

Summary of Results through 2nd Quarter of FY 2011

November 1, 2010
SEGA SAMMY HOLDINGS INC.

◆Highlights

As for the interim results through the second quarter, net sales increased year-on-year and we returned to profitability.

As for pachislot and pachinko machines business segment, pachislot and pachinko unit sales each increased year-on-year. Furthermore, the profit margin improved significantly due to such factors as effects from the reuse of components centered on liquid crystal panels.

In the Amusement Machine Sales Business segment, the distribution of earnings due to utilization of the revenue sharing model remained strong.

In the Amusement Center Operations segment, SEGA domestic same-store sales remained at year-before levels as sales have exceeded 100% since July.

As for the Consumer Business segment, domestic sales of game software was strong, but overseas sales of new titles was weak due to the severe market environment.

◆Consolidated Income Statement

The actual results for the first half of the fiscal year ending March 2011 are as follows:

Net Sales: **217.8 billion yen** (increased by **41.2%** year-on-year)

Operating Income: **46.8 billion yen** (operating loss of **300 million yen** in the previous year)

Ordinary Income: **46.0 billion yen** (ordinary loss of **700 million yen** in the previous fiscal year)

In the first half, we recorded extraordinary losses of **3.6 billion yen** in total, while we recorded extraordinary gain of **2.8 billion yen** in total.

As a result, we posted net income of **24.3 billion yen** for the first half, compared to a net loss of **6.3 billion yen** in the first half of the previous year, and returned to profitability.

◆Consolidated Balance Sheet

Total assets as of the end of the second quarter **increased by 42.5 billion yen** from the end of the previous period to **465.6 billion yen**. The equity ratio remains at a healthy level, standing at **55.8%** at the end of the second quarter.

◆Pachislot and Pachinko Machines Business Results

Net Sales: **134.2 billion yen (increased by 96.5% year-on-year)**

Operating Income: **47.6 billion yen (increased by 340.7% year-on-year)**

As for pachislot machines, sales of “**Ring ni Kakero -Golden Japan Jr. Series-**” launched in the second quarter and “**Pachislot SPIDER-MAN 3**” performed strongly. Sales of “**Pachislot SOUTEN-NO-KEN**” and “**Shin Onimusha**” also remained strong.

As a result, pachislot unit sales units came to **201,402 units**, an **increase of roughly 144,000 units** year-on-year.

As for pachinko machines, the Company launched “**Pachinko CR Hokuto No Ken Raoh**”, the mainstay title for this term, and sold **roughly 120,000 units** for the series. Sales of other titles fared well. As a result, pachinko unit sales came to **198,230 units**, an **increase of roughly 30,000 units** year-on-year.

The ratio of pachinko board sales came to **30.6%**, down from the same period the previous fiscal year, since Sammy’s new brand chassis was introduced.

As a result of efforts to reuse liquid crystal panels and reduce parts procurement costs, we were able to achieve a cost reduction of **roughly 6.6 billion yen** from the initial projection in the overall Pachislot and Pachinko Machine Business segment in the first half.

◆Amusement Machines Sales Business Results

Net Sales: **19.6 billion yen (increased by 9.5% year-on-year)**

Operating Income: **1.9 billion yen (operating loss of 700 million yen in the previous fiscal year)**

There was a solid distribution of earnings due to continued utilization of the revenue sharing model for titles such as “**BORDER BREAK**,” which was launched in the previous fiscal year, and “**HATSUNE MIKU Project DIVA Arcade**,” which was introduced in the first quarter.

The ratio of distribution of earnings due to utilization of the revenue sharing model to domestic net sales of amusement machines and prizes, etc. came to **roughly 19%** through the second quarter. Sales of CVT kits for mainstay titles and consumables such as cards was also strong. In addition to that, sales of prize products was also strong with the recovery trend in the sales of prize category in amusement operations market.

On the other hand, sales of kids card games in the first half was weak. As a result of considering the recent sales situation and market environment, we decided to post an extraordinary loss of **about 1.2 billion yen** related to kids card games in the second quarter.

◆Amusement Center Operations Business Results

Net Sales: **23.6 billion yen (decreased by 18.3% year-on-year)**

Operating Income: **1.1 billion yen (increased by 450.0% year-on-year)**

Net sales decreased year-on-year, partly due to a decrease in amusement facilities, but operating income increased, partly due to a review of the facility portfolio and reduction in operating expenses.

SEGA same-store sales comparison was **99.9%** compared with the same period in the previous fiscal year. Sales in the prize category, including UFO Catcher, continued to perform strongly, exceeding the actual results of the same period in the previous fiscal year since July.

The number of facilities closed in the first half of the fiscal year was **ten** and the number opened was **two**. As a result, the number of facilities as of the end of the second quarter is **252**.

◆Consumer Business Results

Net Sales: **38.7 billion yen (increased by 2.9% year-on-year)**

Operating Loss: **1.3 billion yen (operating loss of 8.1 billion yen in the previous fiscal year)**

In the home video game software business, domestic sales was strong, including “**HATSUNE MIKU –Project DIVA– 2nd**”, “**Kurohyo: Ryu ga Gotoku Shinsyo**”, “**K-ON! HO-KAGO LIVE!!**”. Although total game software unit sales came to **6,600,000 units, a increase of 1,200,000 units** year-on-year, overseas sales of new titles was weak due to the severe market environment.

The Company is also facilitating response to new platforms such as smart phones and SNS.

R&D costs and content production expenses in the segment were **8.0 billion yen, a decrease of 3.2 billion yen** year-on-year.

In the toy business, sales of “**BAKUGAN,**” whose business was developed centered on Bakugan LLP, which was jointly established by five Sega Sammy group companies, as well as “**HOMESTAR AQUA**” and “**Anpanman Oshaberi Ippai! Kotoba Zukan**” showed continued strength.

The mobile phone and PC content business also showed continued strong sales, with mainstay titles introduced for “**777Town.net**” and “**Sammy 777 Town.**”

In the animation business, the distribution of earnings from the hit “**Detective Conan**” and royalty revenue for domestic and overseas sales of “**BAKUGAN**” were solid.

As publicized earlier, the Company has decided to make Sammy NetWorks, SEGA TOYS and TMS ENTERTAINMENT wholly owned subsidiaries. The decision was approved at the extraordinary general meeting of respective companies. They are expected to become wholly owned subsidiaries as of December 1 this year, as initially planned.

Goodwill, or negative goodwill, is projected to be generated in accordance with the conversion to wholly owned subsidiaries, and the amounts will be determined according to the net assets of the respective companies as well as the Company’s share price as of the end of December.

As for this fiscal year, depreciation will only be incurred in the fourth quarter, exerting a minimal impact on operating results.

◆Consolidated Income Statement Projections

The full year projections of the fiscal year ending March 2011 are as follows:

Net Sales: **410.0 billion yen (increased by 6.6% year-on-year)**

Operating Income: **65.0 billion yen (increased by 77.1% year-on-year)**

Ordinary Income: **64.0 billion yen (increased by 78.3% year-on-year)**

Net Income: **37.5 billion yen (increased by 85.6% year-on-year)**

The Company projects a large profit increase, mainly in the Pachislot and Pachinko Machine Business segment, with pachislot machines in operation at pachinko halls showing a recovery trend.

◆Pachislot and Pachinko Machines Business Projections

Net Sales: **215.0 billion yen** (increased by **34.1%** year-on-year)

Operating Income: **58.5 billion yen** (increased by **98.3%** year-on-year)

In the pachislot business, the full year unit sales projection has been revised to **300,000 units**, up **137,000 units** year-on-year, in view of robust sales results in the first half.

In addition, the sales schedule has been strategically reviewed and the number of titles launched this term has been changed to **9 titles**.

In the second half, we plan to sell several titles including **“Oreno Sora～Spirit of Young Justice～,”** in addition to additional order receipts for **“Shin Onimusha.”**

In the pachinko business, the sales schedule and unit sales were reviewed in accordance with the change in specifications of some products, and the full year unit sales projection was revised to **360,000 units**, the same level as the previous fiscal year.

We plan to introduce several strategic titles in the second half centered on the fourth quarter.

We will also continue to strive for cost reduction in the overall Pachislot and Pachinko Machines segment.

◆Amusement Machines Sales Business Projections

Net Sales: **53.0 billion yen** (increased by **17.5%** year-on-year)

Operating Income: **6.5 billion yen** (decreased by **7.1%** year-on-year)

In the second half, we plan to release this fiscal year’s mainstay title **“SENGOKU TAISEN.”**

We also expect continued contribution to profit from utilization of the revenue sharing model.

The total number of titles introduced under the revenue sharing model was **five titles** as of the end of the second quarter.

◆Amusement Center Operations Business Projections

Net Sales: **45.0 billion yen** (decreased by **17.7%** year-on-year)

Operating Loss: **500 million yen** (operating loss of **1.3 billion yen** in the previous fiscal year)

As for the full year projection for SEGA same-store sales, we aim at achieve **100%** in this fiscal year with steady trend in the first half. For the second half, we expect continuous recovery of SEGA same-store sales in line with the progression of the introduction of mainstay titles such as **“SENGOKU TAISEN.”**

We will also continue to strive to strengthen management capacity at each facility and regional competitiveness.

◆Consumer Business Projections

Net Sales: **94.0 billion yen** (decreased by **22.6%** year-on-year)

Operating Income: **6.0 billion yen** (decreased by **4.8%** year-on-year)

The full year unit sales projection for game software was revised to **16,000,000 units**, a decrease of **about 1,000,000 units** from initial full year projections, in view of the severe overseas market environment and other factors.

In the second half, mainstay titles mainly for overseas markets will be launched, with **“VANQUISH”** to be launched in October and **“Sonic Colors”** to be launched in November. We plan to launch **“PHANTASY STAR PORTABLE2 INFINITY”** for the domestic market.

In this segment, we plan to continue efforts associated with smart phones, SNS and other new platforms, and to continue reducing R&D costs and content production expenses in the second half.

In the toy business, we have enjoyed favorable domestic sales of **“BAKUGAN”**, but beyond this and looking ahead to the Christmas season, it will aim to create additional profit through timely and appropriate introduction of the product for the Christmas season.

In addition, following on from BAKUGAN, SEGA TOYS is developing the girl-oriented character **“Zoobles”** for the North American market from August with Spin Master Ltd., and aims to proactively develop the product in the second half of the fiscal year and after.

In the mobile phone and PC content business, we will introduce new titles for new platforms such as SNS and smart phones, in addition to introducing mainstay titles and expanding the “pay-per-use” service for PCs and mobile phones.

In the animation business, we expects continued royalty revenue from domestic and overseas sales of **“BAKUGAN”** and revenue from animation production work for pachislot and pachinko machines. TMS ENTERTAINMENT plans to release a film for theater, **“YOU ARE UMASOU,”** and start airing a new TV series, **“CARDFIGHT!! Vanguard,”** in the second half of the fiscal year.

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