

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
6 Months Ended September 30, 2010

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <http://www.segasammy.co.jp/>)
Representative: Hajime Satomi
 Chairman of the Board and Chief Executive Officer
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Filing of Quarterly Report: November 10, 2010 (plan)
 Start of cash dividend payments: December 2, 2010 (plan)

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 6 Months Ended September 30, 2010

(1) RESULTS OF CONSOLIDATED OPERATIONS

(Percentage for net sales, operating income and net income represent change from the prior period)

	Net sales		Operating income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For 6 months ended September 30,2010	217,807	41.1	46,849	—	24,349	—
For 6 months ended September 30,2009	154,395	(23.0)	(318)	—	(6,323)	—

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 6 months ended September 30,2010	96.66	96.66
For 6 months ended September 30,2009	(25.10)	—

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
September 30, 2010	465,690	281,194	55.8	1,031.45
March 31, 2010	423,161	256,770	55.8	937.80

(Reference) Shareholders' equity

September 30, 2010 : ¥259,832 million

March 31, 2010 : ¥236,245 million

2. Cash Dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	For the year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2010	—	15.00	—	15.00	30.00
Year ending March 31, 2011	—	20.00			
Year ending March 31, 2011 (plan)			—	20.00	40.00

(Note) Revision of the forecast in the first quarter of the year ending March 31, 2011: No

3. Projection for Consolidated Results for the Year ending March 31, 2011

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

	Net sales		Operating income		Net income		Net income per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Entire – year	410,000	6.6	65,000	77.0	37,500	85.0	148.86

(Note) Revision of the projection in the second quarter of the year ending March 31, 2011: No

4. Other

- (1) Significant changes in subsidiaries (scope of consolidation) during period: No
- (2) Adoption of the simplified method of accounting as well as specific accounting for preparing the quarterly consolidated financial statements: Yes
- (3) Changes in accounting principles, procedures, disclosure methods, etc., for preparing the quarterly consolidated financial statements:
 1. Changes associated with revision in accounting standards: Yes
 2. Other changes: No
- (4) Number of shares outstanding (common stock)
 1. Number of shares outstanding at the end of the period (including treasury stock)
 - September 30, 2010: 283,229,476
 - March 31, 2010 : 283,229,476
 2. Number of treasury stock at the end of the period
 - September 30, 2010: 31,319,119
 - March 31, 2010 : 31,315,801
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)
 - For 6 months ended September 30, 2010: 251,912,035
 - For 6 months ended September 30, 2009: 251,920,906

[Caution With Regard to Operating Results Outlook]

- At the time of this report's release, the quarterly review procedures under the Financial Instruments and Exchange Law have not been completed.

- The forward-looking statements, such as results forecasts, included in this document are based on information available to the Company at the time of the announcement and assumptions considered reasonable. Actual results could differ materially, depending on a range of factors.

Operating Results and Financial Position

(1) Overview

During the first half of the fiscal year ending March 31, 2011, the Japanese economy still remained unpredictable, amid the growing concern for the economic recovery losing its momentum, given the rapidly rising yen and decelerating economies overseas along with still stagnant personal consumption, although there are signs of turnaround in some areas of the economy, including recovery trends in corporate earnings.

In this climate, although the pachislot and pachinko industry witnessed the replacement of older pachinko machines at a rather weak pace, older pachislot machines were being replaced smoothly with a few newly launched machines that enjoyed high market reputation in the market, supported by the general recovery of pachislot's popularity in pachinko parlors.

In the amusement machine and amusement center industry, conditions remained difficult. While awaiting the development and launch of new innovative machines that could boost the market, the industry itself is undergoing a changeover to new business models which simultaneously enhance investment efficiency for amusement center operators and secure sources of stable earnings for amusement machine manufacturers.

In the home video game software industry, the demand was generally weak in the U.S. and European markets due to the headwind like sluggish personal consumption. The Group needs to adapt to changing business environment in which the market demand for new content geared to social networking service (SNS), smartphone is expanding.

In this business environment, net sales for the first half of the fiscal year ending March 31, 2011 amounted to ¥217,807 million, an increase of 41.1% for the same period in the previous fiscal year. The Group posted an operating income of ¥46,849 million, compared with an operating loss of ¥318 million for the same period in the previous fiscal year. Due to the factors including distribution of patent royalty income for prior periods, gain on reversal of subscription rights to shares, loss on adjustment for changes of accounting standard for asset retirement obligations and impairment loss, the Group recorded a net income of ¥24,349 million, compared with a net loss of ¥6,323 million for the same period in the previous fiscal year.

Results by business segments were as follows.

《Pachislot and Pachinko Machines》

In the pachinko machine business, the Group recorded sales of “Pachinko CR Hokuto No Ken Raoh” series under the Sammy brand and “CR Full Metal Panic! TSR” series under the Taiyo Elec brand, resulting in the sale of a total of 198 thousand units, an increase from the same period year ago. In the meantime, the Group remained committed to the reduction of procurement costs for parts and materials, especially those related to liquid crystal display.

In the pachislot machine business, the sales of “Ring ni Kakero -Golden Japan Jr. Series-” under the Taiyo Elec brand and “Pachislot SPIDER-MAN 3” under the Sammy brand maintained strong sales. Meanwhile, sales of “Pachislot SOUTEN-NO-KEN” under the Sammy brand launched in the first quarter and “Pachislot Shin Onimusha” launched in the previous fiscal year under the RODEO brand remained solid. As a result, overall pachislot machine sales amounted to 201 thousand units, far exceeding the results of the same period in the previous fiscal year. Meanwhile thanks to an initiative to promote reuse of components, especially those related to liquid crystal display, there was an improvement in profit ratio as well.

As a result, net sales in this segment were ¥134,331 million (an increase of 96.2% for the same period in the previous fiscal year) and operating income was ¥47,694 million (an increase of 337.7% for the same period in the previous fiscal year).

《Amusement Machine Sales》

In the amusement machine sales business, distribution revenue remained solid thanks to the operation of the revenue sharing models such as “BORDER BREAK” launched in the previous fiscal year, for the purpose of improving investment efficiency of the operators of amusement centers and of securing long-term stable earnings for the Group. Meanwhile, sales of CVT KIT for the major titles and consumables including prize products and cards remained solid.

As a result, net sales in this segment were ¥20,988 million (an increase of 9.4% for the same period in the previous fiscal year) and operating income was ¥1,917 million (compared with an operating loss of ¥737 million for the same period in the previous fiscal year).

《Amusement Center Operations》

In the amusement center operations business, sales at existing SEGA amusement centers in Japan registered an increase in the second quarter compared with the same period year ago, resulting in 99.9 % for the same period in the previous fiscal year on the first half period basis. The Group closed 10 amusement centers and opened 2 new amusement centers in the domestic market. Consequently, the Group operated a total of 252 amusement centers at the end of the period.

As a result, net sales in this segment were ¥23,648 million (a decrease of 18.3% for the same period in the previous fiscal year) and operating income was ¥1,105 million (an increase of 395.5% for the same period in the previous fiscal year).

《Consumer Business》

In the consumer business, the Group launched the sales of home video game software, “HATSUNE MIKU –Project DIVA– 2nd” and “Kurohyo: Ryu ga Gotoku Shinsyo”, for the Japanese market. While domestic sales were firm, in the overseas markets, sales of new titles remained slow as affected by the adverse market condition. As a result, the Group sold 3,200 thousand video game copies in the U.S., 2,150 thousand copies in Europe and 1,240 thousand copies in Japan and other regions, for a total of 6,600 thousand copies.

In the toy sales division, domestic sales of main products as well as sales of “BAKUGAN” at both domestic and overseas market remained solid. The mobile phone and PC content business also remained solid, thanks primarily to downloadable games for PCs. In the animated films business, distribution revenue remained favorable thanks to the sound box office sales of the 14th theater film “Detective Conan” while overseas royalty revenue from “BAKUGAN” stayed robust.

As a result, net sales in this segment were ¥38,898 million (an increase of 2.9% for the same period in the previous fiscal year), and an operating loss was ¥1,306 million (compared with an operating loss of ¥8,193 million for the same period in the previous fiscal year).

(2) Projection for Consolidated Results

No amendments have been made to the full-year consolidated forecasts for the current fiscal year announced on September 30, 2010.

In the pachislot and pachinko machine sales business, a few strategic pachinko machine titles are scheduled to be launched, while pachislot titles including “Oreno Sora~Spirit of Young Justice~” under the RODEO brand are scheduled. In the amusement machine sales business, this year’s major title “SENGOKU TAISEN” and CVT KITS for other popular titles are scheduled to be marketed. In the meantime, constant income contribution is expected from the operation of the titles sold under the revenue sharing models.

In the amusement center operations business, the Group is committed to ongoing reinforcement of management capabilities at each amusement center and of their local competitiveness, while expecting recovery in the sales at existing amusement centers as supported by the launch of the major titles.

In the consumer business, a home video game software title “VANQUISH” has been marketed, to be followed by the scheduled launch of a few major titles such as “Sonic Colors”.

As per the announcements made on August 27, 2010, it is planned to conduct an exchange of shares in order to convert Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD. into wholly owned subsidiaries of SEGA SAMMY HOLDINGS INC., which will become the wholly owning parent of each such company, after each company obtains approval at an extraordinary general meeting to be held at each company.

The effective date of the exchange of shares is planned to be December 1, 2010.

Please refer to “Notice Concerning Exchange of Shares to Convert Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD. and TMS ENTERTAINMENT, LTD. into Wholly Owned Subsidiaries of SEGA SAMMY HOLDINGS INC.”, dated August 27, 2010 for more details.

(3) Other

Changes in accounting principles, procedures, method of presentation associated with the preparation of the quarterly consolidated financial statements.

1. Application of Accounting Standard for Asset Retirement Obligations

Effective from the first quarter of the fiscal year ending March 31, 2011, “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18, issued March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, issued March 31, 2008) have been applied. Accordingly, operating income decrease ¥79 million, while income before income taxes and minority interests decrease ¥1,257 million. In addition, the amount of asset retirement obligation change is ¥2,146 million following the application of the subject accounting standard and guidance.

2. Application of Accounting Standard for Equity Method of Accounting for Investments and Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method

Effective from the first quarter of the fiscal year ending March 31, 2011, “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No.16, issued March 10, 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method “ (ASBJ PITF No.24, issued March 10, 2008) have been applied. This change has no impact on the consolidated statement of operations.

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
 CONSOLIDATED BALANCE SHEETS
 AS OF SEPTEMBER 30, 2010 AND MARCH 31, 2010

(Unit : Millions of Yen)

	Current period (As of September 30,2010)	Prior year (As of March 31,2010)
	Amount	Amount
(A s s e t s)		
Current Assets		
Cash and deposits	110,787	101,324
Notes and accounts receivable – trade	74,512	67,027
Allowance for doubtful accounts	(641)	(712)
Short-term investment securities	97,412	73,400
Merchandise and finished goods	6,806	6,500
Work in process	14,198	7,914
Raw materials and supplies	17,127	22,358
Other	19,491	20,917
Total current assets	339,694	298,730
Noncurrent assets		
Property, plant and equipment		
Land	22,549	22,632
Other, net	34,793	36,398
Total property, plant and equipment	57,343	59,030
Intangible assets		
Goodwill	5,962	6,767
Other	7,222	6,592
Total intangible assets	13,184	13,360
Investments and other assets		
Investment securities	34,081	28,605
Other	24,496	26,597
Allowance for doubtful accounts	(3,110)	(3,162)
Total investments and other assets	55,468	52,040
Total noncurrent assets	125,996	124,431
Total assets	465,690	423,161

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2010 AND MARCH 31, 2010

(Unit : Millions of Yen)

	Current period (As of September 30,2010)	Prior year (As of March 31,2010)
	Amount	Amount
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	47,518	37,387
Short - term loans payable	3,112	3,489
Income taxes payable	19,857	2,449
Provision	3,379	3,357
Asset retirement obligations	168	—
Other	38,067	46,133
Total current liabilities	112,103	92,817
Noncurrent liabilities		
Bonds payable	35,555	41,501
Long - term loans payable	5,606	6,173
Provision for retirement benefits	12,543	12,218
Provision for directors' retirement benefits	1,146	1,096
Asset retirement obligations	1,969	—
Other	15,572	12,583
Total noncurrent liabilities	72,393	73,573
Total liabilities	184,496	166,390
(Net Assets)		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	171,079	171,080
Retained earnings	152,695	132,128
Treasury stock	(73,697)	(73,694)
Total shareholders' equity	280,030	259,468
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	5,062	346
Deferred gains or losses on hedges	48	24
Revaluation reserve for land	(5,969)	(5,966)
Foreign currency translation adjustment	(19,340)	(17,626)
Total valuation and translation adjustments	(20,198)	(23,222)
Subscription rights to shares	263	1,188
Minority interests	21,099	19,335
Total net assets	281,194	256,770
Total liabilities and net assets	465,690	423,161

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR 6 MONTHS ENDED SEPTEMBER, 2010 AND 2009

(Unit : Millions of Yen)

	Prior period From April 1,2009 To September 30,2009	Current period From April 1,2010 To September 30,2010
	Amount	Amount
Net sales	154,395	217,807
Cost of sales	106,931	121,269
Gross profit	47,463	96,538
Selling, general and administrative expenses	47,782	49,688
Operating income (loss)	(318)	46,849
Other income (expenses) :		
Interest income	266	233
Dividends income	76	219
Foreign exchange gains	82	—
Equity in earnings of affiliates	—	55
Gain on valuation of derivatives	—	4
Interest expenses	(397)	(333)
Equity in losses of affiliates	(1)	—
Loss on valuation of derivatives	(41)	—
Bond issuance cost	(205)	—
Foreign exchange losses	—	(294)
Commission fee	—	(350)
Gain on sales of noncurrent assets	328	23
Reversal of allowance for doubtful accounts	72	180
Reversal of recovery costs of video game arcades	592	139
Gain on compensation payment	438	—
Gain on outlawed debt	291	62
Gain on reversal of subscription rights to shares	—	1,067
Distribution of patent royalty income for prior periods	—	1,139
Loss on sales of noncurrent assets	(93)	(39)
Impairment loss	—	(807)
Loss on valuation of investment securities	(317)	(268)
Loss on sales of stocks of subsidiaries and affiliates	(653)	—
Loss on litigation	(371)	—
Loss on liquidation of subsidiaries	(371)	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	(1,178)
Other income	662	498
Other expenses	(1,385)	(1,920)
Sub total	(1,027)	(1,568)
Income (loss) before income taxes and minority interests	(1,346)	45,281
Income taxes-current	3,973	18,745
Income taxes	3,973	18,745
Income before minority interests	—	26,536
Minority interests in income	1,002	2,186
Net income (loss)	(6,323)	24,349

SEGMENT INFORMATION

Operations by product

Prior period (From April 1, 2009 to September 30, 2009)

(Unit: Millions of Yen)

	Pachinko Pachislot	Amusement machine sales	Amusement center operations	Consumer business	Others	Total	Corporate and eliminations	Consolidated
Net sales -								
(1) Outside customers	68,311	17,971	28,930	37,652	1,529	154,395	—	154,395
(2) Inter segment	142	1,221	17	148	456	1,986	(1,986)	—
Total	68,453	19,192	28,948	37,801	1,986	156,382	(1,986)	154,395
Operating income (loss)	10,897	(737)	223	(8,193)	274	2,464	(2,783)	(318)

(Note)

1. The Company has 5 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
 - (1) Pachinko and pachislot ... Development, manufacture and sale of Pachinko and pachislot machines and design for parlors
 - (2) Amusement machine sales ... Development, manufacture and sale of game machines used in amusement arcades
 - (3) Amusement center operations ... Development, operation, rent and maintenance of Amusement center
 - (4) Consumer business ... Development and sale of home video game software,
Development, manufacture, and sale of toys
Project and production of entertainment contents through cellular phone etc.
Planning, production and sale of animated movies.
 - (5) Others ... Information provider services, etc.
3. Content production expenses related to game software and amusement machines conducted primarily by the consolidated subsidiary SEGA CORPORATION have previously been accounted for as cost of sales at the time that such expenses are incurred (when production work is outsourced, these expenses are first posted as advance payments, and later treated as cost of sales at the time that production work is inspected). However, from the first quarter of the fiscal year ending March 31, 2010, goods recognized as products for commercialization will be posted under inventories as work in process, with opting to treat the amount of such expenses equivalent to the actual sales volume recorded among projected sales volume as cost of sales.
The rationale for this change is to redeploy a framework capable of properly evaluating the certainty of realizing earnings by clarifying decision-making processes at the development stages of each project in line with efforts to review and enhance the development structure. This change will enable the appropriate disclosure of income for a given fiscal period by directly matching content production expenses, which have tended to grow sharply in recent years, with commensurate earnings.
As a consequence of this change, cost and expenses decreased by ¥469 million in Amusement machine sales, ¥34 million in Amusement center operations, ¥1,589 million in Consumer business, also each operating loss decreased in Amusement machine sales, and Consumer business by the same amount respectively, and operating income increased in Amusement center operations by the same amount.

(Additional Information)

Effective from the first quarter of this fiscal year, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17, issued March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, issued March 21, 2008) have been applied.

1. Outline of reporting segments

Reporting segments of the Group are the organizational units for which separated financial information is available, and on the basis of which the Board of Directors makes decision on the allocation of management resources and examines financial performance on a regular basis.

Planning of business development and strategies as well as execution of business activities in respect of each product and service, is carried out by each Group company that provides such product and service.

As such, the Group is comprised of segments classified by product and service provided through the business run by each company, in which "Pachinko and pachislot", "Amusement machine sales", "Amusement center operations" and "Consumer business" are the reporting segments.

Line of business at each reporting segment is as follows:

- (1) Pachinko and pachislot ... Development, manufacture and sale of Pachinko and pachislot machines and design for parlors
- (2) Amusement machine sales ... Development, manufacture and sale of game machines used in amusement arcades
- (3) Amusement center operations ... Development, operation, rent and maintenance of Amusement center
- (4) Consumer business ... Development and sale of home video game software,
Development, manufacture, and sale of toys
Project and production of entertainment contents through cellular phone etc.
Planning, production and sale of animated movies.

2. Information on the amounts of net sales, income (loss) by each reporting segment

Current period (From April 1, 2010 to September 30, 2010)

(Unit: Millions of Yen)

	Pachinko Pachislot	Amusement machine sales	Amusement center operations	Consumer business	Sub-Total	Other (note)	Total
Net sales -							
(1) Outside customers	134,234	19,641	23,648	38,701	216,226	1,581	217,807
(2) Inter segment	97	1,347	0	197	1,641	459	2,101
Total	134,331	20,988	23,648	38,898	217,867	2,040	219,908
Segment income (loss)	47,694	1,917	1,105	(1,306)	49,411	180	49,591

(Note) "Other" is the business segment not included in the reporting segments, and includes Information provider services, etc.

3. Major differences between the total amount of income (loss) in the reporting segments and the operating income in the consolidated statement of operations for the 6 months ended September 30, 2010 (Difference adjustment)

(Unit: Millions of Yen)

Income	Amount
Total income in the reporting segments	49,411
Segment income in Other	180
Elimination of inter segment transactions	(51)
General corporate expenses (note)	(2,690)
Operating income in the consolidated statement of operations for the 6 months ended September 30, 2010	46,849

(Note) General corporate expenses are mainly consisted of the expenses of the group management incurred by the holding company.