *Valkyria Chronicles* were strong. Consequently,

the segment recorded total home video game sales of 12,760 thousand copies for the period, with 5,410 thousand copies sold in the U.S., 5,340 thousand copies sold in Europe, and 2,000 thousand copies sold in Japan and other regions.

With the domestic and overseas release of many major titles slated for the second half of the year, the segment recorded net sales of ¥62,018 million and an operating loss of ¥5,916 million.

Consumer Business

(Billions of yen)



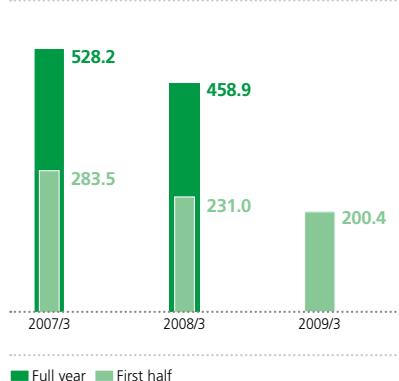
Consolidated Financial Highlights

The SEGA SAMMY Group recorded a substantial year-on-year increase in unit sales in the pachinko machine business. This growth reflected the launch of one of the year's major titles in the second quarter, as well as the contribution from the results of TAIYO ELEC Co., Ltd., which the Company consolidated in the second half of the previous fiscal year. In pachislot machines business, unit sales declined compared with the first half of the previous fiscal year, which was marked by increased replacement demand for new-format machines. In Amusement Machine Sales Business, the Company launched the latest version of a popular trading card game as well as a new large medal game machine. In Consumer Business, sales of home video game software were brisk, with sales volume up year on year in both overseas and domestic markets. In Amusement Center Operations, however, the level of revenue at existing amusement centers declined compared to a year earlier.

Consequently, for the first half of the fiscal year ending March 31, 2009, the Company registered net sales of ¥200,446 million; an operating loss of ¥7,578 million, an ordinary loss of ¥8,484 million, and a net loss of ¥9,554 million.

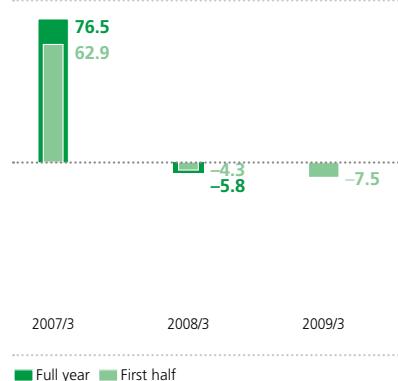
Net Sales

(Billions of yen)



Operating Income (Loss)

(Billions of yen)



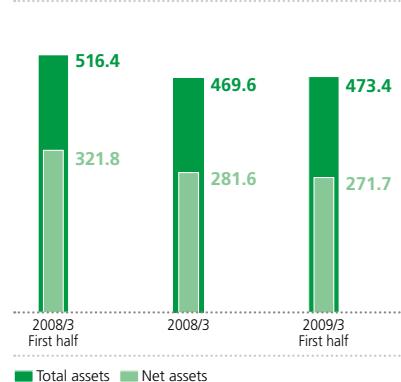
Net Income (Loss)

(Billions of yen)



Total Assets & Net Assets

(Billions of yen)



Consolidated Balance Sheets

(Millions of yen)

Item	Current period (As of September 30, 2008)	Prior year (As of March 31, 2008)	Item	Current period (As of September 30, 2008)	Prior year (As of March 31, 2008)
Assets			Liabilities		
Current assets	306,565	275,038	Current liabilities	115,595	132,863
Cash and deposits	117,257	101,539	Notes and accounts payable		
Notes and accounts receivable			– trade	56,822	49,496
– trade	78,163	72,541	Short-term loans payable	18,805	27,455
Short-term investment securities	26,473	2,495	Income taxes payable	4,031	3,180
Merchandise and finished goods	10,834	13,727	Provision	2,343	3,051
Work in process	5,856	3,181	Other	33,593	49,679
Raw materials and supplies	31,107	34,526			
Other	37,480	47,597	Noncurrent liabilities	86,048	55,151
Allowance for doubtful accounts	(609)	(571)	Bonds payable	55,513	25,679
			Long-term loans payable	7,348	6,988
Noncurrent assets	166,846	194,604	Provision for retirement benefits	9,638	9,269
Property, plant and equipment	78,403	104,029	Provision for directors' retirement benefits	2,049	2,094
Land	23,863	48,810	Other	11,499	11,119
Other	54,540	55,218	Total liabilities	201,644	188,014
Intangible assets	19,021	20,217	Net Assets		
Goodwill	12,030	13,524	Capital stock	29,953	29,953
Other	6,990	6,692	Capital surplus	171,088	171,092
			Retained earnings	136,845	150,888
Investments and other assets	69,421	70,358	Treasury stock	(73,685)	(73,680)
Investment securities	37,996	35,608	Total shareholders' equity	264,201	278,253
Other	38,861	42,180	Valuation difference on available-		
Allowance for doubtful accounts	(7,436)	(7,430)	for-sale securities	4,181	597
			Deferred gains or losses on hedges	(1)	(2)
			Revaluation reserve for land	(6,287)	(6,980)
			Foreign currency translation adjustment	(12,660)	(12,347)
			Total valuation and translation adjustments	(14,767)	(18,733)
			Subscription rights to shares	1,269	1,070
			Minority interests	21,064	21,038
			Total net assets	271,767	281,627
① Total assets	473,412	469,642	② Total liabilities and net assets	473,412	469,642

① Total assets

Total assets as of September 30, 2008 were ¥473,412 million, an increase of ¥3,769 million from the end of the previous fiscal year. This gain was primarily attributable to an increase in cash due to the issuance of bonds, which offset a decrease in noncurrent assets such as land. The current ratio remained at a high level of 265.2%.

② Net assets

Net assets were ¥271,767 million, a decrease of ¥9,860 million from the end of the previous fiscal year, due primarily to the net loss. As a result, the total net assets ratio was 52.7%, down 2.6 points from the end of the previous fiscal year.

Consolidated Statement of Operations

(Millions of yen)

Item	Current period (From April 1, 2008 to September 30, 2008)	Prior period (From April 1, 2007 to September 30, 2007)
Net sales	200,446	231,053
Cost of sales	151,354	172,827
Gross profit	49,091	58,226
Selling, general and administrative expenses	56,670	62,610
Operating loss	(7,578)	(4,384)
Other income	2,109	1,851
Other expenses	3,015	1,396
Ordinary loss	(8,484)	(3,929)
Extraordinary income	1,659	1,745
Extraordinary expenses	2,463	6,381
Loss before income taxes and minority interests	(9,289)	(8,565)
Income taxes – current	451	11,668
Refund of income taxes	(722)	—
Minority interests in income	535	32
Net loss	(9,554)	(20,266)

Note: Amounts less than one million yen are truncated.

C O R P O R A T E D A T A

As of September 30, 2008

Company Name

SEGA SAMMY HOLDINGS INC.

Head Office

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

URL

<http://www.segasammy.com>

Date of Establishment

October 1, 2004

Capital

¥29,953 million

Common Stock

Authorized: 800,000,000 shares

Issued: 283,229,476 shares

Number of Employees

97

Business Activities

Performs group management and related activities as the holding company for companies forming a comprehensive entertainment group

Directors and Corporate Auditors

Chairman, President and Representative Director (CEO)

Hajime Satomi

Executive Vice President and Representative Director

Keishi Nakayama

Director

Okitane Usui

Director and CCO (Chief Creative Officer)

Hisao Oguchi

Directors

Yuji Iwanaga

Takeshi Natsuno

Standing Corporate Auditor

Kazutada Ieda

Corporate Auditors

Toshio Hirakawa

Hisashi Miyazaki

Mineo Enomoto

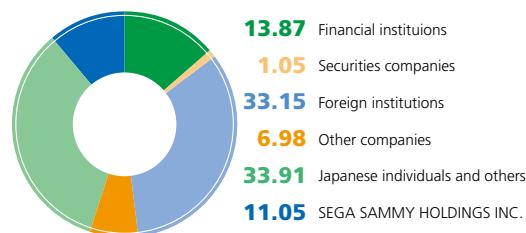
S H A R E H O L D E R I N F O

As of September 30, 2008

Number of Shareholders

97,034

Composition of Shareholders



Principal Shareholders

Name	Number of Shares Held	(%)
Hajime Satomi	43,569,338	15.38
SEGA SAMMY HOLDINGS INC.	31,299,283	11.05
Mellon Bank, NA Treaty Clients Omnibus	23,182,622	8.19
Hero and Company	15,983,541	5.64
FSC Co., Ltd.	14,172,840	5.00
The Master Trust Bank of Japan, Ltd. (Trustee)	10,284,700	3.63
State Street Bank and Trust Company	9,723,060	3.43
Japan Trustee Services Bank, Ltd. (Trustee 4G)	6,769,300	2.39
Japan Trustee Services Bank, Ltd. (Trustee)	6,586,600	2.33
Japan Trustee Services Bank, Ltd. (Trustee 4)	2,961,900	1.05

GROUP WEBSITE

The SEGA SAMMY Group web site includes the latest information about the Group. The IR section of the site provides information that will help shareholders and investors to better understand the Group, such as *SEGA SAMMY at a Glance*, which provides a brief introduction to the Group, and the *VIRTUAL Factory Tour*, which is a guide to the Kawagoe Factory, Sammy's largest production site. In the future, we will continue to incorporate feedback and further enhance the web site.

Corporate Section

This section contains corporate information for SEGA SAMMY HOLDINGS Inc. It also has links to the web sites of Group companies, making it simple to peruse a variety of information related to Group companies.

<http://www.segasammy.com/>



IR Information Center

We have established an IR information center to ensure that we can reflect the opinions of shareholders in our management and marketing policies. If you have any inquiries regarding share, corporate, or other information, please do not hesitate to contact us at:

Tel: +81-3-6215-9954

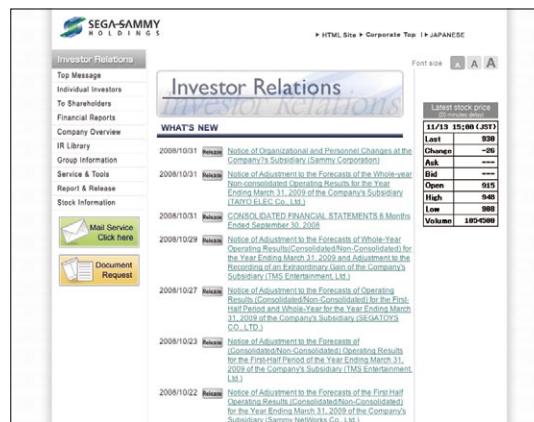
09:00~18:00 (Japan time)

(except weekends, national holidays, and Company holidays)

IR Web Site

The investor relations link on the Group web site leads to a wide range of IR-related information.

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



FunBiz

SHARE INFORMATION

Stock Code

6460

Round Lot

100 shares

Fiscal Year-End

March 31

Ordinary General Meeting of Shareholders

June

Dates of Record

Year-end dividends: March 31

Interim dividends: September 30

Method of Announcements

Internet

(www.segasammy.com)

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

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation

Administrative Office of Transfer Agent

Securities Agency Department,

Mitsubishi UFJ Trust and Banking Corporation

7-10-11 Higashisuna, Koto-ku,

Tokyo 137-8081, Japan

Telephone: +81-3-5683-5111

Agency

Mitsubishi UFJ Trust and Banking Corporation
branches in Japan

American Depositary Receipts

Depository Bank:

The Bank of New York Mellon

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



SEGA SAMMY HOLDINGS INC.

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