Today

for Tomorrow

Annual Report 2011

SEGA SAMMY HOLDINGS

Today

Basic information about the SEGA SAMMY Group

Basic Information

for Tomorrow

Those more familiar with the SEGA SAMMY Group, start here.

Fiscal 2011 Summary

Business Strategies

Fiscal 2011 Business Initiatives

ESG Information

Detailed Financial Information

DEFINITION OF TERMS
"Fiscal 2011" refers to the fiscal year ended March 31, 2011, and other fiscal years are referred to in a corresponding manner in this annual report.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS
Statements in this annual report regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and its SEGA SAMMY Group Companies ("the Group"), including SEGA CORPORATION and Sammy Corporation, are forward-looking statements based on the information currently available to the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "may," and "might," and words of similar meaning in connection with a discussion of future operations, financial performance, events, or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to management.

The Company cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not assume that the Company has any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The Company disclaims any such obligation.

Actual results may vary significantly from the Company's forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as currency exchange rate fluctuations, changes in laws and government systems, pressure from competitors' pricing and product strategies, declines in the marketability of the Group's existing and new products, disruptions to production, violations of the Group's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation.

[This annual report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.]

Today
feeling short of wind

Tomorrow
soaring into the sky

Today
2.5 m^2

Tomorrow
360 million km^2

Today

stubborn reindeer

Tomorrow

an electric car

Today

Net Sales
up
3.1%

Operating Income
up
87.3%

Operating Margin
up
7.8pt.

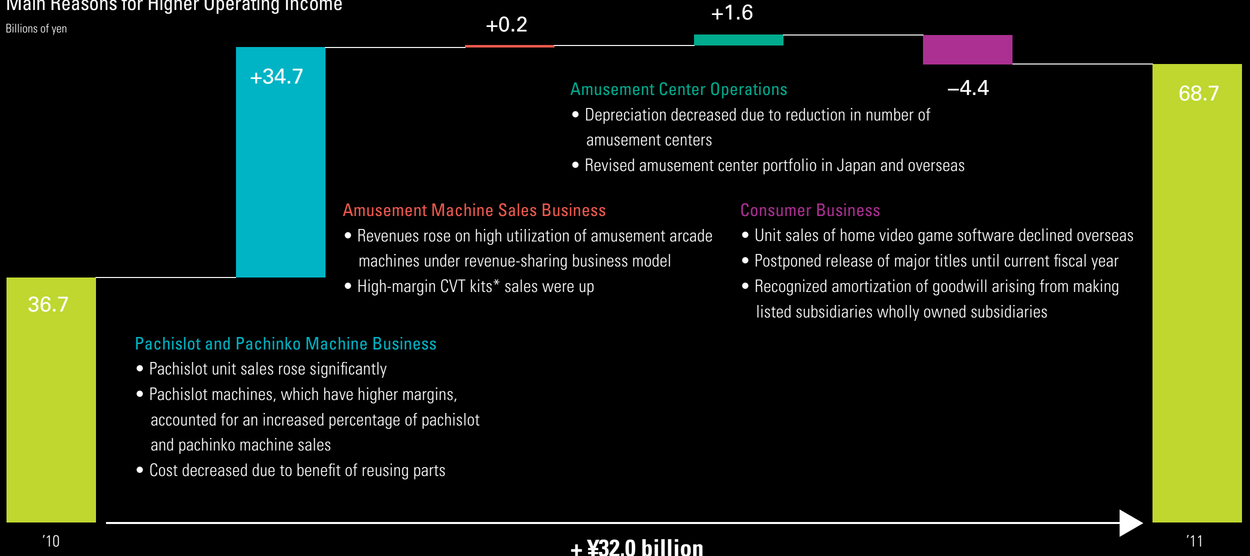
Net Income
up
104.8%

ROE
up
7.4pt.

ROA*
up
7.0pt.

* ROA = Ordinary income ÷ Total assets

Main Reasons for Higher Operating Income
Billions of yen



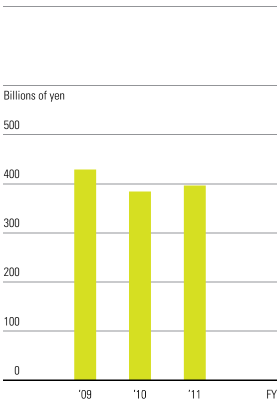
* Kits for upgrading boards, software, and exteriors

Consolidated Financial Highlights

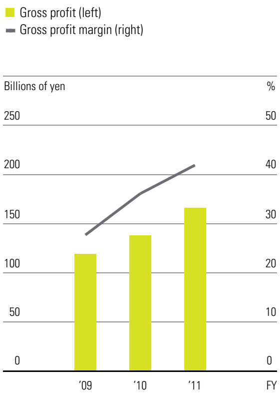
SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years Ended March 31

	Millions of yen, unless stated otherwise					Thousands of U.S. dollars[1]
	2007	2008	2009	2010	2011	2011
Net sales	¥528,238	¥458,977	¥429,195	¥384,679	¥396,732	$4,771,292
Pachislot and Pachinko Machine Business[2]	211,540	145,583	161,691	160,376	212,060	2,550,335
Amusement Machine Sales Business[2]	75,455	71,062	61,926	45,117	47,237	568,099
Amusement Center Operations[2]	103,850	91,227	71,310	54,788	45,695	549,554
Consumer Business[2]	119,593	141,791	131,361	121,575	88,896	1,069,106
Others[2]	17,800	9,314	2,904	2,821	2,843	34,196
Gross profit	203,079	120,403	119,092	138,867	166,055	1,997,054
Selling, general and administrative expenses	126,549	126,232	110,728	102,154	97,304	1,170,224
Operating income (loss)	76,530	(5,829)	8,363	36,712	68,750	826,830
Pachislot and Pachinko Machine Business	71,102	8,444	14,528	29,502	64,284	773,117
Amusement Machine Sales Business	11,683	7,152	6,890	7,094	7,317	88,005
Amusement Center Operations	132	(9,807)	(7,520)	(1,338)	342	4,121
Consumer Business	1,749	(5,989)	(941)	6,332	1,969	23,680
Others	(1,345)	(75)	353	336	(10)	(129)
Corporate and eliminations	(6,791)	(5,554)	(4,947)	(5,213)	(5,152)	(61,964)
EBITDA[3]	104,578	39,782	35,007	53,887	84,717	1,018,867
Net income (loss)	43,456	(52,471)	(22,882)	20,269	41,510	499,227
Capital expenditures	59,272	50,422	26,610	16,164	19,686	236,752
Depreciation and amortization	28,048	45,611	26,644	17,175	15,967	192,037
R&D expenses, content production expenses	52,107	65,385	59,676	41,502	41,104	494,335
Net cash provided by (used in) operating activities	60,623	(25,879)	32,199	54,998	87,696	1,054,676
Net cash provided by (used in) investing activities	(75,395)	(10,399)	936	(7,640)	(29,585)	(355,809)
Net cash used in financing activities	(1,713)	(7,580)	(7,653)	(3,401)	(57,168)	(687,529)
Free cash flows[4]	(14,772)	(36,278)	33,135	47,358	58,111	698,867
Total assets	549,940	469,643	423,938	423,161	458,624	5,515,634
Total net assets / shareholders' equity[5]	358,858	281,628	242,532	256,770	285,461	3,433,087
Number of shares outstanding (shares)	283,229,476	283,229,476	283,229,476	283,229,476	266,229,476	

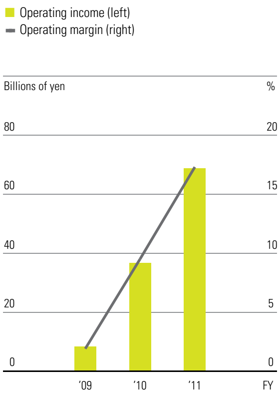
Net Sales



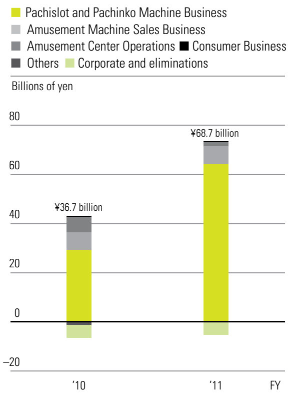
Gross Profit / Gross Profit Margin



Operating Income / Operating Margin



Operating Income (Loss) by Segment



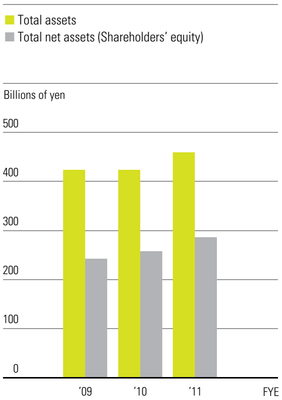
Per Share Data	2007	2008	2009	2010	Yen 2011	U.S. dollars[1] 2011
Net income (loss)	¥ 172.47	¥ (208.26)	¥ (90.83)	¥ 80.46	¥ 163.19	$ 1.96
Diluted net income	172.35	–	–	–	163.01	1.96
Total net assets / shareholders' equity[5]	1,341.80	1,030.09	882.47	937.80	1,093.23	13.14
Cash dividends	60.00	45.00	30.00	30.00	40.00	0.48

Key Ratios	2007	2008	2009	2010	% 2011
Gross profit margin	38.4	26.2	27.7	36.1	41.9
SG&A ratio	24.0	27.5	25.8	26.6	24.5
Operating margin	14.5	–1.3	1.9	9.5	17.3
R&D expenses to net sales	9.9	14.2	13.9	10.8	10.4
ROE	13.3	–	–	8.8	16.2
ROA[6]	15.2	–	–	8.5	15.5
Total net assets ratio	61.5	55.3	52.4	55.8	60.0

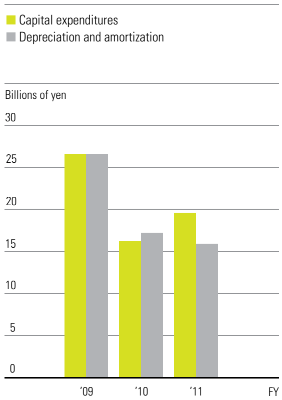
Main Segment Benchmarks	2007	2008	2009	2010	2011
Pachislot machines unit sales (units)	523,422	380,688	123,286	162,932	302,270
Pachinko machines unit sales (units)	132,981	108,184	391,831	360,171	343,188
Pachinko board sales ratio (%)	–	29.3	10.5	69.1	28.5
Number of domestic amusement centers (centers)	449	363	322	260	249
SEGA's existing domestic amusement center sales year on year (%)	95.8	89.0	92.4	91.7	99.3
Home video game software unit sales (thousands)	21,270	26,990	29,470	26,750	18,710

1 Yen amounts have been translated into U.S. dollars solely for convenience at the rate of ¥83.15 to U.S. $1, the prevailing exchange rate at March 31, 2011.
2 Net sales to outside customers
3 EBITDA = Operating income (loss) + Depreciation and amortization
4 Free cash flows = Net cash provided by (used in) operating activities + Net cash provided by (used in) investing activities
5 Following the enactment of the new Companies Act of Japan in 2006, the Company presents total net assets for the fiscal year ended March 31, 2007 and subsequent fiscal years, which represent the shareholders' equity figure used in previous years plus minority interests and share subscription rights.
6 ROA = Ordinary income ÷ Total assets

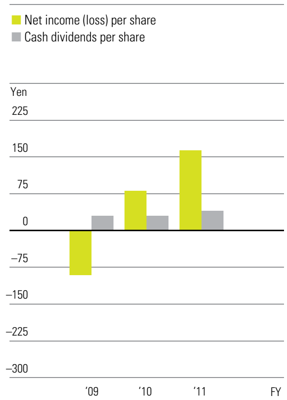
Total Assets / Total Net Assets (Shareholders' Equity)



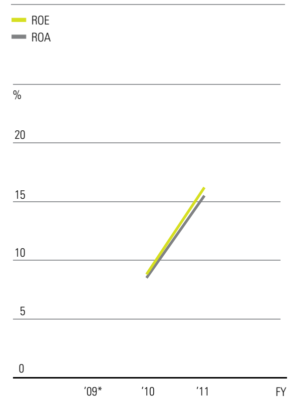
Capital Expenditures / Depreciation and Amortization



Net Income (Loss) per Share / Cash Dividends per Share



ROE / ROA



* Not applicable because recorded net loss for the fiscal year

Highlights

Up 139,000 Units

In the Pachislot and Pachinko Machine Business segment, we actively developed and marketed differentiated pachislot machines. Sales were up 139,000 units year on year, to 300,000, helping drive market recovery. With our share of the pachislot machine market rising to 30.9%, we further consolidated our dominance of the pachislot machine market.

In the Black

The Amusement Center Operations segment achieved operating income for the first time in four fiscal years because it has been closing or selling amusement centers with inadequate profitability or potential while strengthening the operational capabilities of its remaining amusement centers.

14%

We debuted titles under a revenue-sharing business model, which increases investment efficiency for amusement center operators while securing stable long-term earnings for us. Steady utilization of these products throughout the fiscal year underpinned the earnings of the Amusement Machine Sales Business segment. As a percentage of our net sales for amusement arcade machines in Japan, revenues from revenue-sharing products rose to 14%.

Participating in Earnest

Launches of an online role-playing game (RPG), Kingdom Conquest, for Apple's iOS mobile operating system and game content based on SEGA's popular intellectual properties marked the beginning of our full-scale entry into the market for services that cater to such new platforms as smartphones and social networking services (SNS).

Acquisition and Retirement

We retired 17,000,000 shares of treasury stock, or 6.0% of shares outstanding prior to the retirement, on December 10, 2010. In addition, we acquired a further 14,000,000 shares of treasury stock, or 5.26% of shares outstanding, between December 2, 2010, and March 15, 2011.

Synergy

Aiming to further realize synergistic and complementary benefits, we made three listed subsidiaries into wholly owned subsidiaries—Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD.

Asia

Obtaining a license in China to manufacture and sell amusement arcade machines in the country has given us a foothold in a market with huge growth potential. Also, through collaborations with local partners, we have made a foray into Asia's online games market.

Bird's Eye View

SEGA SAMMY Group in the Entertainment Industry

Net Sales[1]	Billions of yen
Nintendo	1,014.3
SEGA SAMMY	396.7
NAMCO BANDAI	394.1
KONAMI[3]	257.9
SANKYO	201.6
SQUARE ENIX	125.2
CAPCOM	97.7
Heiwa	85.8

Operating Income[1]	Billions of yen
Nintendo	171.0
SEGA SAMMY	68.7
SANKYO	51.9
KONAMI[3]	20.7
NAMCO BANDAI	16.3
Heiwa	15.2
CAPCOM	14.2
SQUARE ENIX	7.3

Operating Margin[1]	%
SANKYO	25.8
Heiwa	17.8
SEGA SAMMY	17.3
Nintendo	16.9
CAPCOM	14.6
KONAMI[3]	8.1
SQUARE ENIX	5.8
NAMCO BANDAI	4.1

ROE[1]	%
Heiwa	21.2
SEGA SAMMY	16.2
CAPCOM	13.8
SANKYO	8.4
KONAMI[3]	6.8
Nintendo	5.9
NAMCO BANDAI	0.8
SQUARE ENIX	–8.4

ROA[1, 2]	%
Heiwa	16.2
SEGA SAMMY	15.5
CAPCOM	14.5
SANKYO	11.8
Nintendo	7.5
KONAMI[3]	6.2
NAMCO BANDAI	5.2
SQUARE ENIX	2.6

Market Capitalization[4]	Billions of yen
Nintendo	3,183.3
SANKYO	416.2
SEGA SAMMY	384.9
KONAMI	220.9
NAMCO BANDAI	217.6
SQUARE ENIX	166.5
Heiwa	128.5
CAPCOM	107.6

Share of Annual Pachislot Machine Sales[5]

FY	2006		2007		2008		2009		2010	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Sammy	31.8%	Sammy	21.8%	Company Y	18.8%	Sammy	21.3%	Sammy	30.9%
2	Company D	12.1%	Company U	11.0%	Company S	14.6%	Company S	13.6%	Company D	11.9%
3	Company H	10.9%	Company S	9.7%	Sammy	13.5%	Company U	13.1%	Company S	11.9%
4	Company Y	10.5%	Company D	8.7%	Company H	7.4%	Company Y	9.5%	Company H	11.3%
5	Company K	9.4%	Company Y	8.7%	Company K	6.5%	Company K	7.8%	Company U	10.5%

Share of Annual Pachinko Machine Sales[5]

FY	2006		2007		2008		2009		2010	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Company S	23.1%	Company S	25.8%	Company S	24.3%	Company S	18.0%	Company S	22.5%
2	Company K	21.0%	Company S	22.9%	Company S	13.5%	Company S	17.2%	Company S	14.6%
3	Company S	16.7%	Company K	16.1%	Sammy	11.7%	Company K	12.8%	Sammy	11.8%
4	Company N	6.6%	Company N	6.4%	Company N	10.5%	Company N	11.9%	Company K	11.1%
5	Company D	5.1%	Company D	5.3%	Company K	10.2%	Sammy	10.8%	Company N	10.2%
6	Sammy	3.5%	Sammy	3.4%						

Note: The above is intended to give an idea of the Group's position in the industry and only covers companies for which information can be obtained from published documents, such as listed companies. Because there are unlisted companies that do not disclose information, this is not a completely accurate industry ranking.

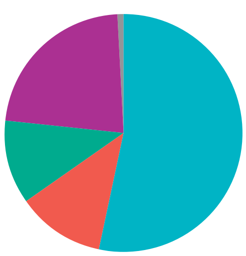
1 Respective companies' most recent settlement data. Source: Respective companies' published documents
2 ROA = Ordinary income ÷ Total assets
3 U.S. GAAP
4 Source: Calculated by the Company based on the closing prices at respective stock exchanges on March 31, 2011
5 Source: Yano Research Institute Ltd. Settlement dates from July to June
6 "Amusement operations" including amusement centers and amusement arcade machines
7 Amusement center operations

	Billions of yen
Amusement Center Operation Sales[1]	
ROUND ONE	84.3
NAMCO BANDAI	62.3
SEGA SAMMY	45.6
SQUARE ENIX[6]	45.0
AEON Fantasy	42.2
ADORES[7]	19.1
CAPCOM	11.6
TECMO KOEI	2.9

	Millions of units
Unit Sales of Home Video Game Software (Global)[1]	
KONAMI	21.94
NAMCO BANDAI	20.90
CAPCOM	20.50
SEGA SAMMY	18.71
SQUARE ENIX	16.85
TECMO KOEI	5.76

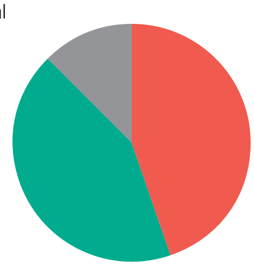
SEGA SAMMY Group Snapshot

Net Sales*	%	Millions of yen
Pachislot and Pachinko Machine Business	53.5	212,060
Amusement Machine Sales Business	11.9	47,237
Amusement Center Operations	11.5	45,695
Consumer Business	22.4	88,896
Others	0.7	2,843
Total		¥396.7 billion

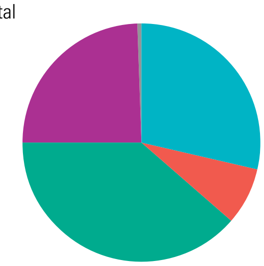


* Excludes inter-segment transactions

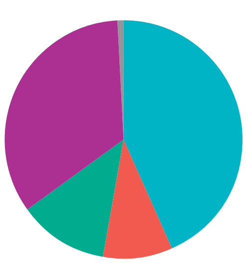
Overseas Net Sales	%	Millions of yen
North America	44.9	35,810
Europe	42.8	34,165
Others	12.3	9,815
Total		¥79.7 billion



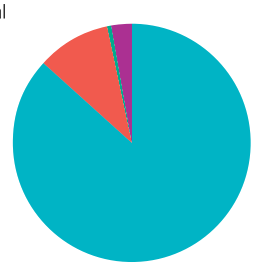
Capital Expenditures	%	Millions of yen
Pachislot and Pachinko Machine Business	29.1	5,725
Amusement Machine Sales Business	7.8	1,538
Amusement Center Operations	39.1	7,701
Consumer Business	24.6	4,848
Others	0.5	92
Total		¥19.6 billion



Total Assets	%	Millions of yen
Pachislot and Pachinko Machine Business	43.4	125,565
Amusement Machine Sales Business	9.4	27,374
Amusement Center Operations	12.4	36,019
Consumer Business	34.0	98,535
Others	0.8	2,252
Total		¥289.7 billion

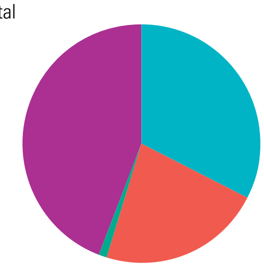


Operating Income (Loss)*	%	Millions of yen
Pachislot and Pachinko Machine Business	87.0	64,284
Amusement Machine Sales Business	9.9	7,317
Amusement Center Operations	0.5	342
Consumer Business	2.7	1,969
Others	0.0	–10
Corporate and eliminations		–5,152
Total		¥68.7 billion



* Composition of operating income (loss) by business segment is net of corporate and eliminations.

R&D Expenses, Content Production Expenses	%	Millions of yen
Pachislot and Pachinko Machine Business	32.8	13,485
Amusement Machine Sales Business	22.4	9,195
Amusement Center Operations	1.0	407
Consumer Business	44.2	18,150
Total		¥41.1 billion



For Tomorrow

Discussion with Management

Hajime Satomi
Chairman of the Board and Chief Executive Officer,
SEGA SAMMY HOLDINGS INC.

Keishi Nakayama
President, Representative Director, and Chief Operating Officer,
Sammy Corporation

Okitane Usui
President, Representative Director,
and Chief Operating Officer,
SEGA CORPORATION

Anticipating Tomorrow

With a steady focus on the future, we will concentrate the Group's capabilities and open up new fields of entertainment.

Overview of Business Results in Fiscal 2011

In fiscal 2011, ended March 31, 2011, SEGA SAMMY HOLDINGS' consolidated net sales increased 3.1% year on year, to ¥396.7 billion, and operating income was up 87.3%, to ¥68.7 billion. The key factors that contributed to these results were as follows.

Consolidated net sales: Due principally to a decline in the number of amusement centers and the temporary closure of certain centers due to the Great East Japan Earthquake, the Amusement Center Operations segment recorded a 16.6% year-on-year decline in sales. In addition, the Consumer Business segment registered a 26.9% decline in sales as a result of weak sales of home video game software in overseas markets. However, in the Pachislot and Pachinko Machine Business segment, unit sales of pachislot machines increased substantially, and the segment's sales were up 32.2%, driving the sales growth for the entire Group.

Profits and expenses: The primary factor behind the growth in operating income was the substantially higher income in the Pachislot and Pachinko Machine Business segment. This gain was attributable not only to an increase in unit sales of pachislot machines, which have high profit margins, but also to the improved gross profit margin that resulted from initiatives to reuse parts. The operating margin improved by 7.8 percentage points, to 17.3%.

Due to product compensation-related expenses, impairment loss, and loss on liquidation of subsidiaries, net other expenses were ¥11.2 billion. Consequently, net income in fiscal 2011 was up 104.8%, to ¥41.5 billion. Due to the Great East Japan Earthquake, we recorded loss on disaster of ¥1.2 billion, which included valuation losses on assets and expenses to restore amusement centers and offices. In addition, operations were temporarily halted at certain amusement facilities.

Cash dividends: For the year under review, cash dividends applicable to the year were ¥40.00 per share, including interim and year-end dividends of ¥20.00 each. The consolidated dividend payout ratio was 24.5%. On December 10, 2010, we cancelled 17 million shares of treasury stock, and over the period from December 2, 2010, to March 15, 2011, we acquired 14 million shares of treasury stock.

As a result of efforts to focus on the future, identify issues, and steadily resolve them one by one, the SEGA SAMMY Group has been able to record strong growth. The Group is now making preparations for the next stage of growth.

On the following pages, Hajime Satomi, Chairman of the Board and Chief Executive Officer of SEGA SAMMY HOLDINGS INC.; Keishi Nakayama, President, Representative Director, and Chief Operating Officer of core company Sammy Corporation; and Okitane Usui, President, Representative Director, and Chief Operating Officer of SEGA CORPORATION, outline their future visions for the Group and discuss progress with initiatives targeting the realization of those initiatives.

Foothold for Further Growth

Hajime Satomi

Chairman of the Board and
Chief Executive Officer,
SEGA SAMMY HOLDINGS INC.

Laying the Foundation for Further Growth

Q. Would you provide a general overview of fiscal 2011?

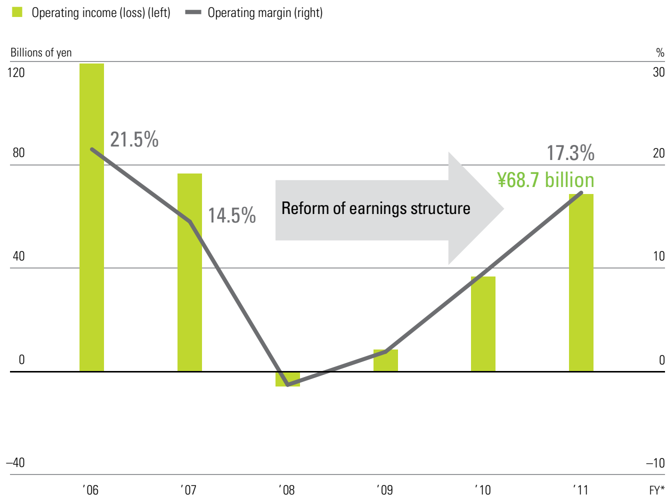
A. Satomi: In a challenging environment, we were able to confirm the strength of our robust management platform.

The pachislot and pachinko machine market remained sluggish on account of changes in the regulatory environment. SEGA took steps to develop its operations while dealing with weak consumer spending and major changes in the structure of its markets. The fact that we were able to achieve a substantial gain in profits, even in such adverse conditions, has reinforced my belief that we have made steady progress in establishing a profit structure that is highly resistant to fluctuations in the operating environment.

For example, in the Pachislot and Pachinko Machine Business segment, which doubled its operating income and led growth in the Group's consolidated results, we developed and supplied highly differentiated products, both pachislot machines and pachinko machines. At the same time, we made progress in reducing costs. In this way, we met our objectives in strengthening our product appeal and our profitability.

Moreover, in the Amusement Machine Sales Business segment, we are seeing steady growth in revenues under the revenue-sharing business model and is on track with the establishment of a business model that will generate stable revenues over the long term. We also have completed the implementation of measures to streamline the expense structure of the Amusement Center Operations segment, bringing expenses into line with revenues. The segment generated operating income for the first time since fiscal 2007.

Achievement of a Substantial Increase in Profits in a Challenging Operating Environment



* Years ended March 31

Major Operational Structure Reforms since Fiscal 2009

Pachislot and Pachinko Machine Business
- Strengthened pachinko machine business (transferred to new development system/increased pachinko board sales as a percentage of pachinko machine unit sales)
- Withdrew from the pachislot and pachinko machine peripheral business
- Reduced cost by reusing parts
- Improved profit margin by revising pricing strategy

Amusement Machine Sales Business
- Stopped developing certain large, high-end machines
- Reduced R&D expenses/content production expenses
- Introduced new business model (revenue-sharing business model)

Amusement Center Operations
- Closed or sold amusement centers with inadequate profitability or potential

Consumer Business
- Narrowed down number of titles under development
- Reduced R&D expenses/content production expenses

Other Reforms
- Rightsized workforce by introducing voluntary early retirement plan (SEGA/SEGA TOYS)
- Implemented measures in earnest to create Group synergies (established Bakugan LLP. and SEGA SAMMY VISUAL ENTERTAINMENT INC.*)
- Conversion of Sammy NetWorks, SEGA TOYS, and TMS ENTERTAINMENT into wholly owned subsidiaries.

* Currently MARZA ANIMATION PLANET INC.

In these ways, we are making steady advances with initiatives to enhance our profitability through ongoing cost structure reforms. Nonetheless, I am not yet satisfied with our profits. I am committed to returning the Company, as rapidly as possible, to the level of profits that we recorded in fiscal 2006—operating income of more than ¥100.0 billion. There are still many challenges that we must overcome to reach that goal.

Q. What was the reason for the conversion of listed subsidiaries into wholly owned subsidiaries?

A. **Satomi: We took this step to prepare the foundation for leveraging the Group's comprehensive strengths.**

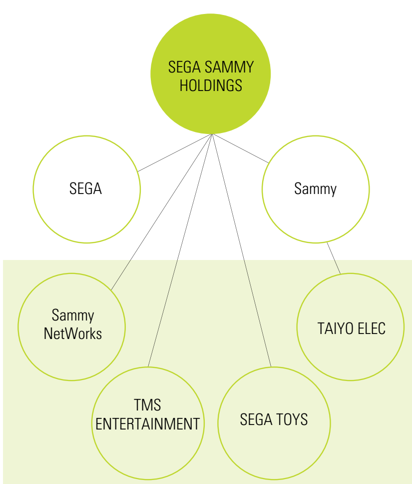
The three listed subsidiaries—Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD.—had previously developed and nurtured IP*/content and implemented multifaceted content development on an independent basis. However, there are limits to what can be done independently. The objective of making the three companies wholly owned subsidiaries was to prepare the foundation for rapid, bold decision-making involving close cooperation in the use of management resources from the perspective of overall optimization. In the future, on a Groupwide basis we will be able to implement focused investment throughout all operational areas and to nurture and promote superior IP/content, without being constrained by short-term revenue and profitability issues. In addition, because the three companies will be able to utilize the Group's resources, including our human resources, networks, credit rating, and marketing know-how, the three companies will be able to take on challenges that they previously were unable to address. We also expect this move to have the effect of strengthening consolidated Group operations, such as cost reduction effects from the consolidation of head office functions, the realization of efficient cash management, and benefits in the area of consolidated taxes.

* Intellectual Property

In August 2011, TAIYO ELEC Co., Ltd., the sole remaining listed subsidiary, became a wholly owned subsidiary of Sammy. In the future, TAIYO ELEC will strengthen its ties with Sammy, exchange personnel, standardize parts, conduct joint development, and utilize the SEGA SAMMY Group's superb IP. In this way, we plan to have TAIYO ELEC provide support for our multibrand strategy.

Through these initiatives, we have prepared the foundation for the full use of the Group's comprehensive strengths. Moving forward, we will move up to the stage where we can benefit from the full-scale generation of synergy effects.

Maximizing Group Synergies by Converting Listed Subsidiaries into Wholly Owned Subsidiaries



Major objectives of converting to wholly owned subsidiaries
- Generating synergy effects through close cooperation involving the Group's powerful IP/content
- Nurturing IP/content from long-term perspective
- Making full use of Group management resources
- Strengthening consolidated Group management
- Realizing efficient cash management
- Strengthening corporate governance, compliance

Next Plan and Future Growth Strategies

Q. Would you describe the Company's plan for fiscal 2012?

A. Satomi: Our plan anticipates lower profits, but nonetheless we will do our utmost to achieve year-on-year improvement in results.

For fiscal 2012, we are forecasting higher sales but lower profits, with consolidated net sales of ¥450.0 billion, up 13.4% from the previous year, and operating income of ¥60.0 billion, down 12.7%. (Forecasts as of May 13, 2011.) I should point out that this plan incorporates conservative estimates of the unstable operating environment that has resulted from the Great East Japan Earthquake. In the Pachislot and Pachinko Machine Business segment, we have conservatively estimated unit sales and have forecast an increase in costs due to concerns about parts procurement, which have continued into the second quarter. In the Amusement Center Operations segment, the plan reflects the fact that certain centers are closed due to the earthquake and that consumer spending will remain sluggish.

Early in fiscal 2012, however, the Pachislot and Pachinko Machine Business segment has been recording favorable sales of models that were already on the market. We also plan to launch major titles in the second half of the fiscal year. Moreover, in the Amusement Center Operations segment the plan calls for a loss at the operating level, but nonetheless the segment's position is strong. In addition to this solid positioning, we have responded flexibly to financial unease and changes in the regulatory environment. In this way, the Group's earning power has been enhanced. Accordingly, in fiscal 2012 we will do our utmost to surpass our performance in fiscal 2011.

Q. Would you discuss the Company's future challenges and strategies?

A. Satomi: We will accelerate implementation of measures to leverage our comprehensive strengths and take on challenges in new fields.

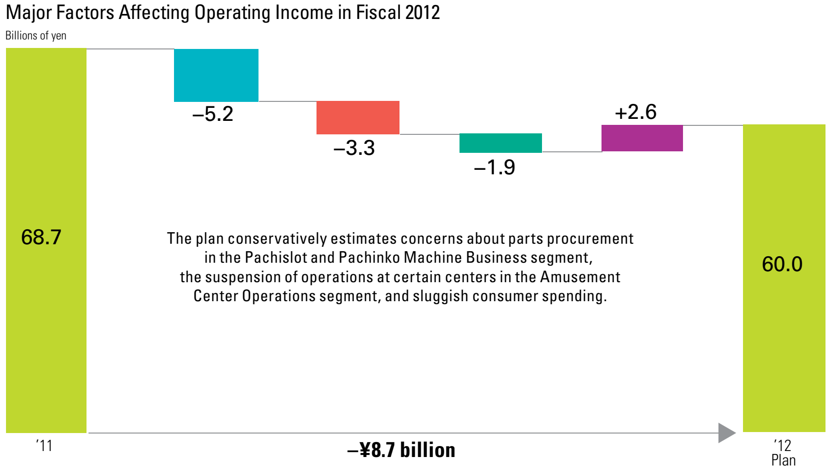
The medium- to long-term objectives of the Pachislot and Pachinko Machine Business segment are to secure the top share in both pachislot machines and pachinko machines. To that end, we will reform all processes, including not only development but also manufacturing, marketing, sales, and purchasing. At the same time, we will further strengthen cooperation with the companies that support the multibrand strategy, and work to bolster competitiveness for the Group as a whole and achieve synergistic growth in profits.

The market for the Pachislot and Pachinko Machine Business segment is limited to Japan, but SEGA, on the other hand, can take steps to expand its operations, not only into new business fields but also into new geographical regions. Accordingly, SEGA's business plays an extremely important role in the Group's efforts to expand its operations. Consequently, the most important issue for the Group is to further strengthen SEGA's earnings capacity. In the past, SEGA generated more than ¥20.0 billion a year in profits. First, we need to return SEGA to that level. There is still some room to achieve gains through cost structure reforms, but at the same time we must leverage our resources—such as organizational capabilities, development capabilities, and brand strengths—and take on challenges in new fields that have growth potential.

In the Amusement Machine Sales Business segment, we will continue to focus on stabilizing earnings in Japan, while overseas we will step up our business development activities. Overseas, our basic policy for market development will be to build product development, production, and sales systems through tie-ups with local partners. In the Amusement Center Operations segment, the traditional game center business faces difficult operating conditions. In this setting, we will rigorously pursue improved profitability while maintaining a certain operational scale. In addition, we will take on the challenge of developing new theme park facilities by leveraging the SEGA brand and operational know-how. We will also consider various formats for the provision of licenses to partners.

In the game content operations of the Consumer Business segment, we will focus our management resources on content for smartphones and SNS, which continue to record strong growth. In this field, we expect the competitive landscape to be determined over the next two to three years. M&A activities are also an important option, and I want to establish our presence in this field as rapidly as possible.

Major Factors Affecting Operating Income in Fiscal 2012



Pachislot and Pachinko Machine Business
- Increase in material procurement cost as a result of the earthquake
- Increase in SG&A expenses (R&D expenses, etc.)

Amusement Machine Sales Business
- Decrease in the number of CVT kit titles
- Increase in parts costs due to the introduction of new boards

Amusement Center Operations
- Lower sales at existing domestic centers
- Increase in depreciation and amortization

Consumer Business
- Increase in unit sales of home video game software

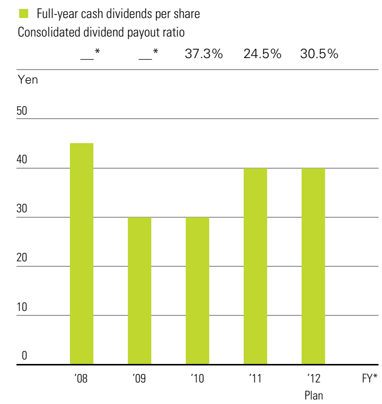
Fiscal 2012 Targets*

Billions of yen

	2011	2012	YOY change
Net sales	396.7	450.0	+13.4%
Pachislot and Pachinko Machine Business	212.0	235.0	+10.8%
Amusement Machine Sales Business	47.2	50.0	+5.9%
Amusement Center Operations	45.6	42.0	–7.9%
Consumer Business	88.8	120.0	+35.1%
Operating income	68.7	60.0	–12.7%
Pachislot and Pachinko Machine Business	64.2	59.0	–8.1%
Amusement Machine Sales Business	7.3	4.0	–45.2%
Amusement Center Operations	0.3	(1.6)	—
Consumer Business	1.9	4.5	+136.8%
Corporate and eliminations	(5.1)	(6.0)	—
Net income	41.5	33.0	–20.5%

* Numerical targets for fiscal 2012 are based on information available when figures were announced (May 13, 2011) and the judgment of business managers. Please be aware that these targets are subject to risks and uncertainties and that actual future business results could differ significantly from these targets due to a variety of factors. Further, the Company undertakes timely disclosures to stock exchanges of the latest information, which it also releases on the IR page of its web site. (URL http://www.segasammy.co.jp/english/ir/).

Full-Year Cash Dividends



* Years ended March 31

* Not applicable because recorded net loss for the fiscal years

In addition, in toys and animation products, the Group's management resources will provide a base for the implementation of initiatives targeting the full-scale generation of Group synergies.

Q. Please discuss the Company's policy for the casino business in Japan.

A. Satomi: We are actively considering an entry into the casino business.

Casinos are receiving attention as one means of promoting Japan as a "tourism nation." If a casino bill is approved and the casino industry develops in Japan, the benefits will extend beyond the activation of the tourism industry as in Macau and Singapore, and the casino industry is expected to be a trigger for the recovery of the Japanese economy. The Group will aggressively consider the entry into facilities management, centered on casinos. As a comprehensive entertainment company, our strengths and know-how include not only hardware but also amusement facilities operation. We also have a robust financial position. Accordingly, we will seize business opportunities that have the potential to generate substantial growth for the Group in the years ahead, centered on partnerships with overseas companies that have strong track records in casino operations.

Q. Tell us about the Company's capital policy.

A. Satomi: We will pay dividends that are appropriate to our level of profits, while using internal reserves to fund investments targeting future growth.

Our general objective is to return profits to shareholders by paying out about 20% to 30% of post-tax income as dividends. Each year, we make decisions flexibly, with consideration for maintaining a balance with investment in growth fields. As I mentioned earlier, the Group is working to develop operations in growth fields, where we must move quickly to build a foothold for our operations. From the viewpoint of future prospects and growth potential, we will reserve a certain level of funds to enable us to make aggressive decisions about investment in attractive, strictly selected projects. In particular, in the event that we actually make an entry into the casino business, we would expect the scale of the projects to be substantial.

Our basic approach to cash is to build up retained earnings by generating net income each year, targeting a net cash position of ¥150 billion to ¥200 billion, while continuing to pay dividends to shareholders and make investments in promising opportunities, with consideration for a possible entry into the casino business in the future.

Q. Do you have a message for those who suffered from the Great East Japan Earthquake and for the Company's stakeholders?

A. Satomi: We will work to support the recovery of Japan through the provision of entertainment, our core business domain.

First, the SEGA SAMMY Group extends its deepest condolences to all victims of the Great East Japan Earthquake and offers its heartfelt sympathies to all those who have suffered, their families, and other concerned parties.

We have implemented initiatives on a Groupwide basis, such as making monetary donations and supporting the fund-raising efforts of our employees, and we plan to continue this type of direct support in the future. At the same time, in entertainment, our core business domain, we have the ability to bring smiles to the faces of people of all ages and to provide well-springs of vitality. Our mission is to build a healthy, bright tomorrow for Japan and society, and we believe that the fulfillment of that mission will also lead to sustained increases in enterprise value.

With a steady focus on the future, we will concentrate the Group's strengths and open up new fields of entertainment. As always, we will endeavor to meet the expectations of all of our stakeholders.

Increasing Market Share

Keishi Nakayama

President, Representative Director,
and Chief Operating Officer,
Sammy Corporation

Our Next Challenge Is to Become the Dominant Industry Leader

Q. How do you evaluate the results of the Pachislot and Pachinko Machine Business segment in fiscal 2011?

A. Nakayama: We have established a system that can generate steady profits.

I believe that it is our human resources and organization that support our development ability to create competitive products, as well as our efficient production system and our robust sales capabilities. Accordingly, in fulfilling my own mission of "building a system that can generate stable profits, no matter what the changes in the operating environment," the most important issue is to push forward with improvements in the way employees think about their jobs.

Over the past three years, we have done our utmost to build a system that can generate profits, and as a result in fiscal 2011 we achieved a major increase in earnings. However, I am especially pleased at the extent to which employees are focused on this pursuit, and how we have established an environment for sustained growth. I believe that it is these improvements that have led to quantitative results.

On the other hand, we also faced challenges. For a certain product, we had to provide replacement machines at no cost as well as compensation for lost business, and we recorded an extraordinary loss of ¥5.2 billion for product compensation-related expenses. We have installed a rigorous checking system and thoroughly pursued quality control. We are taking this issue seriously, and we will further bolster our system to prevent a recurrence.

Q. With the industry environment undergoing dramatic change, what is the background to your increase in market share?

A. Nakayama: The reason is substantial enhancement of our overall organizational capabilities.

Since 2007, when the effects of the revision of regulations pertaining to the Entertainment Establishments Control Law started to become clear, sales of pachislot machines have followed a declining trend while sales of pachinko machines have increased. However, fiscal 2010 saw the launch of hit pachislot machines that drove the market, and as a result unit sales in the pachislot machine market turned around, rising 27.9% year on year, while sales of pachinko machines declined 13.0%. Sammy has increased its product capabilities in both pachislot and pachinko machines and built a balanced portfolio. Consequently, we have been able to generate steady increases in unit sales, even in this type of changing market environment.

The major factor behind our increased product capabilities is our new development system. We switched to this system in fiscal 2009, and now we are seeing the results. Sales, development, and production divisions have been working together, and strict quality control has been implemented. We have taken steps to implement product development that reflects market viewpoints, such as incorporating outside opinions and evaluations. We look at utilization rates as an indicator of the market receptions and the brand strength of our products. Comparing utilization rates before and after the shift to the new system, the titles developed after the shift are showing better utilization overall.

In pachinko machines, as a result of these bolstered product capabilities, the number of installed units of Sammy products has increased. As a result, the number of installed cabinets for sales of replacement-use pachinko boards has expanded, and we have established a foundation for the simultaneous achievement of lower investment burdens for hall operators and higher profit margins for Sammy.

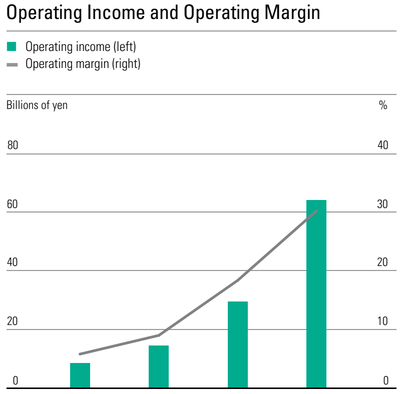
In addition to the development division, the sales division has worked to establish relationships of trust with pachinko halls, and the production division has endeavored to reduce lead times and cut costs. In these ways, we have increased organizational capabilities throughout the Company. We are nearing the realization of the vision I outlined when I became president of Sammy: a trinity of strengths—development, sales, and production.

Q. What were the key factors in your substantial improvement in profitability?

A. Nakayama: We implemented multifaceted initiatives to improve profitability.

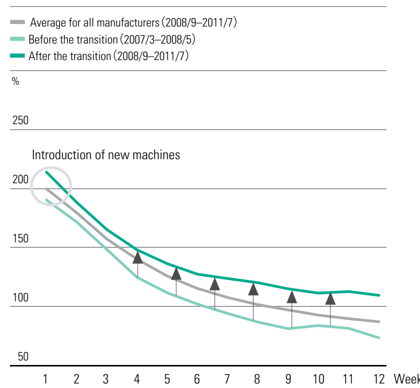
To reduce costs, Sammy has continued to take steps to reduce the number of parts used, and reusing parts, especially the LCD panels, a high percentage of costs. We also have reduced materials wastage by increasing the accuracy of parts ordering. This was a result of the close communications of sales divisions with customers, facilitating the accurate forecast of demand. For development costs, which influence product competitiveness, we have worked to reduce development times. Because we can now steadily develop and supply competitive products, in sales we are able to implement flexible pricing strategies, centered on key titles. Through such initiatives, the operating margin in the Pachislot and Pachinko Machine Business segment rose from 5.8% three years ago to more than 30% in the year under review.

Pachislot and Pachinko Machine Business Operating Income and Operating Margin

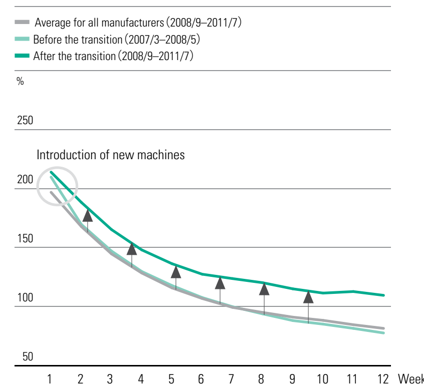


* Years ended March 31

Pachinko Machines Utilization Rates*

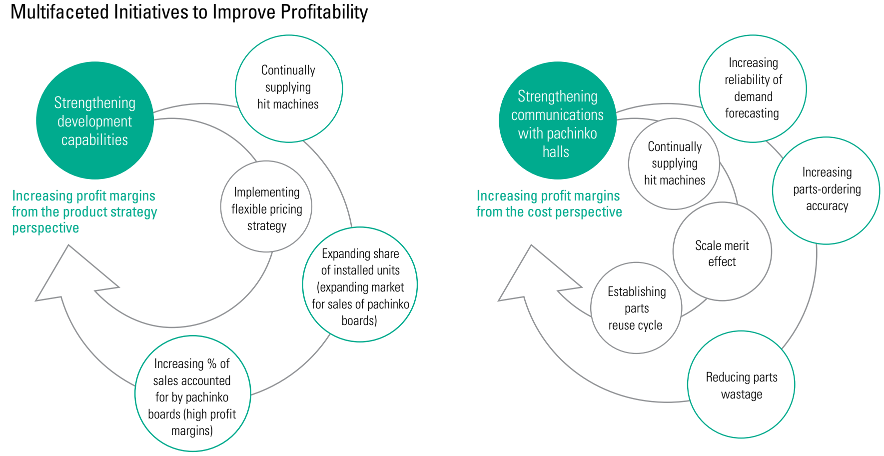


Pachislot Machines Utilization Rates*

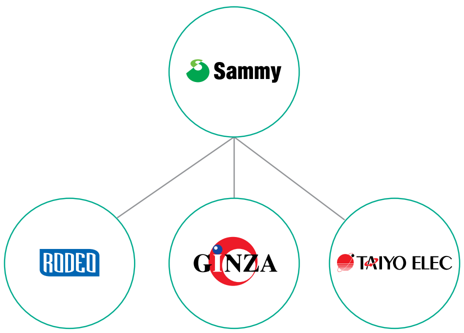


* Typically, utilization rates gradually decrease after the introduction of new machines. A low rate of decrease in the utilization rate is a sign of long-term support from the market for a product.

Multifaceted Initiatives to Improve Profitability



Multibrand Strategy in the Pachislot and Pachinko Machine Business Segment



Advantages of wholly owned subsidiaries

- Strengthening multibrand strategies through the integration of operational management with Sammy
- Facilitating effective use of Group management resources, such as development resources
- Supporting cost reductions through parts sharing, joint procurement
- Increasing managerial and financial stability

Q. Please discuss the benefits of making TAIYO ELEC a wholly owned subsidiary.

A. Nakayama: The integration of operational management with Sammy will facilitate the generation of full-fledged synergies.

The challenge that we faced was to more effectively leverage the multibrand strategy by garnering strong receptions for our products in the marketplace, not only for Sammy but for all of our subsidiaries' brands as well. The key was to build a joint platform for close cooperation in such areas as development, parts procurement, and sales. Until now, TAIYO ELEC has supported certain facets of the multibrand strategy. However, it is a listed company and we own only 50.9%, so there are a number of limits on what we can do, and we have been unable to take full advantage of synergies. TAIYO ELEC became a wholly owned subsidiary in August 2011, making it possible to integrate operational management with Sammy. As a result, we will be able to establish a common platform for both pachislot and pachinko machine operations. Moving forward, we will enhance TAIYO ELEC's development capabilities through a range of initiatives, such as exchanges of capable human resources, integration of technologies, and unification of IP strategies. At the same time, we will be able to reduce production costs through the economies of scale resulting from such initiatives as parts standardization and joint procurement activities. Also, we will be able to benefit from shared financial stability, which will facilitate the ongoing development of new models.

Q. Describe your plans for the Pachislot and Pachinko Machine Business for fiscal 2012.

A. Nakayama: Following the earthquake, we have set conservative goals, but nonetheless we will strive to exceed them.

For the Pachislot and Pachinko Machine Business segment, we are planning an increase of 10.8% in sales and a decline of 8.1% in operating income. Accordingly, the operating margin is expected to decline by 5.2 percentage points. For unit sales, we are planning about the same level as fiscal 2011 for pachislot machines but a major increase for pachinko machines. In the year under review, due to a cabinet change in pachinko machines, the percentage of sales accounted for by pachinko machine boards declined. In fiscal 2012, however, accompanying an increase in the installation share of pachinko machine cabinets, we expect this percentage to increase to about 60.8%, versus 28.5% in fiscal 2011.

The influence of the earthquake is a key reason behind the forecast for higher sales and lower profits in fiscal 2012. The higher sales reflect the forecast for increased unit sales of pachinko machines. In the segment overall, the sales plan is heavily weighted toward the second half of the fiscal year. This weighting is based on the expectation that the procurement of key parts will be adversely affected by the aftermath of the earthquake. To avoid missed opportunities, we are shifting sales of key titles to the second half of the year, when we expect the procurement of parts to be completed.

Looking at profits, with parts in short supply, we have incorporated rising procurement costs into our conservative estimates. In addition, although the reuse of parts became a factor in the increase in the rate of profit growth in the year under review, the benefits of reuse will taper off. Our plan for lower profits incorporates these two factors. Unlike in a typical year, this plan is heavily weighted toward the second half. We will do our utmost to not just achieve the plan's targets but exceed them. We have the capability to do that.

Q. What is next for Sammy?

A. Nakayama: We will work to achieve a top share in both pachinko machines and pachislot machines.

For Sammy, which has prepared the foundation for the stable generation of profits and reached its target for profitability, our next objective is market share.

While, the scale of the pachinko market has hit a ceiling, there is ongoing, intense competition among pachinko halls to attract customers. In this setting, there is a marked trend toward the concentration of demand on certain machines that have innovative gameplay, and can be expected to draw customers. Moving forward, there will be a clear trend toward survival of the fittest, and the few top companies that survive will reap the benefits.

Sammy will work to sustain and expand its top share in pachislot machines. And in pachinko machines, where our share of 11.8% in the year under review placed us third in the industry, our objective over the medium to long term will be to achieve the top share in pachinko machines as well pachislot machines.

By generating substantial synergies with a multibrand strategy that encompasses Sammy, TAIYO ELEC, Rodeo, and Ginza, we will strive to generate stable profits and reinforce our position as a source of earnings that supports the growth of the entire Group.

Becoming the Ultimate Entertainment Content Provider

Okitane Usui

President,
Representative Director,
and Chief Operating Officer,
SEGA CORPORATION

Becoming the Leading Provider of Entertainment Content

Q. Would you provide an overview of fiscal 2011 for the Amusement Machine Sales Business, Amusement Center Operations, and Consumer Business segments?

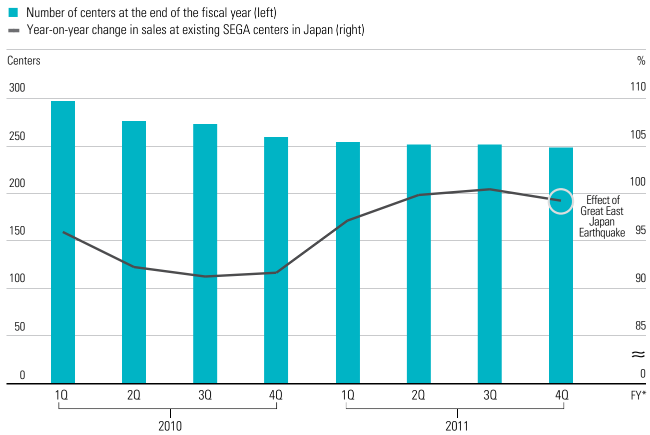
A. Usui: In domestic operations, we saw the results of the steps we have taken to reform our profit structure.

CHANGE 2011—Revitalizing SEGA, our management vision for the period from fiscal 2009 to fiscal 2011, called on SEGA to achieve three objectives: optimization of core operations, rapid achievement of profitability in new domains, and expansion of earnings and stable generation of free cash flows. We have strictly selected products and businesses for which we can estimate returns with a high degree of accuracy and rigorously focused investment of resources, and steadily reduced expenses.

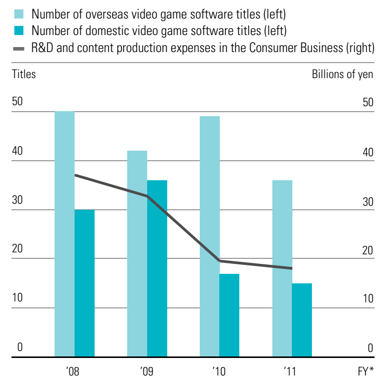
In July 2010, we implemented a major restructuring. The previous organization was vertically structured by department, but we have reorganized business divisions under the Overseas Regional Headquarters and the Domestic Regional Headquarters. The new system transcends divisional boundaries to provide optimal products and services in each region. In fiscal 2011, under this new organization, we clearly saw the results of our rigorous customer orientation and balanced revenue and expense structure, especially in the domestic region.

In domestic operations in the Amusement Machine Sales Business segment, despite the challenging operating

Progress in Optimizing the Number of Domestic Amusement Centers



Lower R&D and Content Production Expenses as a Result of Reducing Number of Titles



* Years ended March 31

environment, we achieved a 9.8% increase in sales. Titles launched under the revenue-sharing business model succeeded in maintaining favorable utilization rates throughout the fiscal year, centered on *BORDER BREAK* (launched in fiscal 2010). In accordance with withdrawal standards that are based on gross profit at the amusement center level, the Amusement Center Operations segment has closed or sold centers with low potential or profitability, and the segment generated operating income for the first time in four years. Due to the Great East Japan Earthquake in the fourth quarter of the fiscal year, year-on-year growth in sales at SEGA's existing centers was down by 0.7%, but a stable pace was maintained through the third quarter, with positive growth achieved through such initiatives as stronger operational capabilities. In the Consumer Business segment, in domestic game content, we focused our development efforts on titles that have the potential to be hits. And we have established a profit structure with a balance between revenues and expenses.

We still face the issues of increasing profits by streamlining game titles in overseas regions and of rapidly achieving profits in new business domains.

Q. What is the strategic positioning of the Amusement Center Operations segment?

A. Usui: It has the potential to create business. Some have pointed out low ROI as an issue, but it is important to note the varying nature of our operations. It is necessary to look at these facilities from the perspectives of "area" and "format," and then to evaluate each of the resulting four categories separately. First, in traditional amusement centers, we have reduced the number of domestic centers based on profitability standards. As a result, in Japan we have completed the establishment of a portfolio comprising competitive centers. Moving forward, we will continue to implement policies to increase profitability, and consider opening new centers in promising locations. Our biggest remaining challenge with traditional amusement centers has been overseas. However, in May 2011, we sold seven centers in North America. Now we have only three overseas centers, which are all in Taiwan. We have basically completed our objectives of improving earnings.

There are also challenges with domestic theme parks, where profitability is low because the profit structures include substantial fixed expenses, such as depreciation and amortization. As a result, these centers face the issue of unbalanced revenues and expenses, and they are having an adverse effect on the entire segment. To secure a top-line performance, appropriate for fixed expenses, we will implement renewals and operational reinforcement initiatives, and move forward with rebuilding from a long-term perspective. We will simultaneously take an aggressive approach to developing operations in overseas markets with growth potential.

Looked at from the perspective of commercial viability, as the presence of the Internet continues to expand, amusement centers will play increasingly important roles as places linking the real with the virtual. The business has direct links to customers, and if we leverage this advantage, we can implement a range of initiatives to create new businesses. We will work to provide services linking game content, amusement centers, and amusement machines. We will also focus on the

Portfolio of Amusement Centers

Format \ Area	Domestic	Overseas
Traditional-type	Current Situation Completion of portfolio of competitive centers Number of centers: 247 centers Future Policies As we continue to implement policies to increase profitability, we will consider opening new centers in promising locations.	Current Situation Our challenge is to build a profit structure with balanced revenues and expenses, and we will move forward with reductions in low-profit centers Number of centers: 10 centers Future Policies In May 2011, we sold seven centers in North America. We now have three traditional amusement centers overseas.
Theme park-type	Current Situation Our challenge is to build profit structure with balanced revenues and expenses. Number of centers: 2 centers Future Policies Move ahead with activation of centers through renewals and operational reinforcement initiatives.	Current Situation Licensing-based operational development leveraging SEGA's brand strength and operational know-how Number of centers: 0 centers (licensing-based: 1 center) Future Policies Without directly holding assets ourselves, through cooperative initiatives with local partners, we will enter markets with growth potential while limiting risk.

As of March 31, 2011

cultivation of senior citizens as a new market. Through the provision of new services and the acquisition of new customers, we can seize latent growth potential.

Q. What is the strategy for the Amusement Machine Sales Business and Amusement Center Operations segments overseas?

A. Usui: We will move ahead with lower-risk business development activities, centered on tie-ups with partners.

In the Amusement Machine Sales Business segment, strong growth is expected in Asian markets, and in these markets we will step up our development activities, centered on partnerships with leading local companies. In October 2010, SEGA Jinwin (Shanghai) Amusements Co., Ltd., which was established through a joint venture between SEGA and Shanghai JinWin Investment Co., Ltd., obtained a license to manufacture and sell amusement machines in China. Moving forward, we will take steps to control production and distribution costs and work to enhance the price competitiveness of our products.

The Amusement Center Operations segment will also follow a policy of developing growth markets while controlling risk. Specifically, rather than take on the substantial risks involved in developing and owning centers by ourselves, we will provide licenses and operational know-how and sell machines to leading partners with deep knowledge of local markets. An example of this approach is *SEGA REPUBLIC*, an entertainment facility that was opened in Dubai in 2009.

Q. Would you give us an overview of future policies for game content for smartphones and other new platforms that are recording rapid growth?

A. Usui: Our founding principle—*CREATION IS OUR LIFE*—shows its true value in new markets.

In overseas game software markets, it is clear that there is growing risk and shift toward a survival-of-the-fittest situation, where the predominant business model entails the commitment of massive amounts of development and marketing expenses in an attempt to capture demand all at once. Accordingly, we will also focus our development resources on titles for which investment recovery has a high probability.

On the other hand, new platforms, such as smartphones, tablets, and SNS, are growing at an extraordinary pace, and game content for these platforms can be provided with lower development risk in comparison with packaged software. Accordingly, we will focus our management resources on this market. We understand that the speed that will be required is different from that in previous markets. In July 2010, in order to increase decision-making speed, SEGA established a specialized unit, the Mobile and New Media Division. We will rapidly establish an operational foundation by utilizing external resources. Because the market structure differs from that of the previous market, we will utilize such diverse profit models as download fees and individual item fees, that are aligned with various content and platforms.

CREATION IS OUR LIFE has been handed down as a vital part of SEGA's innovative DNA. I believe it will certainly show its true value in these new growth markets. *Kingdom Conquest* (a free online download RPG for iOS, launched in November 2010) is a good example of our approach. It has secured the number one ranking among free RPGs in seven countries, and as of the end of August 2011 it had been downloaded more than 1.5 million times.

Q. Please describe the plan for fiscal 2012?

A. Usui: We anticipate lower profits in the Amusement Machine Sales Business segment and the Amusement Center Operations segment but higher profits in the Consumer Business segment.

In the Amusement Machine Sales Business segment, we are forecasting sales of ¥50.0 billion, an increase of 5.9%. However due to a decline in the number of CVT kit titles, which have high profit margins, and to an increase in costs accompanying a change in the boards for certain products, we expect operating income to decline 45.2%, to ¥4.0 billion. In the Amusement Center Operations segment, in consideration of such factors as the halt in operations at certain centers due to the disaster and sluggish consumer spending, we have conservatively estimated sales at existing centers in Japan, and we are forecasting a decline of in sales of 7.9%, to ¥42.0 billion, and an operating loss of ¥1.6 billion. In the Consumer Business segment, we anticipate a 35.1% increase in sales, to ¥120.0 billion, and a gain of 136.8% in operating income, to ¥4.5 billion. Conditions in the overseas markets for new software for dedicated game machines are expected to remain challenging. However, as a result of the launch of multiple core titles, we are forecasting an increase of 4.58 million units in video game software sales, to 23.29 million units. As in the year under review, we will work aggressively to supply content for new platforms, such as smartphones and SNS.

Q. What is SEGA's vision for the future?

A. Usui: We will strive to enrich customers' lives with IP that exemplifies SEGA's creativity.

Because rapid progress has been made in establishing high-speed Internet infrastructure and dramatic increases and diversification have been seen in the processing capabilities of platforms, customers are now able to enjoy entertainment in a wide variety of lifestyle scenes. SEGA has a vast array of customer contact points, including conventional game machines; smartphones, SNS; amusement machines; and amusement centers. By linking with these platforms and enriching the lives of customers with highly creative SEGA content, we aim to be the world's leading provider of entertainment content, offering the best in entertainment—anytime, anywhere.

Today

maniac for posing

Tomorrow

compete in Mr. Universe

Feature

For Tomorrow

Anticipating Tomorrow's Entertainment

SEGA's founding principle, "*CREATION IS OUR LIFE,*" and Sammy's founding principle, "*Always Proactive, Always Pioneering*" sum up the trailblazing legacy and mindset that SEGA and Sammy share. The entertainment industry is facing unprecedented structural change. Seizing this change as an opportunity, the SEGA SAMMY Group is breaking new ground in an array of entertainment sectors.

For Tomorrow 2
Developing Businesses across the Organization to Maximize Intellectual Property Value
Rigorously reflecting the customers' viewpoint and increasing points of contact with customers in the *HATSUNE MIKU Project DIVA* series

For Tomorrow 1
A Healthy Sense of Crisis and Progressive Manufacturing
Pachislot and Pachinko Machine Business—Past and Future

For Tomorrow 3
Traiblazing
SEGA's Initiatives in Growing Areas

Feature

For Tomorrow

A Healthy Sense of Crisis and Progressive Manufacturing

Pachislot and Pachinko Machine Business — Past and Future

Increasingly an environment where only the fittest survive, the pachinko and pachislot machine market is seeing the SEGA SAMMY Group build its presence. This section reveals the real competitive strength behind the unit sales growth of the Group's Pachislot and Pachinko Machine Business segment.

Pachinko CR Hokuto No Ken Kenshiro
© Bronson & Tetsuo Hara / NSP 1983
© NSP 2007 Approved No. YKN-101
© Sammy

Kazuhiro Sumitani
Executive Officer,
Division Manager of PC (Pachinko) Research and Development Division

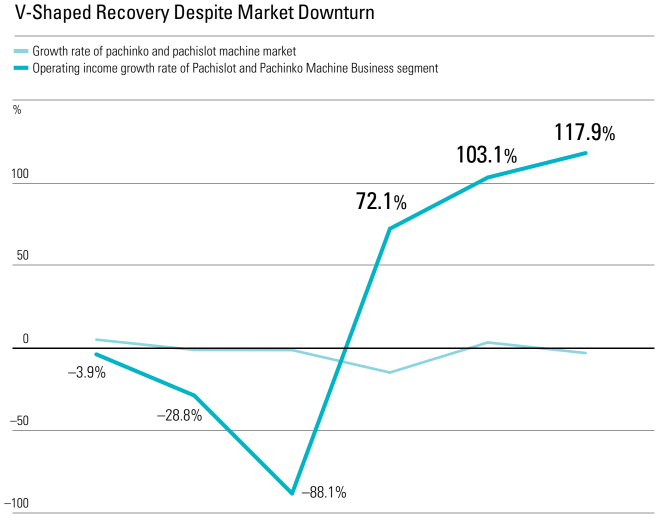
Bucking Market Sluggishness to Realize a V-Shaped Recovery

The pachinko and pachislot market has been in a long-term structural slump since revision of regulations pertaining to the Entertainment Establishments Control Law (regulatory revision) in 2004. This has significantly affected sales in the pachinko and pachislot machine market. A downward trend in annual turnover[1] testifies to the decline in pachinko hall operators' investment capacity. In particular, the pachislot machine market has shrunk 56%[2] over the past seven years. Relying heavily on its pachislot machine business until around fiscal 2008, the Group's Pachislot and Pachinko Machine Business segment has been battling a strong headwind.

After peaking at more than ¥100 billion in fiscal 2005, the Pachislot and Pachinko Machine Business segment's operating income had declined to ¥8.4 billion by fiscal 2008, the time limit for installing old-format machines. From the next fiscal year, however, operating income turned toward recovery. In fiscal 2011, the segment recorded a year-on-year increase in operating income for the third consecutive year, posting a rise of 117.9%, to ¥64.2 billion. We were able to achieve this dramatic turnaround despite flat external conditions thanks to self-reform borne of a sense of crisis.

1 Annual turnover = Annual unit sales ÷ Machine installations. The number of times pachinko and pachislot machines are replaced each year.
2 Value basis. Source: Yano Research Institute Ltd.

V-Shaped Recovery Despite Market Downturn



* Years ended March 31

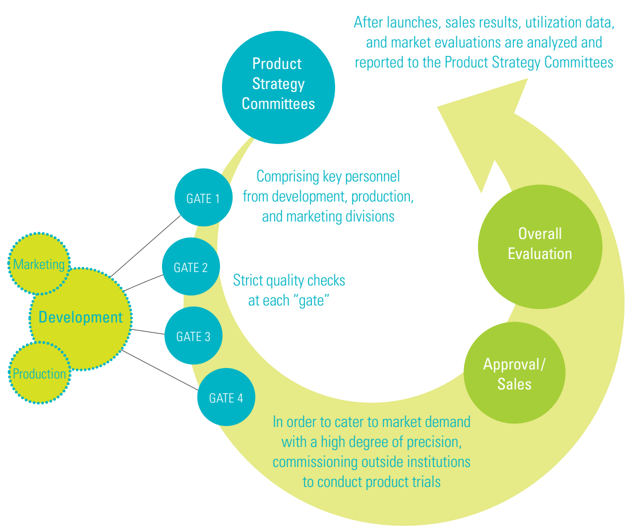
Ayumu Hoshino
Executive Officer,
Division Manager of PS (Pachislot) Research and Development Division

Aiming to Establish a New Earnings Mainstay

"With this many personnel can't we even make one interesting machine?" Around 2007, as contraction of the mainstay pachislot machine market due to regulatory revision became pronounced, it became imperative for Sammy to make inroads into the pachinko machine market, which was performing steadily and offered considerable scope for growing market share. At the time, however, our share of the pachinko machine market was only 3%. Our chairman Hajime Satomi sought to motivate our development team, who were having difficulty finding a way to heighten competitiveness. The Division Manager of the Pachinko Machine Research and Development Division Kazuhiro Sumitani recalls, "We had to admit that what he said was true."

"Always Proactive, Always Pioneering." This corporate declaration encapsulates Sammy's tradition and development philosophy of constantly creating new types of entertainment rather than following market trends. For example, we adopted a cautious sales posture when initially launching the pachislot machine *Hokuto no Ken* in 2003 because the new *BATTLE BONUS* mode that it included was such a new type of gameplay. However, after we began installing these pachislot machines, their popularity among pachinko hall operators and players triggered a series of production increases. As a result, the pachislot machine achieved cumulative sales of 620,000 units, becoming a landmark product in the industry's history. The Division Manager of the Pachislot Machine Research and Development Division Ayumu Hoshino explains, "We value all ideas from personnel at development sites, because they can contain the seeds of new hit products."

New Development System Based on Close Collaboration among Three Divisions



Sometimes, thinking out-of-the-box in this way has spawned major hit products. On the other hand, many of our development efforts were considerably wide of the mark. This was attributable to manufacturing that was overly biased toward the viewpoint of users and inconsistent quality among our various development pipelines. Aiming to rectify these pressing problems, Pachislot and Pachinko Machine Business transferred to a new development system in September 2007. With the pachislot machine business continuing to face particularly tough market conditions, the development team of the pachinko machine business will draw inspiration from Hajime Satomi's words as it forges ahead to create a new earnings mainstay that ranks alongside the pachislot machine business.

Turning Around Earnings through a New Development System

Over the past dozen years, machines featuring animation tie-ups or incorporating outside IP[3] have become the market's mainstream. However, IP alone does not enable companies to prevail in the struggle for survival. Only by combining IP and gameplay specifications optimally can we can reap significant benefits. Around 2007, without having established enough brand recognition, Sammy had

Kazuhiro Sumitani Executive Officer
(Division manager of Pachinko Machine Research and Development Division)

Ultimately, the *Pachinko CR Hokuto No Ken* project was a success. Actually, our chairman Hajime Satomi had told us that "this was our last chance." At the time, improving the performance of the pachinko machine business, which had been struggling, was the highest-priority task in efforts to grow Sammy. Therefore, with our backs against the wall, we worked very hard to create the best product we could. At the final development stage, Hajime Satomi and other members of the senior management team tested the product. They spent a long time checking product quality from the standpoint of actual players. This shows how strongly committed they were to ensuring the pachinko machine business succeeded. When the product became a major hit, I was overjoyed. And, I believe it boosted the development team's confidence.

As a result of repeated improvements, Sammy's pachinko machines now compare very favorably with those of major manufacturers. Having several successes under our belts has changed our outlook: now we are determined to create hit products. Our current position in the market may seem secure. However, this is not my view at all. Currently, Sammy's pachinko machine business is highly reliant on the contributions of certain hit titles and "advanced specification" machines. In other words, our customer base might be skewed towards frequent players. If we want to stake out a leading share of the market, we have to develop a share of the "middle specification" area of the market by winning over players that want to play casually with moderate amounts of money. The success of *Pachinko CR Hokuto No Ken Kenshiro*, released in the previous fiscal year, is a good example of the type of product and strategy we need. It is important to attract new players in order to put a brake on market contraction. I think whichever manufacturer achieves this will claim the largest market share. Accordingly, we intend to tackle this task head on.

to compete with the pachinko machine market's major manufacturers. At the same time, in order to drive the industry to overcome tough market conditions, the pachislot machine business faced the task of creating products that also incorporated market preferences. With these challenges in mind, Sammy established a market research division, strengthening our ability to gather such information as utilization rates[4], which enable us to surmise the specifications that are earning market endorsement and then reflect our conclusions in product development. "Becoming able to actively access market feedback information was a major plus for product development" (Ayumu Hoshino). In addition, Sammy built a system where development, sales, and production divisions advanced projects in an integrated manner to improve profitability and stability. These efforts included preparing development schedules and managing development progress, scrutinizing and deciding on the appropriateness of development cost, improving quality checks, checking mass production suitability and durability, forecasting unit sales, and deciding sales prices.

Also, using SEGA's development management methods as a reference, Sammy introduced "gate management." This involves managing development progress based on four stages or "gates." In order to proceed to the next gate, products have to pass exacting quality checks. "Using gate management helped us to increase the precision of manufacturing and raise the quality level of all of our products" (Ayumu Hoshino). Development can take as long as two years. During this period, we check for changes in market preferences at each gate and adjust plans flexibly.

At the final development stage, Sammy has introduced a system that enables fine tuning of products to suit market needs more precisely. In this system, Sammy commissions outside institutions to conduct product trials and then uses the objective feedback obtained to make any necessary adjustments.

In the development process for *Pachinko CR Hokuto No Ken*, we repeatedly incorporated further enhancements, spending more than six months improving the quality of graphics and other aspects of the product. This was an unprecedented effort. In projects until then—giving priority to the schedule and cost—we had devoted less time to making adjustments. "The most valuable thing that *Pachinko CR Hokuto No Ken* taught us was that we must never compromise during the development process and that we must reflect market needs accurately" (Kazuhiro Sumitani). In September 2008, one year after transferring to the new system, *Pachinko CR Hokuto No Ken* shattered Sammy's record for pachinko machine unit sales, shipping 260,000 units. Leveraging this success, Sammy will swiftly raise itself to a position from which it can become a major manufacturer of pachinko machines.

3 Characters, content, and other IP
4 The utilization time of pachinko and pachislot machines as a percentage of business hours

Improving the Operating Margin and Reducing Risk

Pachinko CR Hokuto No Ken smashed Sammy's previous record for pachinko machine unit sales

Thanks to multifaceted measures, the operating margin of the Pachislot and Pachinko Machine Business segment improved significantly, from 5.8% for fiscal 2008 to 30.3% for fiscal 2011. Based on a process of trial and error, our unceasing efforts to reduce cost through collaboration among divisions contributed substantially to this improvement in the operating margin.

From initial development stages, development and production divisions work in tandem to design products with a view to creating common parts and reusing parts. These efforts cover a wide range of parts, from LCDs through to electronic components. Moreover, we plan to extend these efforts in order to develop common parts for pachislot machines and pachinko machines and standardize machine cabinets[5] for Sammy, RODEO Co., Ltd., TAIYO ELEC Co., Ltd., and GINZA CORPORATION. "Each successive project gives us a tangible sense that all of the divisions are growing. This has begun to give rise to an awareness among us that the whole Company is making a concerted effort to produce results" (Kazuhiro Sumitani).

Inevitably, the pachislot and pachinko machine businesses will always face the risk of earnings fluctuations resulting from changes in the regulatory environment. However, the Group's Pachislot and Pachinko Machine Business segment is steadily developing into an organization that hedges earnings fluctuation risk by creating a stronger product portfolio and by establishing a cost structure through self-reform initiatives.

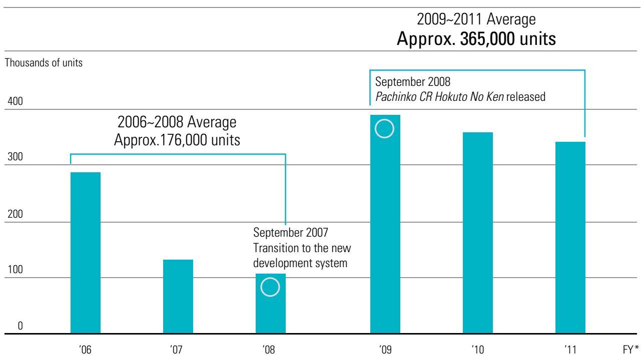
Pursuing ambitious gameplay features incurs the risk of failing to gain approval[6]. Minimizing this risk is a major task that calls for us to enhance the precision with which we control business plans. In particular, this risk can potentially have a substantial effect on business results for pachislot machines because regulatory revision has raised the bar for gaining approval for them. Therefore, Sammy aims to obtain approval for pachislot machines six months before their scheduled launch periods. Moreover, for a single title we apply simultaneously for multiple specifications with differing gambling elements and gameplay characteristics. As well as enabling us to cater to diverse market needs, this strategy mitigates risks by heightening the probability of obtaining approval.

5 The frame of a pachinko or pachislot machine not including the LCDs or boards
6 Based on the Entertainment Establishments Control Law, approval that companies must obtain from the inspection agency before selling a product

Reforming Ourselves Constantly

Our business results prove we have become a stronger organization. The average annual unit sales of pachinko machines over the three years since we transferred to a "gate" development system have doubled compared with the average for the three years prior to the transfer. Further, utilization rates—a barometer of market support—have improved significantly compared with those before the transfer.

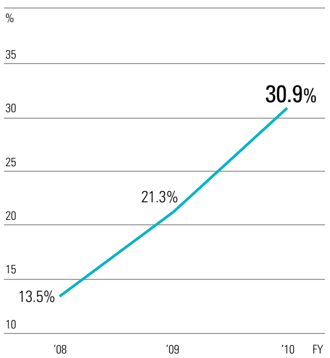
Pachinko Machine Unit Sales



* Years ended March 31

Thanks to the success of its transfer to a new development system, Sammy's pachislot machine business has been at the forefront of market revitalization initiatives, which shifted the overall market from a trend of steady contraction toward one of rising unit sales in fiscal 2011. Quickly identifying and responding to market recovery, we almost doubled unit sales year on year, with *Pachislot SOUTEN-NO-KEN* leading the way. As a result, our market share rose from the previous fiscal year's 21.3% to 30.9%. Despite these impressive results, the development managers of both businesses stress the need for continued self-reform. As long as our personnel at operating sites maintain the same healthy sense of crisis that made 2007 a watershed year, our self-reform will not cease. No matter how much we reform ourselves, one facet of our mindset remains unchanged—our tireless commitment to progressive manufacturing. This attitude has become part of the corporate DNA that we pass on from generation to generation.

Market Share of Pachislot Machine



Source: Yano Research Institute Ltd.

Settlement dates from July to June

Ayumu Hoshino Executive Officer
(Division manager of Pachislot Machine Research and Development Division)

Sammy's development teams are always one or even two steps ahead of the market. In this progressiveness there is an element of resolutely believing in and imposing our creative ideas on the market. However, this type of corporate culture fosters the uninhibited generation of ideas and is the wellspring of the manufacturing capabilities that support Sammy's growth. Therefore, I want us to preserve this approach to development.

Sammy's pachislot machine business has maintained the largest share of the pachislot machine market. However, at development sites we do not think of ourselves as being at the top. Instead, we always try to have a strong sense of crisis. We feel that unless we consistently create novel products other companies will quickly pass us. This is because we have seen many falls in the industry. We view the recall of some pachislot machines in fiscal 2011 as a warning about the danger of becoming over confident. However, this incident has produced a heightened sense of crisis among division personnel.

We want to maintain and expand Sammy's market share while concentrating on attracting new players. Relying on frequent installations of new machines, as we used to, would increase pachinko hall operators' capital investment burden and deplete the industry. I feel our role is to develop products while bearing in mind the need to sustain the development of the industry as a whole. Advanced specification machines will reliably generate a reasonable amount of sales volume. However, they will not expand our base of players. Therefore, through cooperation between marketing divisions and production divisions, we want to actively create readily playable machines that will draw in new players.

Even though a series title or a title with strong brand power ships more than 100,000 units, if utilization rates are not as high as expected we will lose the trust we have earned. This is why our ambition is to manufacture each pachislot machine with a view to creating a hit product.

Feature

For Tomorrow

Developing Businesses across the Organization to Maximize IP Value

Rigorously reflecting the customers' viewpoint and increasing points of contact with customers in the *HATSUNE MIKU Project DIVA* series

For the *HATSUNE MIKU Project DIVA* series, we have embarked on a variety of new initiatives aimed at increasing points of contact with customers. As a system laterally linking relevant in-house divisions, the Project DIVA Committee led these efforts. This section looks behind the scenes of the project from its launch through to the present.

Illustration by KEI

Hatsune Miku
(*HATSUNE MIKU Project DIVA extend*)

Overturning Standard Practice by Rigorously Reflecting Players' Viewpoint

HATSUNE MIKU-Project DIVA-Tokusetsu Channel: the use of a video-sharing web site as a promotional tool was an industry first

In fall 2007, CRYPTON FUTURE MEDIA, INC., launched *HATSUNE MIKU* music production software for personal computers (PCs), which incorporates Yamaha Corporation's VOCALOID technology. On a video-sharing web site, users began posting videos with songs produced using *HATSUNE MIKU*. As users posted more and more songs on the web site, their quality rapidly improved. Since then, *HATSUNE MIKU* has established a new genre. Against this backdrop, SEGA began producing *HATSUNE MIKU-Project DIVA-*, a rhythm game that uses *HATSUNE MIKU*.

Consumer generated media (CGM)—such as review web sites that incorporate reviews and ratings from consumers, SNS, and video-sharing web sites—is constantly evolving due to the huge amount of data that consumers contribute. Furthermore, the rapid spread of CGM stems from its unique ability to provide objective views that are independent of vested corporate interests.

The *HATSUNE MIKU-Project DIVA-* project team decided a cautious approach that took into account the fact that these unique characteristics of CGM were essential in order to successfully create a *HATSUNE MIKU* game. The team concluded that they had to reflect the players' viewpoint rigorously. Accordingly, they adopted the approach of having the game's creator, SEGA, participate in the *HATSUNE MIKU* community as a user. At the time, this approach was completely new to SEGA. So, the team had to begin by fumbling forward in the dark. Hiroshi Utsumi, the project manager responsible for the development of software for PSP®, recalls, "It took us a year to understand the *HATSUNE MIKU* culture and become able to talk with users on equal terms." The way we developed the game departed from established practices. We were one of the first companies to use video-sharing web sites as a promotional tool, something that is now commonplace. In addition, we encouraged users to contribute to the game's development by releasing screen shots of the game when it was under development and inviting users to provide music for the game. Rigorously reflecting the customers' viewpoint by focusing on what players wanted and what would delight them was the highest priority of this project. This new approach altered the traditional one-way relationship between the game manufacturer and players—in some cases it even reversed these roles.

Maintaining Users' Trust– The Project DIVA Committee

Several SEGA divisions simultaneously advanced projects using *HATSUNE MIKU*, tasked with creating home video games, amusement arcade machines, or prizes for crane games. However, this gave rise to a potentially significant problem. If each division proceeded independently without a common stance toward *HATSUNE MIKU* as IP, SEGA faced the risk of losing the trust of players and diminishing the value of the IP. "SEGA needed an integrated companywide initiative focused on maximizing the IP value that users had fostered" (Makoto Osaki, producer for the *HATSUNE MIKU Project DIVA Arcade* amusement arcade machine). By necessity, a cross-divisional meeting, named the Project DIVA Committee, took shape to enable overall management of the IP and foster a shared awareness among divisions.

The *HATSUNE MIKU-Project DIVA-* series, a rhythm game featuring an appealing character and a wide selection of music

HATSUNE MIKU-Project DIVA-
Released on July 2, 2009

HATSUNE MIKU-Project DIVA-2nd
Released on July 29, 2010

HATSUNE MIKU-Project DIVA-extend
To be released on November 10, 2011

The committee comprised personnel from a wide range of divisions, including development, merchandising, marketing, and promotional divisions. Initially, the committee provided an opportunity to exchange information and build a shared awareness. As we removed divisional barriers, however, it began to launch full-fledged collaborations among divisions aimed at increasing points of contact with users. "In order to win the trust of users, we needed a system like this that transcended the interests of individual divisions" (Seiji Hayashi, producer for the *HATSUNE MIKU-Project DIVA-* series).

Increasing Points of Contact with Users through Close Collaboration among Projects

With a view to maintaining and continuing to increase points of contact with users, the committee considered optimal timings for launching the products each project created and for beginning promotional initiatives and then prepared a common roadmap accordingly. Using this as a guide, each division is advancing its development and marketing strategies. Developing home video game software requires approximately one year. On the other hand, we can upgrade software for amusement arcade machines in a relatively short period because they are connected to networks. We used this difference in lead times to keep the IP fresh while closely linking the two products and using them to complement each other. Other initiatives included participating in events organized by users, holding live concerts, and extending the lineup of prizes. "Looking back over SEGA's history, this was the first time it had attempted anything like this. It proved to be a very effective strategy" (Makoto Osaki).

As for promotion efforts, SEGA provides users with the latest information through its dedicated pages on video-sharing web sites and the SEGA web site. Seiji Hayashi explains, "We have established a trend of users that initially see *HATSUNE MIKU* on video-sharing web sites ultimately becoming fans of *HATSUNE MIKU-Project DIVA-*." An in-house survey bears this out, showing that a surprisingly high number of users come into contact with the product through video-sharing web sites.

HATSUNE MIKU Project DIVA Arcade, bringing the freshness of CGM to amusement centers by incorporating songs collected through a web site

Accentuating the product's CGM pedigree, we use video-sharing web sites to invite users to submit music that we add to upgrades of the amusement arcade machines. SEGA incorporates the music voted most popular into actual video games.

Gathering Momentum–*HATSUNE MIKU* Overseas

Large numbers of fans have been captivated by performances that fuse real and virtual elements

On July 2, 2011, the largest live concert venue in Los Angeles, the United States, NOKIA Theatre, resounded with the cheering of young fans of the "digital diva." *HATSUNE MIKU* made a spectacular overseas debut at a live concert, *MIKUNOPOLIS 2011 in Los Angeles—Hajimemashite Hatsune Miku Desu*, at North America's largest anime convention, ANIME EXPO. Advance tickets for the concert sold out in two weeks. Locally and in Japan, the media carried images of the venue filled to capacity with approximately 6,000 fans. In March 2010, we held a similar live concert in Japan. Fans loved the show's merging of the real with the virtual as a live band accompanied *HATSUNE MIKU* projected onto a special screen. These events provided SEGA, which produced the video and staging, with an ideal chance to show the world the technological prowess it has developed through video game production.

In relation to overseas development of *HATSUNE MIKU-Project DIVA-*, Hiroshi Utsumi stresses that staying true to the initial approach is paramount. "We will carefully analyze whether there is an overseas market. If there are opportunities, we want to expand. However, we absolutely do not want to veer from the concept of a product that we develop with users." Already, we have introduced *HATSUNE MIKU Project DIVA Arcade* to areas where Japanese culture has significant clout, such as Taiwan, Hong Kong, and Singapore.

Building More Systems that Transcend Divisions

Having fulfilled its mission, the Project DIVA Committee disbanded in September 2010. However, the success of this initiative has prompted us to establish further systems, or "cross-function teams," that encourage initiatives spanning divisions. At present, multiple projects handling SEGA's original IP, such as the *Sonic* series and the *Phantasy Star* series, have formed cross-function teams, which aim to cultivate IP efficiently and effectively.

Feature

For Tomorrow

Trailblazing

SEGA's Initiatives in Growing Areas

Beyond the market
for traditional packaged game software,
such new markets as game content
for smartphones, SNS, and networking games
for PCs are rapidly expanding.
This section takes a look at how SEGA
is drawing on its wealth of experience
as a winner to pursue unique strategies
in these markets.

Takaya Segawa
Division Manager of Mobile and
New Media Division 1

Expediting Market Strategies Based on a Dedicated Organization

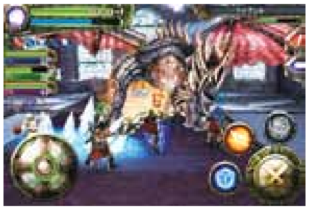
Due to networks with wider bandwidth and dramatic advances in the performance of smartphones, PCs, and other terminals, social media are growing rapidly. These developments are diversifying game platforms and creating new markets. The main difference between these new markets and the packaged game software market is the effect that operations after distribution have on the success or failure of a title. After a release in the new markets, a decisive factor in determining its success is often whether or not the company analyzes usage trends, reflects user feedback, and updates content flexibly. Many companies have entered these markets because they promise growth and are easy to enter, creating a dynamic environment where swift decision-making and responses are the key to success. To enable the integrated and uninterrupted implementation of various linked processes, SEGA established the Mobile and New Media Division in July 2010.

Aiming to build robust positions in these markets as priority areas with growth potential, SEGA intends to invest management resources actively. For fiscal 2012, we have tasked operations creating game content for smartphones, SNS, and network games for PCs to realize net sales of ¥10 billion.

Capturing New Markets through SEGA's Trademark Originality

The leader of a new content development team, Takaya Segawa explains that "currently the market for game content for smartphones and SNS is similar to the home video game software market in its earliest days." While diverse "casual" games are appearing one after another, platforms' functions are rapidly evolving, enabling content enrichment. In the vanguard of this new trend, SEGA is exploiting the IP assets it has accumulated, such as *Sonic* and *Puyo Puyo!!*, to roll out "casual" games for a broad range of platforms. At the same time, the company is differentiating its offerings by creating games based on the kind of mold-breaking concepts that have come to typify SEGA.

For example, *Kingdom Conquest* is a full-scale online RPG for Apple's iOS mobile operating system based on a free-to-play model. Released in November 2010, it combines a simulation game and a multiplayer online action game.[1] Takaya Segawa recalls that due to the prevalence and popularity of social games played casually, "Most people were skeptical whether full-fledged content would succeed. Still, in order to differentiate ourselves, we capitalized on technological capabilities garnered from the development of video game software and amusement arcade machines and took on the challenge." The resulting game has become a major success, claiming the No. 1 position in the App Store free RPG download rankings of seven countries and surpassing 1.5 million[2] downloads. We already distribute *Kingdom Conquest* in 20 countries, and plans call for expanding it further.



Kingdom Conquest, a free online RPG that has met with high acclaim in countries worldwide

Also, for social games we are generating steady revenues from charges by providing a new type of gameplay that links home video game consoles and mobile terminals. In this initiative, we are distributing content through linkage between a social game for GREE, *Ryu ga Gotoku Mobile for GREE*, and the PLAYSTATION®3 version of *Ryu ga Gotoku OF THE END*.

Through lateral in-house initiatives centered on the Mobile and New Media Division, we will take advantage of the technological capabilities and content assets that SEGA has accumulated in order to open up new markets.

Ryu ga Gotoku Mobile for GREE, linking with home video games consoles to provide a new type of gameplay

Transplanting Made-in-Japan Content Overseas

As with *Kingdom Conquest*, *Professional Baseball Manager* is an example of a game whose success in Japan has led to success overseas. A network game for PCs with approximately one million registered players in Korea, *Professional Baseball Manager* is based on a sports simulation game that SEGA operates in Japan: *Let's make a professional baseball player*. In this initiative, we acquired a license from Korea's professional baseball association and commissioned the management of the title to a local business partner. In Japan, 700,000 players enjoy *Let's make a professional baseball player*, which uses a free-to-play model. Takaya Segawa sums up why SEGA has such wide appeal, "Our mission is to provide fun games. Whether we are creating content for a 'casual' game or a major title, we are confident we can create games that players will really enjoy." Leveraging the genius for entertaining players, SEGA intends to continue trailblazing.

Professional Baseball Manager, developed based on *Let's make a professional baseball player* after acquiring a license from Korea's professional baseball association

1 An action game in which multiple players participate simultaneously via the Internet
2 As of August 31, 2011

For Tomorrow

Establishing a Dominating Position

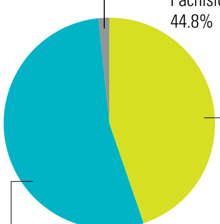
Operational Review
Pachislot & Pachinko Machine Business

Aiming to stake out the leading share not only of the pachislot machine market but also the pachinko machine market, this business segment will advance a multibrand strategy based on Sammy Corporation, TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA CORPORATION.

For details on market trends, please see the supplementary “Today” document.

Composition of Net Sales

¥212.0 billion
53.5%



Fiscal 2011 Business Results Overview

Net sales ¥212.0 billion
▲ **32.2%**

Operating income ¥64.2 billion
▲ **117.9%**

Pachislot machine unit sales 302,000 units
▲ **85.5%**

Pachinko machine unit sales 343,000 units
▼ **4.7%**

Basic Information

Driving the Group’s Growth by Generating Stable Earnings

Accounting for approximately 53% of net sales, the Pachislot and Pachinko Machine Business segment is the Group’s earnings driver.

As the business segment’s core operating company, Sammy Corporation has more often than not held the largest share of the pachislot machine market by continuing to break new ground in the market. The industry record of 620,000 unit sales that the pachislot *Hokuto No Ken* set in 2004 is still unsurpassed. From fiscal 2008, the business segment transferred to a new development system and honed its comprehensive capabilities, which include development, manufacturing, and sales. In addition to further extending our leading share of the pachislot machine market, this initiative significantly enhanced the appeal of our products and brand in the pachinko machine market and entrenched our position among the leading companies.

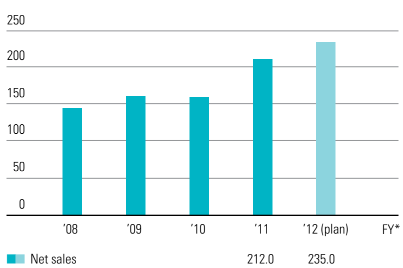
In order to cater to diverse market demand, the business segment pursues a multibrand strategy through Sammy Corporation, TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA CORPORATION.

The Group aims to mitigate the risk of significant changes in earnings conditions due to regulatory revision while winning out in a pachinko and pachislot machine market in which increasingly it is only the fittest companies that are surviving. To this end, the Group is building a system that is able to create competitive titles in the pachinko and the pachislot machine business while moving forward decisively with multifaceted efforts to strengthen cost competitiveness.

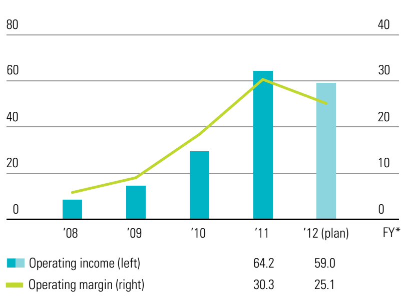
Pachinko CR Hokuto No Ken Kenshiro

Oreno Sora ~Spirit of Young Justice~
© Hiroshi Motomiya / SHUEISHA / FIELDS
© Sammy © RODEO

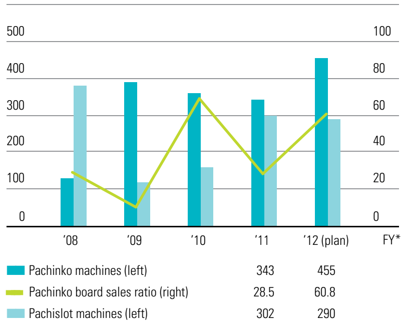
Net Sales
Billions of yen



Operating Income/Operating Margin
Billions of yen %



Pachislot and Pachinko Machine Unit Sales
Thousands of units %



* Years ended March 31

FY 2011 Overview

Earnings Up Significantly on Higher Pachislot Machine Unit Sales and Cost Reduction

Deftly identifying and capturing the recovery in demand for pachislot machines, the pachislot machine business saw unit sales rise a steep 85.5% year on year, to 300,000 units. As a result, net sales of the business were up 83.6% year on year, to ¥94.9 billion. *Pachislot SOUTEN-NO-KEN* shipped 92,000 units, while *Pachislot Shin Onimusha*, released under the RODEO brand in the previous fiscal year, posted solid sales.

In the pachinko machine business, mainstay title *Pachinko CR Hokuto No Ken* sold more than 200,000 units. Meanwhile, overall unit sales declined 4.7% year on year, to approximately 340,000 units, because we strategically postponed the marketing of certain titles until the current fiscal year. We embarked upon fresh initiatives, such as introducing the *Dejiten* series, which incorporates innovative gameplay features. Thanks partly to flexible pricing strategies based upon enhanced brand power, the business recorded a 10.5% year-on-year increase in net sales, to ¥113.9 billion.

In fiscal 2010, the Group's pachinko machines accounted for 11.8% of the market, up from the previous fiscal year's 10.8%, while pachislot machines claimed 30.9% of the market, compared with 21.3% for the previous fiscal year.

Consequently, the Pachislot and Pachinko Machine Business segment grew net sales 32.2% year on year, to ¥212.0 billion.

Operating income was up 117.9%, to ¥64.2 billion, and its operating margin improved significantly, up from the previous fiscal year's 18.4% to 30.3%.

Underpinning the increase in operating income and improved operating margin were the effect of higher volumes, an increase in the proportion of sales that high-margin pachislot machines generated, and cost reductions through the reuse of parts.

In the pachinko machine business, we are actively promoting sales of pachinko boards, which provide us with high margins while lightening the investment burden of pachinko hall operators. In fiscal 2011, reflecting the introduction of our new-model pachinko frames, the percentage of pachinko machine unit sales that pachinko boards accounted for was down from the previous fiscal year's 69.1% to 28.5%.

Because certain pachislot machines launched in fiscal 2011 were operating at abnormally high payout rates, we offered free replacement machines to pachinko hall operators no longer wishing to have these machines while providing compensation for operational losses. As a result of this, the segment recognized an extraordinary loss of ¥5.2 billion. We are strengthening our quality control system to prevent recurrence.

FY 2012 Outlook and Strategy

Aiming to Advance Dramatically through Integrated Strengthening of the Group's Competitiveness

Fiscal 2012 is likely to see an increasingly marked division between winners and losers in competition among manufacturers as well as a continuing shift in demand from pachinko machines toward pachislot machines.

Amid these conditions, for the Pachislot and Pachinko Machine Business segment in the current fiscal year we expect a 10.8% year-on-year increase in net sales, to ¥235.0 billion, and an 8.1% year-on-year decline in operating income, to ¥59.0 billion. Our assumption is that the increase in revenues will come from higher unit sales in the pachinko machine business. We are projecting lower earnings mainly due to concerns over a rise in the cost of procuring core parts for which supply is unstable as a result of the earthquake. Because parts procurement is not likely to stabilize until the fall, we expect sales will be much brisker in the second half, particularly for the pachislot machine business.

By business, the pachislot machine business is projecting decreases of 12,000 units in unit sales, to 290,000 units, and down 3.3% in net sales, to ¥91.8 billion. The business is targeting 42,000 units for the first half and 248,000 units for the second half. We aim to meet this target by bringing mainstay titles to market in the second half, when part procurement has stabilized.

As for the pachinko machine business, we aim to achieve increases of 111,000 units, to 455,000 units, and 21.7% in net sales, to ¥138.6 billion, by releasing 15 titles including several mainstay titles. Also, we expect pachinko board sales as a percentage of net sales will rise to 60.8%.

On August 1, 2011, TAIYO ELEC Co., Ltd., became a wholly owned subsidiary of Sammy Corporation. Going forward, Sammy and TAIYO ELEC will collaborate more closely. This will entail joint parts procurement, reducing manufacturing cost by adopting common machine cabinets, exchanges of development personnel, and joint product development. We will maintain and grow the dominant market share that the pachislot machine business enjoys by building a robust system for advancing our multibrand strategy. At the same time, we will elevate the position of the pachinko machine business among market-leading companies.

Pachislot Shin Onimusha
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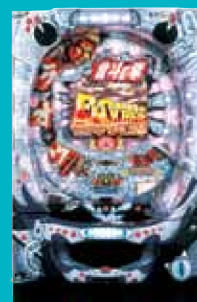
Product Portfolio

As of July 31, 2011

Sammy's Product Lineup – Powerful Brand Appeal

HOKUTO NO KEN SERIES



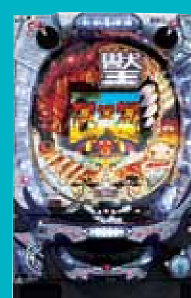
Pachinko CR Hokuto No Ken Raoh
© Bronson & Tetsuo Hara / NSP1983,
© NSP 2007 Approved No. SAF-308 © Sammy

Pachislot Hokuto No Ken
© Bronson & Tetsuo Hara
© Sammy

Pachinko Machine
Cumulative unit sales
680 thousand units
(3 series)

Pachislot Machine
Cumulative unit sales
1,110 thousand units
(3 series)

JUOH SERIES



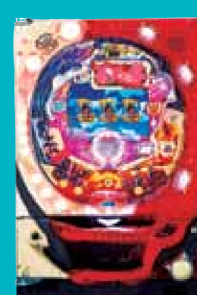
Pachinko CR Juoh
© Sammy

Pachislot Juoh
© Sammy

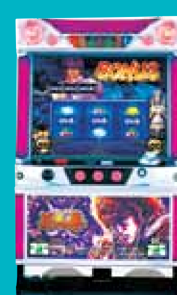
Pachinko Machine
Cumulative unit sales
120 thousand units
(2 series)

Pachislot Machine
Cumulative unit sales
260 thousand units
(2 series)

SOUTEN-NO-KEN SERIES



Pachinko SOUTEN-NO-KEN
© 2001 Bronson & Tetsuo Hara,
Approved No.SAH-309 © Sammy

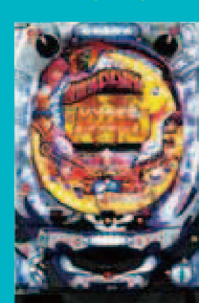


Pachislot SOUTEN-NO-KEN
© 2001 Bronson & Tetsuo Hara,
Approved No.SAH-310 © Sammy

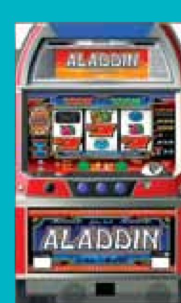
Pachinko Machine
Cumulative unit sales
110 thousand units
(1 series)

Pachislot Machine
Cumulative unit sales
90 thousand units
(1 series)

ALADDIN SERIES



Pachinko CR ALADDIN NEO
The Capital of Little Princess and Evil Spirit
© Sammy



Pachislot ALADDIN Evolution
© Sammy

Pachinko Machine
Cumulative unit sales
70 thousand units
(2 series)

Pachislot Machine
Cumulative unit sales
420 thousand
(5 series)

For Tomorrow

Leading a Long-Term Market Development

Operational Review

Amusement Machine Sales Business

SENGOKU TAISEN
© SEGA

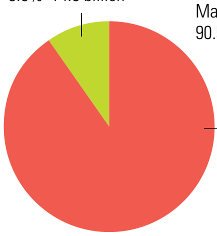
This business segment aims to increase investment efficiency for amusement center operators in Japan and acquire stable long-term earnings for the Company. At the same time, it will step up initiatives to acquire new earnings sources overseas.

For details on market trends, please see the supplementary "Today" document.

Composition of Net Sales

¥47.2 billion

11.9%



Fiscal 2011 Business Results Overview

Net sales ¥47.2 billion

▲ **4.7%**

Operating income ¥7.3 billion

▲ **3.1%**

R&D expenses/content production expenses ¥9.1 billion

▲ **16.7%**

Basic Information

Implementing an Array of Measures to Invigorate the Market

The Amusement Machine Sales Business segment has consistently remained at the forefront of developments in the amusement industry by using novel ideas and outstanding technological capabilities to create a broad variety of world-first and industry-first concepts. We are attracting and catering to a wide base of users by drawing on an extensive product lineup that encompasses large, high-value-added machines—traditionally an area of particular strength—through to amusement arcade machines that appeal to families.

As a major company in the industry, this business segment has a priority strategy that seeks to invigorate the amusement center industry, which has suffered a continuing slump due to a loss of consumer spending. To realize this strategy, the business segment is exploiting its prowess in advanced technology to provide a variety of products and services. A good example of such initiatives is our introduction of a revenue-sharing business model that uses the *ALL.Net* network service for amusement arcade machines. The aim of this service is to lessen amusement center operators' initial investment burden while enabling the Company to establish a platform for long-term stable earnings. Further, focusing on China, we have begun rolling out products in Asian markets with strong growth potential.

FY 2011 Overview

Revenue-Sharing Business Model and CVT Kits Contribute to Stable Earnings

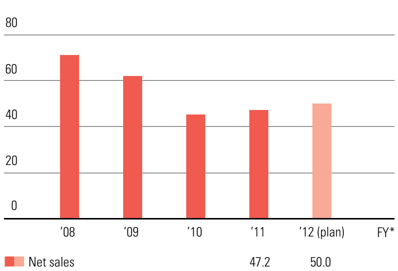
For fiscal 2011, the business segment's net sales were up 4.7% year on year, to ¥47.2 billion. This reflected steady revenues throughout the fiscal year thanks to favorable utilization of *BORDER BREAK* which were launched in the previous fiscal year and *HATSUNE MIKU Project DIVA Arcade*, based on a revenue-sharing business model. Also recording solid sales were *SENGOKU TAISEN*, mainstay titles, and CVT kits for upgrading such amusement arcade machines as *WORLD CLUB Champion Football Intercontinental Clubs 2009–2010*.

Operating income rose 3.1% year on year, to ¥7.3 billion, as increased sales of high-margin CVT kits and a rise in revenues due to favorable utilization of titles based on the revenue-sharing business model offset a 16.7% year-on-year increase in R&D expenses and content production expenses, to ¥9.1 billion.

Overseas, SEGA JINWIN (SHANGHAI) AMUSEMENTS CO., LTD., a joint venture established by SEGA and Shanghai JinWin Investment Co., Ltd., acquired a license to manufacture and sell amusement arcade machines in China and began developing operations for amusement arcade machines in the country.

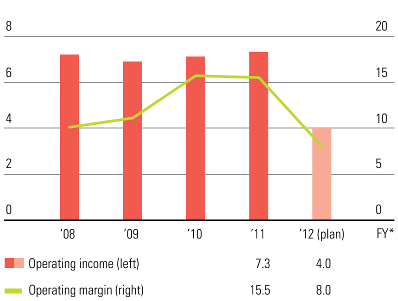
Net Sales

Billions of yen



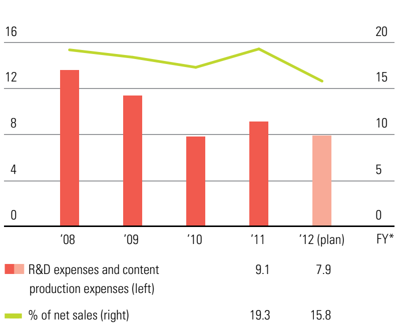
Operating Income/Operating Margin

Billions of yen %



R&D Expenses and Content Production Expenses

Billions of yen %



* Years ended March 31

FY 2012 Outlook and Strategy

Full-scale Business Development in the Asian Market

Amusement center operators are likely to continue facing tough earning conditions against the backdrop of prolonged lackluster consumer sentiment in the wake of the Great East Japan Earthquake in March 2011. The business segment will enhance investment efficiency for amusement center operators and realize long-term, stable earnings for the Company.

For fiscal 2012, the business segment is targeting a 5.9% year-on-year increase in net sales, to ¥50.0 billion. In addition to steady revenues from titles sold under the revenue-sharing business model, we expect overseas businesses to contribute revenues.

Meanwhile, we anticipate operating income will decline 45.2% year on year, to ¥4.0 billion. This will primarily result from the business segment's position in the product development cycle, which will lead to a decrease in the number of titles for which we sell CVT kits and higher part prices due to board changes. In fiscal 2012, plans call for the release of the latest installment of the highly popular *Star Horse* series, *StarHorse3 Season I A NEW LEGEND BEGINS.* and *SEGA NETWORK MAHJONG MJ5*. We are targeting a 13.2% year-on-year reduction in R&D expenses and content production expenses, to ¥7.9 billion.

In contrast to Japan's market, which is likely to see modest growth over the medium- to long-term as birth rates decline and society ages, the amusement arcade machine markets of Asia, centered on China, and other emerging countries offer substantial growth potential. Based on collaborations with local partners, this business segment will develop and manufacture products locally in order to realize products that match the user preferences of each region at competitive prices and thereby open up new markets.

Product Portfolio

SEGA products using the *ALL.Net* service

SEGA NETWORK MAHJONG MJ5

This is the latest installation of SEGA's mahjong game series, which enables players nationwide to play each other online. Large numbers of fans take part in regular nationwide events.

BORDER BREAK

This became the first game in the industry to realize nationwide games in which up to 20 players can participate simultaneously. As one of our representative products based on a revenue-sharing business model, *BORDER BREAK* has earned continuous endorsement since launching in September 2009.

StarHorse3 Season I A NEW LEGEND BEGINS.

Themed on horse racing, this medal game enables player to enjoy highly realistic races displayed on an impressively large monitor in the comfort of reclining seats.

Initial D Arcade Stage6 AA

The latest release in our driving game series, which incorporates a popular manga as a motif. It has become a firm favorite thanks to features allowing players to compete with other players nationwide through a network and tune up their cars.

Operational Review

Amusement Center Operations

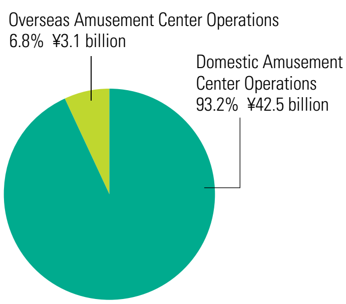
We will reinforce our portfolio of amusement centers in order to build a robust earnings structure.

For details on market trends, please see the supplementary “Today” document.

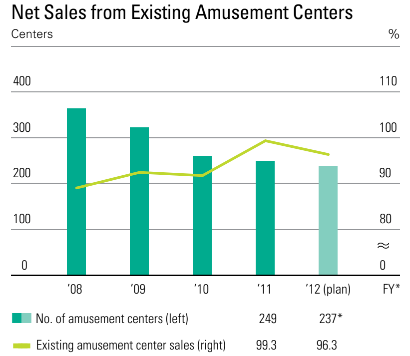
Composition of Net Sales

¥45.6 billion

11.5%

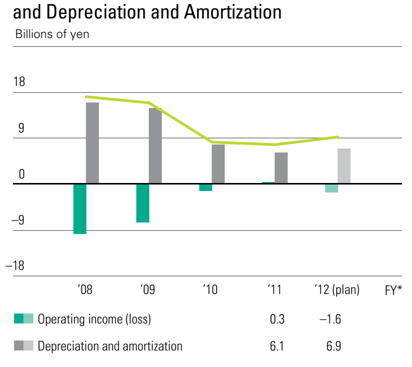


Number of Amusement Centers in Japan/
Net Sales from Existing Amusement Centers



* Due to a change in the aggregate calculation method, the number of amusement centers is one less than previously announced.

Operating Income (Loss)/Capital Expenditures
and Depreciation and Amortization



* Years ended March 31

Basic Information

Reforming Our Earnings Structure

SEGA operates a diverse network of amusement center formats to suit different locations around Japan. In response to market contraction, this business segment is continuing to improve its earnings structure by restructuring its portfolio of centers in Japan and overseas and strengthening the operational capabilities.

FY 2011 Overview

Moves into the Black for the First Time in Four Fiscal Years

In fiscal 2011, the business segment continued efforts to build a portfolio able to generate stable earnings by closing or selling amusement centers with inadequate profitability or potential.

In Japan, we opened six amusement centers and closed or sold 17. By fiscal year-end, we had 249 amusement centers, down 11 from the previous fiscal year-end.

During the first three quarters, SEGA's existing amusement centers in Japan saw net sales trending higher year on year due to firm sales of prize game machines and the strengthening of operational capabilities. However, due to the earthquake, some amusement centers, mainly in the Tohoku region, suspended operations. Also, planned power outages led the segment to shorten the business hours in the Tohoku and Kanto regions. Consequently, full-year net sales at existing amusement centers in Japan edged down 0.7% year on year. As a result, the business segment's net sales were down 16.6% year on year, to ¥45.6 billion.

Capital expenditures of ¥7.7 billion were at the same level as the previous fiscal year, while depreciation and amortization declined 25.6%, to ¥6.1 billion. Thanks to lower operating expenses, including personnel expenses, and other improvements in efficiency, the segment achieved profitability for the first time in four years, recording operating income of ¥0.3 billion, compared with the previous year's operating loss of ¥1.3 billion.

FY 2012 Outlook and Strategy

Strengthening Our Portfolio at Home and Abroad

Uncertainties are likely to persist in the market due to a lengthy slump in consumer spending following the earthquake. Due to the suspension of operations at some amusement centers, for fiscal 2012 we anticipate a year-on-year decline of 7.9% in net sales, to ¥42.0 billion, and an operating loss of ¥1.6 billion. After completing restoration on centers that suspended operations, we are steadily resuming operations, beginning from amusement centers confirmed as safe. Also, we intend to continue closing or selling amusement centers with inadequate profitability or potential. In the current fiscal year, in Japan the business segment plans to open 6 amusement centers and close 17, giving at total of 237* at fiscal year-end, down 11 from the previous fiscal year-end. SEGA's existing amusement centers will likely see a 3.7% year-on-year decline in net sales. Overseas, the business segment sold all 7 of its amusement centers in North America in May 2011.

For Tomorrow

Gathering Strengths Creating New Entertainment

Operational Review
Consumer Business

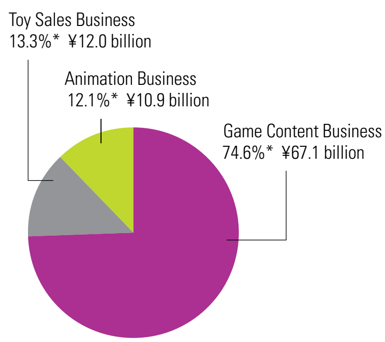
While using management resources effectively and maximizing the value of intellectual properties, we plan to speed up the development of new markets.

For details on market trends, please see the supplementary “Today” document.

Composition of Net Sales

¥88.8 billion

22.4%



* Excluding ¥1.26 billion of corporate and elimination

Fiscal 2011 Business Results Overview

Net sales ¥88.8 billion

▼ **26.9%**

Operating income ¥1.9 billion

▼ **68.9%**

Home video game software unit sales 18.7 million units

▼ **30.1%**

R&D expenses/content production expenses ¥18.1 billion

▼ **7.7%**

Basic Information

Game Content Business

Focusing on Mainstay Game Software and Accelerating the Development of New Markets

SEGA and Sammy NetWorks Co., Ltd., operate the game content business, which accounts for more than 70% of this business segment’s net sales. SEGA is advancing a multiple platform strategy, which entails providing software for a wide range of platforms. The business segment has an extensive selection of highly appealing intellectual property, such as *Sonic the Hedgehog*. Overseas, where it has established SEGA as a brand with strong appeal, the business segment includes SPORTS INTERACTIVE Ltd., responsible for developing the *Football Manager* series, The Creative Assembly Ltd., which develops the *Total War* series, and other development studios that own competitive intellectual properties.

Sammy NetWorks operates pachinko and pachislot game web sites that have established leading shares of their markets.

For traditional packaged game software, we are pursuing improved profitability by concentrating management resources on titles that promise reliable returns. At the same time, we are focusing more management resources on offerings for smartphones and social networking services (SNS), which is a rapidly growing market.

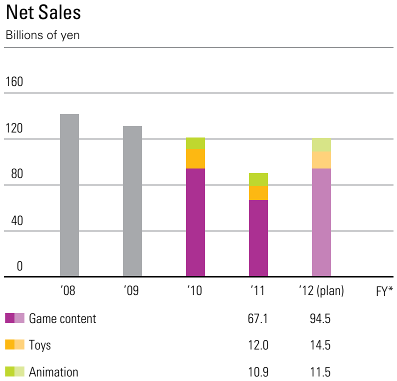
Toy Sales Business

Creating New Value through Alliances with Major Companies

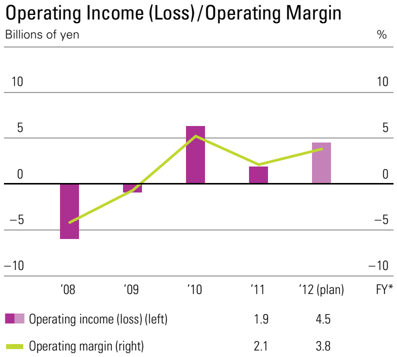
Responsible for the development of the toy sales business, SEGA TOYS CO., LTD., is pioneering new markets for such customers as adults and seniors. In these initiatives, it is actively forging alliances with major companies and intellectual property owners in Japan and overseas across a range of industries in order to leverage expertise and original ideas that transcend the toy industry’s traditional boundaries. SEGA TOYS minimizes the risk associated with product rollouts by remaining a fabless company that outsources all manufacturing operations.

HOMESTAR AQUA
© SEGA TOYS

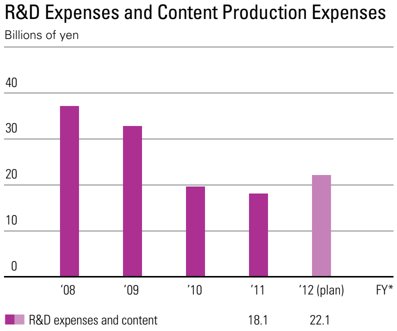
Net Sales



Operating Income (Loss)/Operating Margin



R&D Expenses and Content Production Expenses



* Years ended March 31

Through tie-ups with Group companies, we are maximizing the intellectual property value of *BAKUGAN*. Jointly developed with the Canadian toy manufacturer Spin Master Ltd., *BAKUGAN* won the 2009 Toy of the Year Award in the United States and has become a hit product in 120 countries worldwide.

Animation Business

Boasting Numerous High-Quality Animation Assets and State-of-the-Art CG Animation

The core operating company of the animation business, TMS ENTERTAINMENT, LTD., is one of Japan's foremost production companies, having created more than 9,000 episodes of such animation series as *Detective Conan, Anpanman*, and *Lupin the 3rd*. Making full use of its many animation assets, the company developed animation-viewing terminals for preparation* support at hospitals, *Smile Touch*, which it began leasing in September 2010.

Using Japan's leading-edge technology to realize high-quality animated rendering, MARZA ANIMATION PLANET INC. aims to provide the global market with high-quality, made-in-Japan CG (computer graphics) animation.

* A method of encouraging children and their families to feel positive about medical treatment by explaining a medical condition, examination, or treatment in a way suited to the child's age or level of understanding.

FY 2011 Overview

Earnings Decline Due to Slumping Game Software Market Overseas

In fiscal 2011, the Consumer Business segment's net sales were down 26.9% year on year, to ¥88.8 billion.

Operating income was down 68.9% from the previous fiscal year, to ¥1.9 billion, mainly because of lackluster game software sales overseas. We reduced R&D expenses and content production expenses 7.7% year on year, to ¥18.1 billion.

Made Three Listed Companies Wholly Owned Subsidiaries

Establishes Foundation to Concerted Capabilities

Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD., became wholly owned subsidiaries of SEGA SAMMY HOLDINGS INC., through exchanges of shares on December 1, 2010. These three companies delisted on November 26, 2010.

This initiative will enable the Group to deploy personnel and physical resources in an even more timely and appropriate manner and rapidly make and implement management decisions based on its business strategies. By linking powerful intellectual properties and content dispersed throughout Group companies more closely, the Group will create synergistic and complementary benefits and thereby fully realize its concerted capabilities.

Game Content Business

Records Steady Sales by Narrowing Down Titles in Japan

The game content business recorded a 28.9% year-on-year decline in net sales, to ¥67.1 billion, due to sluggish sales of new titles overseas.

In fiscal 2011, *Sonic Colors*, launched in Japan, the United States, and Europe, shipped 2.18 million units. Also, for the

Zoobles
© SEGA TOYS / SPIN MASTER / ZOOBLES COMMITTEE

BAKUGAN
© SEGA TOYS / SPIN MASTER

United States and Europe markets we unveiled *IRON MAN 2*, which sold 1.54 million units. In the fourth quarter, we released *Phantasy Star Portable 2 Infinity* in Japan and *SHOGUN 2: Total War* in the United States and Europe. Meanwhile, in Japan we postponed until the current fiscal year the launch of the major title *Ryu ga Gotoku OF THE END*, which we had originally slated for release in the fourth quarter.

In Japan, the business marketed 15 titles, which sold 2.63 million units in total. We were able to appropriately balance earnings size and development expenses by continuing efforts to concentrate development and sales on titles likely to generate a certain level of unit sales and return. We also realized improved profitability.

As for overseas markets, we released 16 titles in the United States and 20 in Europe. With unit sales of new titles struggling, unit sales were only 7.83 million units in the United States and 8.23 million units in Europe.

The pay-per-use services of *Sammy 777 Town*, a pachislot and pachinko game site for mobile phones, performed steadily.

In another initiative, from 2010 we began distributing *Kingdom Conquest*, a free online RPG for Apple's iOS mobile operating system. After launching, this service met with a very positive reception around the world, claiming the top spot in the free role-playing game download rankings of seven countries simultaneously and surpassing 1.5 million downloads by August 2011.

Kingdom Conquest
© SEGA

Toy Sales Business
Steps up Overseas Roll-Outs by Collaborating with Partners

The toy sales business saw a 29.8% year-on-year decline in net sales, to ¥12.0 billion, as consumer spending slumped in Japan.

In Japan, *BAKUGAN*-related products, which Bakugan Limited Liability Partnership (Bakugan LLP) promotes, grew sales, while such mainstay products as *Anpanman* toys and *HOMESTAR AQUA* sold well.

In overseas markets—following on from the *BAKUGAN* character for boys—we jointly developed a second product with Spin Master Ltd., the new *Zoobles* character for girls, which is growing sales.

Animation Business
Hit Products Based on Strong Intellectual Property Grow Revenues

The animation business posted a 12.4% year-on-year increase in net sales, to ¥10.9 billion.

Revenues were up thanks to the success of the 14th movie-theater version of *Detective Conan*. Also, in Japan and overseas royalty revenues from the *BAKUGAN* project remained favorable. And, *BAKUGAN* continued to be a hit television series overseas, mainly in North America.

FY 2012 Outlook and Strategy

Expecting Major Title Releases to Grow Revenues and Earnings

For fiscal 2012, the segment plans to increase net sales 35.1% year on year, to ¥120.0 billion, by bringing to market major titles in Japan and overseas through the game content business. We project operating income to rise 136.8%, to ¥4.5 billion, as higher game software unit sales in the game content business counteracts an increase in amortization of goodwill and other operating expenses accompanying the conversion of three listed subsidiaries into wholly owned subsidiaries. R&D expenses and content production expenses are likely to grow 22.1% year on year, to ¥22.1 billion, reflecting a rise in the number of title releases and stepped-up development for new platforms.

Mario & Sonic at the London 2012 Olympic Games™
TM IOC. Copyright © 2011 International Olympic Committee ("IOC"). All rights reserved.
SUPER MARIO characters © NINTENDO.
SONIC THE HEDGEHOG characters © SEGA

Game Content Business
Planning to Increase Revenues and Earnings by Launching Major Titles

For the current fiscal year, this business is targeting net sales of ¥94.5 billion, up 40.8% year on year.

In Japan, plans call for marketing 19 titles,4 more than in fiscal 2011, and shipping 3.36 million units, a year-on-year increase of 0.73 million units. We aim to reach this target by pursuing a product lineup strategy that focuses strongly on major titles likely to realize a certain level of popularity. The first quarter will see the release of the latest installment of the mainstay *Ryu ga Gotoku* series, which has shipped 5 million units to date. Overseas, although we will launch 34 titles, 2 less than in fiscal 2011, we are targeting a 3.86 million increase in unit sales, to 19.92 million units.

Phantasy Star Portable 2 Infinity
© SEGA

These new offerings will include *Mario & Sonic at the London 2012 Olympic Games*™, *Sonic Generations, and Virtua Tennis*™ *4*. Overseas, markets are shrinking and becoming increasingly polarized between major-hit titles and titles with persistently low unit sales. Therefore, as we are doing in Japan, we will heighten development focus and efficiency.

As a result of these efforts, in fiscal 2012, the game content business plans to increase game software unit sales 4.58 million units year on year, to 23.29 million units.

Further, Sammy NetWorks will strengthen services for smartphones that its *Sammy 777 Town* pachislot and pachinko game site for mobile phones provides to approximately 900,000 members. By actively supplying content by SEGA, the business will enhance its offerings for such new platforms as smartphones and SNS.

Toy Sales Business

For fiscal 2012, this business aims to grow sales 20.8% year on year, to ¥14.5 billion.

While promoting sales of *BAKUGAN* and *Zoobles* in markets worldwide, we will bolster initiatives for the *Anpanman* series and other perennial favorites in Japan.

Animation Business

In the current fiscal year, we plan to achieve a 5.5% year-on-year increase in net sales, to ¥11.5 billion.

In addition to the 15th movie-theater version of *Detective Conan*, released in April 2011, we will produce multiple new titles, including *Toaru Hikushi he no Tsuioku* for movie theaters and *Battle Girls: Time Paradox* for television.

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© NSP 2007 Approved No.GT-706 © Sammy

Product Portfolio

The Consumer Business—Highly Popular Intellectual Properties

MARIO & SONIC SERIES

Mario & Sonic at the London 2012 Olympic Games™
TM IOC. Copyright © 2011 International Olympic Committee ("IOC") All rights reserved. SUPER MARIO characters © NINTENDO.
SONIC THE HEDGEHOG characters © SEGA

Total series unit sales

19 million units

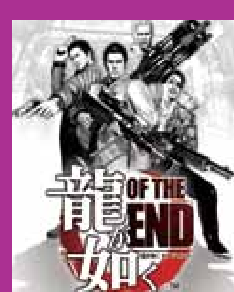
SONIC SERIES

Sonic Generations
© SEGA

Total series unit sales

70 million units

RYU GA GOTOKU SERIES



Ryu ga Gotoku OF THE END
© SEGA

Total series unit sales

5 million units

TMS ENTERTAINMENT, LTD. ANIMATED MOVIES

ANPANMAN
© Takashi Yanase / Froebel-kan · TMS · NTV
© Takashi Yanase / ANPANMAN Project

Detective Conan : Quarter of Silence
© 2011 Gosho Aoyama / DETECTIVE CONAN COMMITTEE

BAKUGAN -Battle Brawlers-
© SEGA TOYS / SPIN MASTER / BAKUGAN 3 PROJECT · TV Tokyo

Today
captivating a woman's heart

Tomorrow
captivating women's hearts

Sustainability

Throughout its business activities, the SEGA SAMMY Group is pursuing initiatives that reflect an awareness of environmental and social sustainability as well as a determination to continually expand corporate value.

The Annual Report 2011 offers a report on basic policies and the progress of initiatives concerning such non-financial factors as society, the environment, and governance, focusing on initiatives having a significant bearing on the Group's growth and sustainability from the perspective of risk and opportunity. The discussion deals mostly with the core Group companies, SEGA CORPORATION and Sammy Corporation. For a comprehensive report on the Group's activities based on the Global Reporting Initiative (GRI), please refer to the "SEGA SAMMY Group CSR Report 2011."

SEGA SAMMY Group CSR Report 2011
http://www.segasammy.co.jp/english/pr/commu/csr_report.html

Social

To continually raise corporate value, the SEGA SAMMY Group endeavors to establish excellent relations with a wide range of stakeholders, including its customers, business partners, and employees.

Employees

The Group recognizes that its employees, and the creativity and spirit of challenge they possess, represent a vital management resource and the foundation of the Group's perpetual growth. Accordingly, the Group strives to ensure respect for human rights, establish comfortable and safe workplaces, provide opportunities for employees to utilize their capabilities, and promote diversity.

Workforce Status

Hiring Trends at SEGA
As of March 31, 2011

		FY2009	FY2010	FY2011
New graduate hires	Male employees (Female employees)	90 (11)	49 (12)	14 (4)
	Total	101	61	18
Mid-career hires	Male employees (Female employees)	33 (6)	23 (6)	18 (6)
	Total	39	29	24
Total number of employees (excluding employees seconded from other companies)	Male employees (Female employees)	2,663 (406)	2,320 (341)	2,135 (288)
	Total	3,069	2,661	2,423
Average tenure		9 years 2 months	9 years 8 months	10 years 7 months

Hiring Trends at Sammy
As of March 31, 2011

		FY2009	FY2010	FY2011
New graduate hires	Male employees (Female employees)	46 (3)	9 (4)	6 (0)
	Total	49	13	6
Mid-career hires	Male employees (Female employees)	9 (0)	9 (0)	15 (1)
	Total	9	9	16
Total number of employees (excluding employees seconded from other companies)	Male employees (Female employees)	1,049 (116)	959 (110)	943 (105)
	Total	1,165	1,069	1,048
Average tenure		6 years 4 months	7 years 7 months	8 years 1 month

Education and Training Systems

SEGA provides subsidies to employees covering a portion of their correspondence courses and has affiliations with external education services to support employees seeking to hone their capabilities.

Sammy provides ample opportunities for skill development through training programs for employees at each level of their career, based on the company's human resources management policy. In fiscal 2011, Sammy enhanced the program by realigning the previous training for each career level into more specialized courses for each employee rank.

Sammy's Level-based Training Program

Management-level employees		
Principles of management	Managers	3 days
Fundamentals of work management and mental health	New managers	5 days
Leaders		
Management and business sense	Leaders	2 days
Mind enrichment for next-generation leaders		
Mid-career employees		
Business execution skills for working with other companies	Mid-career, third year	2 days
Raising awareness as a professional	Mid-career, first year	3 days
New employees		
Self-analysis, basic attitude, and business skills	Third year	3 days
Understanding expected role and fundamentals to being a member of society		
New employee follow-up training	New employee follow-up	3 days
New employee training	New employees	1 month

Workplace Safety

In accordance with laws and regulations, SEGA holds a monthly meeting of its Health and Safety Committee. Various materials related to health and safety, including minutes of the committee meeting, are posted on the company's intranet. The company also maintains a Safe Driving Committee, through which it provides reminders and raises awareness of the importance of safe driving among employees.

At Sammy, the Health and Safety Committee meets every month to promote the employee health and safety. At the company's Kawagoe Factory, employees carry out "6S Patrols" in which they inspect their workplaces for latent health and safety risks and remedy any problems discovered. In this way, Sammy is promoting various initiatives in accordance with the nature and conditions of each workplace.

Customers

The ability to promptly and flexibly meet the current needs of customers and continually provide safe and high-quality products and services meeting their expectations is vital to the Group's sustainable growth. The Group has established a product safety and quality assurance structure and conducts manufacturing and other operations in a manner which ensures high customer satisfaction.

Safety and Quality Assurance

SEGA ensures uniform management of safety and quality through its Quality Assurance Department, which promotes rigorous assurance based on quality assurance rules. In regard to product safety, SEGA manufactures products according to both its own manufacturing standards as well as the industry's manufacturing guidelines set forth by the Japan Amusement Machinery Manufacturers Association (JAMMA).

For every project, SEGA reviews, verifies, and manages the quality of its products at appropriate stages, including at design reviews and shipment decision meetings. Quality and delivery are managed systematically at every stage of the production process, from development to manufacturing and sales, in order to share and optimize information for the timely provision of high-quality products to customers.

From fiscal 2010, Sammy has implemented proprietary products testing standards, developed on the basis of JIS standards. Evaluations are conducted at the development and mass-production stages, with the results returned promptly to the product development department in order to reduce the defective product rate. As part of the initiatives to reduce nonconforming products to zero, Sammy also tracks the defective rates of its suppliers on weekly, semiannual, and annual bases. Suppliers with low scores are given guidance on meeting the company's quality standards.

Smile Touch

Products to Meet the Needs of Today

World's first pediatrics support terminal

Smile Touch

TMS ENTERTAINMENT

In recent years, more pediatricians have embraced the practice of providing explanations to young patients based on their age and understanding, or "preparation*," as a means of allaying their fears and concerns. TMS Entertainment has supported this effort with *Smile Touch*, the world's first medical-use, audio-visual terminal with animation content. The company began renting the terminal to medical institutions from September 2010.

The animated videos contained in *Smile Touch* are developed specifically for preparation, with explanations to ease children's tension and concerns. By promoting the wide adoption of *Smile Touch*, TMS Entertainment hopes to contribute to reducing the burden on pediatricians and patients, which has been an issue in the industry.

* A method and practice of providing explanations to young patients, based on their age and understanding, during their treatment and testing, as a way of allaying their fears and apprehensions, while encouraging a more positive mindset among the patients and their families towards treatment. "Preparation" refers to the mental or psychological preparation patients need during treatment.

Business Partners

The Group has established standards and systems for selecting suppliers and other business partners from a multifaceted perspective. The Group endeavors to build fair, equitable, and positive relations with business partners based on mutual trust.

Firm Adherence to Fair Trade; Selection and Management of Business Partners

SEGA puts in writing its policy of maintaining integrity in business dealings and provides the policy to all its business partners. The company backs up this policy with a variety of employee seminars to raise awareness of the importance of maintaining fair and equitable relations and ensuring integrity in dealings with business partners. During the evaluation and selection of business partners, multiple departments take part in the process to reach a fair decision. The Amusement Machine Sales Business has established its own procurement policy which specifies criteria for business dealings, including compliance, quality, safety, trust, environmental conservation, information security, and workplace health and safety. In addition, the company visits the factories of both existing and new business partners to ensure stable quality.

Sammy has a procurement policy which emphasizes the maintenance of fairness and equity and the establishment of relationships of mutual cooperation and trust. The company evaluates and selects business partners and practices trade on the basis of procurement rules in line with this policy. Business partners are selected through an evaluation process that includes multiple departments and seeks to make appropriate judgments based on information from the candidate and external research companies. The company has also set up a consultation center for business partners to prevent company employees from making inappropriate demands. Additionally, Sammy has an Internal Control Office which monitors procurement results and endeavors to maintain fairness.

Sammy promotes procurement activities in consideration of integrity, economic efficiency, safety and quality, compliance, technology, and the environment, and is extending this approach to its entire supply chain.

Collaboration with Business Partners

SEGA utilizes a fabless manufacturing model in which coordination with manufacturing partners is a critical issue. The company continually strives to strengthen the collaborative structure with manufacturing partners in order to enhance product safety and quality while raising efficiency.

SEGA employees regularly visit manufacturing partners' facilities to confirm their quality management systems and provide product assembly guidance in order to raise productivity. Regular meetings with suppliers and the introduction of the "BATON" communication system are examples of initiatives to bolster partnerships and improve information sharing.

Sammy's purchasing system promotes the deepening of mutual trust by offering ample opportunities for company employees and business partners to share information and opinions during daily business dealings. Particularly in the area of quality management, Sammy conducts reviews of business partners' quality management activities and provides guidance and requests for improvement whenever necessary.


A supplier meeting

Environment

The SEGA SAMMY Group is promoting the efficient use of resources and energy to preserve the global environment and avoid environmental risks which could impede the sustainable growth of the Group.

Global Environmental Conservation

Environmental Burden and Impact

The Group collects and tracks basic environmental data from its workplaces and facilities to evaluate the environmental burden of business activities.

Electricity consumption at workplaces and facilities represents one of the major environmental burdens, and the Group is striving to reduce consumption through the efficient use of lighting and air conditioning. The Group will strive to reduce its burden by continuing to promote the shift to more energy-efficient facilities.

Basic Group Environmental Data

Period: April 1, 2010 ~ March 31, 2011

	Offices	Amusement Centers	Production Sites
Energy consumption (GJ) (electricity, city gas, kerosene)[1]	186,196 GJ	1,428,231 GJ	27,188 GJ
CO_2 emissions from energy use (t-CO_2)[2]	7,214 t-CO_2	60,107 t-CO_2	1,224 t-CO_2
Industrial waste discharge (t)[3]	472 t		1,385 t

1 Offices and amusement centers (excluding spa facilities): Total electricity used
Spa facilities: Total electricity, city gas used
Production sites: Total electricity, city gas, LP gas, kerosene used
For some facilities, estimates were made based on energy usage charges and facility floor area
To convert electricity to heat, we used a primary conversion (9.97MJ/kWh) and expressed the total in GJ.

2 The CO_2 conversion coefficient was taken from the "List of Calculation Methods and Emissions Coefficients for the Conversion, Reporting and Public Announcement System," released by Japan's Ministry of Environment in December 2010 (revised March 2010), and from "Concerning Public Announcement of Electricity Business-Specific Actual Emissions Coefficients, Post-Adjustment Emissions Coefficients, Etc., Fiscal 2008 (Notice)," released by the Ministry of Environment in December 2009.
URL reference: http://www.env.go.jp/earth/ghg-santeikohyo/material/index.html#santei
http://www.env.go.jp/earth/ghg-santeikohyo/material/itiran.pdf
http://www.env.go.jp/press/press.php?serial=11956

3 The industrial waste discharge from amusement centers is an estimate, as many of the centers discharge waste together with offices (sales sites in each region).

Green Procurement

SEGA purchases Green Power Certificates for 1 million kWh of annual electricity consumption as a way to help reduce its environmental burden stemming from electricity usage. The company consumes micro-hydropower and biomass[1]-generated electricity, and was the first Japanese company to sign up for certificates for micro-hydropower.

SEGA Green Power Certificate Purchases

Fiscal 2011

Green Power Certificate purchases		1 million kilowatt-hours (equivalent to cutting CO_2 emissions by approx. 384 tons)[2]
	Micro-hydropower	500,000 kilowatt-hours (equivalent to cutting CO_2 emissions by approx. 192 tons)[2]
	Biomass	500,000 kilowatt-hours (equivalent to cutting CO_2 emissions by approx. 192 tons)[2]

1 Biomass power contracted with SEGA reuses methane from sewage as gas-engine fuel.
2 The CO_2 emissions coefficients were based on the Ministry of Environment's December 2010 "List of Calculation Methods and Discharge Coefficients for the Conversion, Reporting and Public Announcement System."

Sammy promotes lead-free solder, forestry-certified wood materials, and water-soluble adhesives in the design and development stages of its pachinko and pachislot machines. This and other green procurement initiatives ensure that the company utilizes materials with a low environmental burden.

Recycling and Reuse

SEGA consigns the recycling of materials and parts from amusement center machines that are no longer serviceable to Group logistics company SEGA LOGISTCS SERVICE CO., LTD.

Sammy has established its own product flow and 3R practices (reduce, reuse, and recycle) to ensure compliance with the Act on the Promotion of Effective Utilization of Resources, which mandates recycling of pachislot and pachinko machine. In fiscal 2011, the company's pachislot and pachinko machine recycling rate was 99.5% (not including thermal recycling.)

The Group is also promoting the common use of circuit boards, LCDs, and other materials from the product development stage, along with the reuse of surplus materials. Such efforts to effectively reuse materials and lower costs are helping to improve profit margins as well. The Group collaborates on resource-efficiency programs, with LCD monitors from Sammy's retired pachinko machines being reused in SEGA amusement machines, for example.


A reused 15-inch LCD monitor

Governance

Basic Stance

SEGA SAMMY HOLDINGS and the entire SEGA SAMMY Group regard corporate governance as the key foundation for corporate activities. We have set forth Basic Policies on Corporate Governance consisting of three major corporate management tenets: enhance efficiency, secure a sound corporate organization, and enhance transparency. These policies are the basis for addressing such important management issues as selecting Board candidates, deciding compensation for directors, implementing management oversight, and deciding compensation for corporate auditors.

Enhancing Efficiency

The Group will maximize corporate value by establishing prompt and appropriate decision-making processes and by raising management efficiency. Shareholders and other stakeholders will benefit from these efforts.

Securing a Sound Corporate Organization

We will maximize corporate value amid volatile business conditions by identifying and managing diverse risks. We will also ensure a sound organization by establishing structures (compliance systems) to appropriately address ethical and social norms, including laws and regulations, their underlying social values, and any changes to these value systems.

Enhancing Transparency

Information disclosure is increasingly important for companies. To enhance disclosure efforts and ensure management transparency, we fulfill our duty to keep shareholders and other stakeholders informed and actively support investor relations (IR).

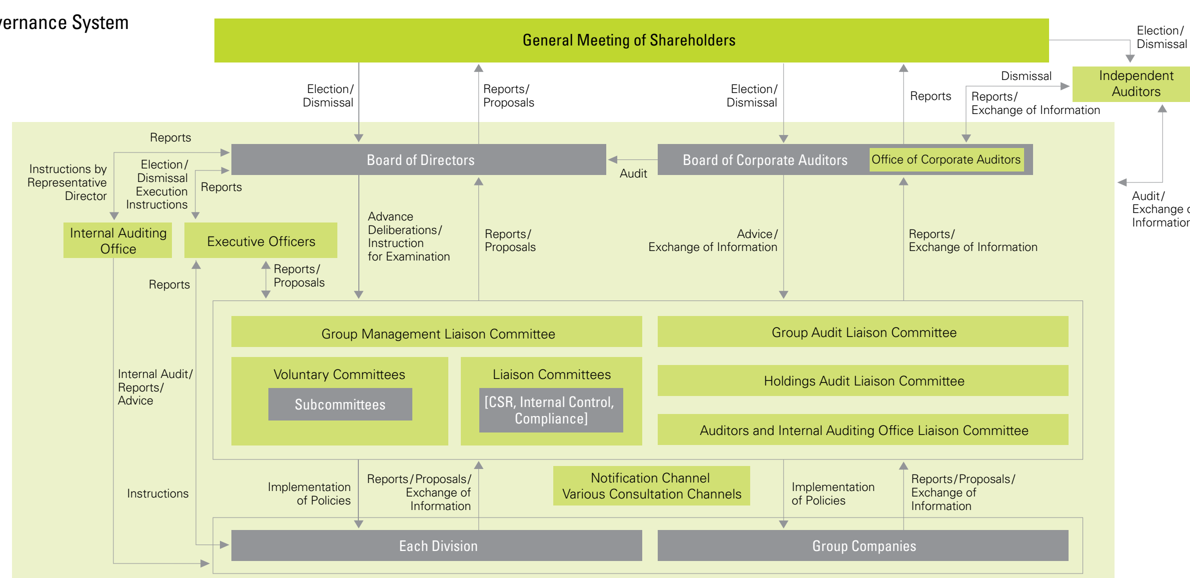
The SEGA SAMMY HOLDINGS and the Group as a whole also recognize that CSR activities are a means of supporting the Group's sustained value creation and stakeholder expansion. To respond appropriately as a good corporate citizen to the wide range of social needs, we have established a Group CSR Coordination Meeting to coordinate Group CSR activities, as well as a CSR Promotion Office as a specialized organization to support the efforts. Our Group Management Philosophy, Group CSR Charter, and Group Code of Conduct represent the foundation for our CSR activities, and we have instituted various internal rules and manuals to govern and guide specific types of work. In this way, we are building excellent relations with stakeholders by voluntarily and actively promoting CSR activities throughout the Group.

Operation and Management Structure

The SEGA SAMMY Group has adopted a corporate auditor system to enable directors to make prompt, optimal decisions in a rapidly changing business environment based on their wealth of expertise and experience in understanding industry, market trends, products, merchandise, and services. At the same time, we have appointed outside directors and strengthened our executive officer and internal control systems, reinforcing our corporate governance organization from the aspects of business execution and organizational oversight.

Corporate Governance System

As of June 30, 2011



Systems for Guaranteeing Management Objectivity

The Company has six directors, two of whom are outside directors, as well as four corporate auditors, three of whom are outside corporate auditors. The outside directors provide recommendations on how to raise the corporate value of the SEGA SAMMY HOLDINGS and Group as a whole from an external perspective, based on their considerable business insight and wealth of experience. The outside directors are also expected to provide oversight of directors, and therefore they are selected from among leading attorneys and business executives. Outside auditors are selected from among those without conflicts of interest with general shareholders. At the various meetings that they attend, outside directors and outside corporate auditors provide guidance and advice based on their abundant experience and specialized knowledge.

In terms of support systems for outside directors, we have established administrative offices for the executive meetings to facilitate appropriate information distribution systems and ensure that outside directors have sufficient time to review proposals and other information related to the meetings they attend.

As support systems for outside auditors, the Office of Corporate Auditors has been established as a direct support organization for the Board of Corporate Auditors. The office staff act on guidance and requests from the auditors to assist them in executing their duties. As means of ensuring the independence of the office from the Board of Directors, the Board of Corporate Auditors must approve the appointment, transfer, and evaluation of office staff. In addition, the administrative offices for the meetings, Office of Corporate Auditors, Internal Auditing Office, and Internal Control Department together provide an appropriate information distribution system to ensure that outside auditors have sufficient time to review proposals and other information related to the meetings they attend.

Based on the Basic Policies on Corporate Governance and pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc., the Company has designated Tomio Kazashi as its independent director/auditor with an independent position that makes conflicts of interest with general shareholders unlikely.

Outside Directors	Reason for Selection	Attendance at Meetings of the Company's Board of Directors in Fiscal 2011
Yuji Iwanaga	To reflect in the Company's management Mr. Iwanaga's specialized expertise as an international attorney and considerable insight into the management of global corporations.	Attended 13 of 13 meetings (including attendance at 12 of 12 ordinary meetings of the Board of Directors)
Takeshi Natsuno	To reflect in the Company's management Mr. Natsuno's wealth of experience and a broad range of insights as a business executive.	Attended 13 of 13 meetings (including attendance at 12 of 12 ordinary meetings of the Board of Directors)
Outside Auditors	**Reason for Selection**	**Attendance at Meetings of the Company's Board of Directors in Fiscal 2011**
Tomio Kazashi*	To reflect in the Company's audit Mr. Kazashi's wealth of business experience and experience and expertise as an auditor.	Attended 13 of 13 meetings (including attendance at 12 of 12 ordinary meetings of the Board of Directors)
Toshio Hirakawa	To reflect in the Company's audit Mr. Hirakawa's wealth of business experience and experience and expertise as an auditor.	Attended 13 of 13 meetings (including attendance at 12 of 12 ordinary meetings of the Board of Directors)
Mineo Enomoto	To reflect in the Company's audit Mr. Enomoto's specialized expertise as an attorney and insight into corporate management.	Attended 12 of 13 meetings (including attendance at 11 of 12 ordinary meetings of the Board of Directors)

* Independent Director/Auditor

Compensation of Directors and Auditors

The compensation of directors is determined through consultations among the representative directors, who take into account the responsibilities and performance of each director. The total amount of compensation is within the limit approved by the General Meeting of Shareholders. The compensation of auditors is determined through consultations among the auditors, who take into account the responsibilities and performance of each auditor. The total amount of compensation is within the limit approved by the General Meeting of Shareholders.

Notes
1 The Ordinary General Meeting of Shareholders convened in June 2006 approved a compensation limit of ¥600 million for directors.
2 The Ordinary General Meetings of Shareholders of SEGA CORPORATION and Sammy Corporation convened in June 2004 approved a compensation limit of ¥50 million for auditors.

The compensation of directors and auditors during fiscal 2011 is as follows:

Director/Auditor		Number of Directors/Auditors:	Total Amount of Compensation (millions of yen)	Total Amounts Based on Type of Compensation (millions of yen)		
				Basic remuneration	Bonus	Stock options
Directors	Full-time	4	540	371	150	18
	Outside	2	31	31	–	–
Auditors	Full-time	–	–	–	–	–
	Outside	2	24	21	3	–

The compensation paid to directors who received ¥100 million or more in consolidated compensation during fiscal 2011 is as follows:

Name	Director/Auditor	Total Consolidated Compensation, etc. (millions of yen)	Company	Amounts of Each Type of Compensation (millions of yen)		
				Basic remuneration	Bonus	Stock options
Hajime Satomi	Director	615	The Company	240	130	5
			Sammy	–	240	–
Keishi Nakayama	Director	180	The Company	78	10	2
			Sammy	–	90	–
Hisao Oguchi	Director	127	The Company	53	10	2
			Sammy	–	62	–

Enhancing Business Execution, Auditing, and Oversight through Collaboration among Boards and Committees

In addition to its Board of Directors and Board of Corporate Auditors, the Company operates the following committees to further improve business execution, auditing, and oversight by coordinating efforts throughout the Group.

Board of Directors

Comprising six directors, the Board of Directors strives for agile and responsive management. The Board convenes once a month and holds extraordinary sessions as required. Further, the Board of Directors undertakes decision-making and reporting for certain significant management issues of Group companies.

Board of Corporate Auditors

The Board of Corporate Auditors, consisting of four corporate auditors, meets once a month and holds extraordinary sessions as required in order to thoroughly study and deliberate on specific issues.

Group Management Liaison Committee

Meeting as required, the Group Management Liaison Committee aims to cultivate consensus in the Group through information sharing and rigorous debate. The committee is comprised of the Company's directors, corporate auditors, and executive officers, along with the directors of both SEGA CORPORATION and Sammy Corporation.

Holdings Audit Liaison Committee

The Holdings Audit Liaison Committee consists of standing corporate auditors from the Company, SEGA CORPORATION, and Sammy Corporation; executives from accounting divisions of the three companies; and representatives of the Company's independent auditors, KPMG AZSA LLC. At monthly meetings, committee members exchange opinions from their respective standpoints and seek to enhance accounting compliance.

Group Audit Liaison Committee

The Group Audit Liaison Committee comprises standing corporate auditors from Group companies. They convene as required to share information on such timely issues for the Company and the Group as revisions in laws and regulations and to build close working relationships among the standing corporate auditors.

Auditors and Internal Auditing Office Liaison Committee

The Auditors and Internal Auditing Office Liaison Committee consists of standing corporate auditors from the Company, SEGA CORPORATION, and Sammy Corporation as well as members of the Company's Internal Auditing Office. The committee meets every month with the purpose of ensuring the soundness of management by sharing information among the committee members.

Voluntary Committees

Voluntary committees are established as needed by the Board of Directors to review and discuss specific issues related to Group management, the results of which are reported back to the Board of Directors. The committees may also set up subcommittees to review and discuss more specific issues.

Liaison Committees

Liaison committees are bodies that review and discuss the Group's corporate governance policies. Currently, there are three committees: the Group Internal Control Liaison Committee, Group CSR Liaison Committee, and Group Compliance Liaison Committee. The Group Internal Control Liaison Committee and Group CSR Liaison Committee, which meet quarterly, comprise managers responsible for internal control and CSR at the Company, SEGA CORPORATION, and Sammy Corporation. The Group Compliance Liaison Committee, which convenes every six months, comprises the compliance officers of the Company, SEGA CORPORATION, Sammy Corporation, TAIYO ELEC Co., Ltd., Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD.

Internal Control Systems

For more comprehensive corporate governance, the SEGA SAMMY Group has established the Group Internal Control Liaison Committee, Group CSR Liaison Conference, and Group Compliance Liaison Committee. The specialized Group Internal Control Office and Group CSR Promotion Office collaborate closely with the committees. The organizations work together to monitor and discuss issues and progress related to the development of internal control systems for Group management, and implement initiatives for the enhancement of the systems.

Additionally, an internal control project in March 2006 established an assessment and monitoring framework for financial reporting (J-SOX) required by Japan's Financial Instruments and Exchange Act. Deficiencies uncovered by the project have been rectified. A system is therefore in place to ensure the reliability of financial reports, and most recently, we have concluded that internal controls worked effectively in preparing the Group report issued for fiscal 2011. As we continue to ensure the reliability of financial reports, we will maintain and expand internal control systems to raise efficiency and ensure soundness.

The Company has prepared a basic policy on the establishment of internal control systems pursuant to the Company Act, and is striving to establish the systems.

URL: http://www.segasammy.co.jp/english/ir/management/governance.html

Exercise of Voting Rights

The Company actively promotes initiatives to stimulate discussion at its General Meeting of Shareholders and support the smooth exercise of voting rights. Beginning with the June 2010 meeting, the Company has mailed invitations to the General Meeting of Shareholders three weeks prior to the event, and has made it possible to exercise voting rights online, using a personal computer (PC) or mobile phone, since the June 2005 meeting. Since the June 2007 meeting, the Company has adopted the use of a special voting platform for institutional investors.

The results of the exercise of voting rights for the June 2011 General Meeting of Shareholders is as follows.

Number of shareholders with voting rights:	66,232
Total number of voting rights:	2,491,425
Number of shareholders exercising voting rights:	18,088
Number of voting rights exercised:	1,919,216
Exercise ratio:	77.03%

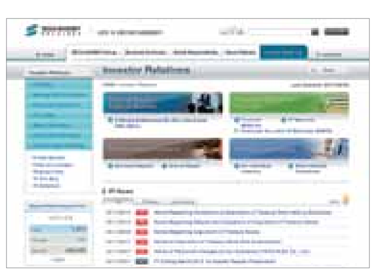
IR Activities

The Company strives to ensure fair and timely disclosures to shareholders and investors. Accordingly, it holds briefings for institutional investors and analysts on full-year and interim financial results and makes the briefing information available on the Internet. Telephone conferences are held to explain first-quarter and third-quarter financial results. In addition, the Company continuously takes measures to deepen investors' understanding of our business activities. For example, we are expanding and improving the IR-related materials available on our web site. Moreover, the web site has a section for individual investors that includes readily understandable explanations of the Group.

Further, the Company strives to heighten the objectivity of its business management by reflecting valuable opinions and requests received from shareholders and investors in its business management.

Main IR Activities in Fiscal 2011	
Financial results briefings	2
Quarterly financial results briefings (telephone conferences)	2
Small-scale meetings	1
One-on-one meetings	220
Factory tours	1
Overseas roadshows	2 (North America 1, Europe 1)

Business Report



IR page of the SEGA SAMMY HOLDINGS web site


A financial results briefing

Compliance and Risk Management

Using the Group Code of Conduct as its foundation, the SEGA SAMMY Group is undertaking a variety of initiatives to ensure that all employees are aware of compliance and are capable of acting appropriately. As a holding company, we verify the risk management status at our Group companies, and based on our Group policy, work to clarify and manage risks appropriate for us to handle as a holding company.

Compliance Promotion Structure

The Group is building an internal structure to promote sound management in accordance with laws and regulations and social norms, led by the Group Compliance Liaison Committee, which was set up in Fiscal 2010 as a means of bolstering efforts throughout the Group.

Ensuring Awareness of Group Code of Conduct

All employees of the Group conduct themselves in accordance with the principles spelled out in the Group Code of Conduct, based on their understanding of the CSR Charter. In this way, the Group complies rigorously with corporate ethics and laws and regulations.

A deep understanding and rigorous application of the Group Code of Conduct is vital to our compliance program. To that end, a CSR guidebook is distributed to Group employees containing not only the Group Code of Conduct, but also the Group Management Philosophy and the Group CSR Charter. The materials are also available on the intranet.

Nurturing a Pervasive Awareness of Compliance

Group companies hold compliance seminars as needed to foster a pervasive awareness of compliance-related issues. A compliance handbook readily available on the intranet provides specific, easy-to-understand examples of issues employees may encounter in their daily work. Regular audits are conducted to strengthen the framework for compliance with Japan's Act Against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors. Additionally, the legal affairs units educate and provide guidance on compliance to all departments.


Group compliance liaison committee

Going forward, instructive examples of issues at Group companies will be shared within the entire Group to generate synergistic effects and support the maintenance and improvement of compliance.

Strengthening Compliance with Subcontracting Laws

The Group conducts regular internal audits to enhance the structure for compliance with the Act Against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors. The legal affairs units of Group companies also educate and provide guidance on subcontractor-related compliance issues to all departments. Following audits, departments continue to self-monitor issues raised by internal auditors and share their monitoring results with the internal audit, legal affairs, and internal control departments as a way of strengthening the compliance system.

Whistleblower System

A whistleblower system has been established to provide a self-cleansing function within the Group and the Company consistent with the spirit of the Group CSR Charter. The purpose is to prevent incidents of misconduct caused by illegal or inappropriate behavior.
Each Group company has established an internal reporting system and a contact point at an external law office. Reported matters reported are investigated, rectified, and measures are taken to prevent reoccurrence. The system also guarantees protection for the whistleblower.

Security Export Control

SEGA conducts business activities around the world, and to ensure that its activities support the maintenance of international peace and security, it maintains a dedicated organization to control trade based on Japan's Foreign Exchange and Foreign Trade Act.

Though SEGA's game software, game machines, and Internet delivery services are considered to be standard technologies, they are subject to export control regulations because they contain sophisticated technologies.

SEGA strives to prevent incidents of illegal exports by raising the understanding and awareness of all employees involved in export-related activities through the establishment of internal regulations, training, and information on the intranet. Additionally, internal audits are conducted and remedial measures instituted to support the operation of an appropriate trade control system.

In April 2010, the Japanese government mandated new export compliance standards for all exporters. In response, export controls systems are being established and maintained at all SEGA Group companies with export business, in line with the nature of their businesses.

Basic Policy on IP

Intellectual property is treated as an important means to enhance Group competitiveness and is positioned as a significant management resource. Each Group company maintains its own, individual IP policies.

At SEGA, each department has a representative on the IP promotion committee which carries out enlightenment awareness activities. These activities support the protection and expansion of business by preventing the infringement of third-party intellectual property rights and ensuring appropriate management of the company's rights. Anti-counterfeit initiatives are also being implemented to protect and enhance the SEGA brand.

Sammy conducts technology assessments at each stage of R&D as part of thorough risk assessment. The company seeks to raise employee awareness through regular IP training and a dedicated intranet site with a wealth of IP-related information.

Disaster Preparedness

SEGA SAMMY HOLDINGS, SEGA, Sammy, Sammy Networks and TAIYO ELEC have established business continuity plans to maintain or quickly restore operations after natural disasters or accidents.

These companies have adopted safety verification systems to enable prompt, reliable confirmation of local conditions and the safety of employees and their family members in emergencies.

Communication protocols and equipment are in place to prepare for emergencies, and we are investigating Groupwide deployment.

In response to the Great East Japan Earthquake of March 11, 2011, we are reevaluating our disaster readiness plans to cope with all types of management crises, with the goal of strengthening our emergency preparedness from the viewpoint of securing business continuity.

Strengthening Information Security

In the Group, all information is viewed as a valuable asset, whether it pertains to customers, management, or sales. An information security policy and rules on information management prescribe the methods for the appropriate handling and management of confidential corporate information and other information. Fiscal 2010 saw the introduction of a forum for representatives of Group companies to discuss information security issues. We are working to build a more robust framework for information management through these types of discussions on ways to strengthen measures throughout the Group.

Protection of Personal Information

The Group has established a Privacy Policy on the basis of Japan's Personal Information Protection Law, setting out appropriate systems for managing customer-related information, along with measures to prevent illegal access, loss, manipulation or unintended leak of customer information.

Despite these measures, some member information from the 777TOWN.net online PC game operated by Sammy NetWorks was leaked externally in October 2010 as a result of illegal access. In another incident, all registered member information for the SEGAPASS customer service operated by European subsidiary SEGA EUROPE LTD. was leaked in June 2011 due to illegal access.

Though credit information such as credit card accounts were not leaked, the Group quickly responded to these incidents by conducting vulnerability checks against all sites retaining customer information and is now considering additional safeguards to bolster security.

We will strive to conduct employee training and enlightenment programs, along with internal audits, to enhance our systems and ensure that personal information is managed in an appropriate and secure manner.

Damage to the Group from the Great East Japan Earthquake

1. Employee Safety

We have confirmed the safety of Group employees, and that none of the employees of the Group suffered injury as a result of the earthquake.

2. Sales Sites (Offices)

Some sales sites in the Tohoku region and Kanto region suffered significant damage to their buildings and facilities, but operations were gradually restored to normal at all sites by the beginning of April 2011.

3. Manufacturing Sites

The Oyama Factory of Group company RODEO Co., Ltd. suffered damage to its buildings. Operations were restored in June 2011.

4. Stores (Amusement Centers)

There were no injuries to customers at the game centers as a result of the earthquake. A total of 28 game centers operated by SEGA, AG SQUARE, and SEGA BeeLINK suspended operations immediately after the earthquake. Operations were gradually restored at the game centers after the safety of customers was confirmed.

Directors, Corporate Auditors, and Executive Officers

As of June 24, 2011

Directors

Hajime Satomi
Chairman of the Board and Chief Executive Officer

1980 President and Representative Director of Sammy Industry Co., Ltd. (currently Sammy Corporation)
2003 Chairman and Director of Sammy NetWorks Co., Ltd. (to present)
2004 Chairman and Representative Director of SEGA CORPORATION
Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation (to present)
Chairman, Representative Director, and Chief Executive Officer of SEGA CORPORATION
Chairman of the Board and Chief Executive Officer of the Company (to present)
2005 Chairman and Director of SEGA TOYS CO., LTD. (to present)
Chairman and Director of TMS ENTERTAINMENT, LTD. (to present)
2007 President, Representative Director, Chief Executive Officer, and Chief Operating Officer of SEGA CORPORATION
2008 Chairman, Representative Director, and CEO of SEGA CORPORATION (to present)

Keishi Nakayama
Executive Vice President and Representative Director

1989 Entered into Sammy Industry Co., Ltd. (currently Sammy Corporation), as General Manager of the General Affairs Division
2004 Senior Managing Director of the Company
2005 Director of Sammy Corporation
Director of Sammy NetWorks Co., Ltd.
Director of SEGA TOYS CO., LTD.
Executive Vice President and Director of the Company
2007 Executive Vice President and Representative Director of the Company (to present)
2008 President, Representative Director, and Chief Operating Officer of Sammy Corporation (to present)
2011 Director of Sammy NetWorks Co., Ltd. (to present)

Okitane Usui
Director

1993 Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
1997 Director of SEGA CORPORATION
1999 Retired from SEGA CORPORATION
2007 Entered into SEGA CORPORATION, as Corporate Advisor
Senior Managing Director of SEGA CORPORATION
2008 Director of SEGA CORPORATION
President, Representative Director, and Chief Operating Officer of SEGA CORPORATION (to present)
Chief Executive Officer of Sega Holdings Europe Ltd. (to present)
Chairman of Sega Holdings U.S.A., Inc. (to present)
Director of the Company (to present)

Hisao Oguchi
Director and CCO (Chief Creative Officer)

1984 Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
2003 President and Representative Director of SEGA CORPORATION
2004 President, Representative Director, and Chief Operating Officer of SEGA CORPORATION
Vice Chairman and Director of the Company
2005 Chief Executive Officer of Sega Holdings Europe Ltd.
2006 Chairman of Sega Holdings U.S.A., Inc.
2007 Executive Vice President and Representative Director of SEGA CORPORATION
2008 Representative Director of SEGA CORPORATION
Director of SEGA CORPORATION, Director of Sammy Corporation,
Director and Chief Creative Officer of SEGA CORPORATION
Director and Chief Creative Officer of the Company (to present)
Director and Chief Creative Officer of Sammy Corporation
2009 Senior Managing Director of Sammy Corporation
2011 Representative Director, Senior Managing Director of Sammy Corporation (to present)

Yuji Iwanaga[1]
Director

1981 Registered with The Japan Federation of Bar Associations
1984 Partner of Lillick McHose and Charles Law Office (currently Pilsbury Winthrop Shaw Pittman LLP) (to present)
Registered with the State Bar of California
2003 Outside Director of Manufacturers Bank
2005 Outside Director of JMS North America Corporation (to present)
2006 Outside Director of TAIYO YUDEN Co., Ltd. (to present)
2007 Outside Director of the Company (to present)

Takeshi Natsuno[1]
Director

2005 Executive Officer, General Manager
Multimedia Services Department of NTT DoCoMo, Inc.
2008 Guest Professor, Graduate School of Media and Governance of Keio University (to present)
Outside Director of the Company (to present)
Director of PIA CORPORATION (to present)
Outside Director of transcosmos inc. (to present)
Director of Livewire Inc. (to present)
Director of NTT Resonant Inc. (to present)
Director of SBI Holdings, Inc. (to present)
Director of DWANGO Co., Ltd. (to present)
2009 Outside Director of DLE Inc. (to present)
Outside Director of GREE, Inc. (to present)
2010 Outside Director of bitWallet, Inc. (to present)
Director of U-NEXT, Inc. (to present)
2011 Outside Director of CUUSOO SYSTEM CO., LTD. (to present)

Auditors

Toshio Hirakawa[2]
Corporate Auditor

1994 Director of Marusan Securities Co., Ltd.
1996 Managing Director of Marusan Securities Co., Ltd.
2001 President and Representative Director of Marusan Finance Co., Ltd.
2004 Standing Corporate Auditor of Sammy Corporation (to present)
Corporate Auditor of the Company (to present)
2005 Corporate Auditor of TMS ENTERTAINMENT, LTD. (to present)

Hisashi Miyazaki
Corporate Auditor

1984 Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
2001 General Manager of Accounting Dept. of SEGA CORPORATION
2006 General Manager of Finance Dept. of SEGA CORPORATION
2007 Standing Corporate Auditor of SEGA CORPORATION (to present)
Corporate Auditor of the Company (to present)

Mineo Enomoto[2]
Corporate Auditor

1978 Registered with The Japan Federation of Bar Associations
2000 Established Enomoto Law Office (to present)
2004 Corporate Auditor of Sammy NetWorks Co., Ltd.
Corporate Auditor of SEGA CORPORATION (to present)
2005 Substitute Corporate Auditor of the Company
2006 Corporate Auditor of Nippon Koei Co., Ltd. (to present)
2007 Corporate Auditor of the Company (to present)

Q&A

An Interview with the Independent Director/Auditor

Tomio Kazashi[2]
Standing Corporate Auditor

1990 Director of Cosmo Securities Co., Ltd.
1996 Managing Director of Cosmo Securities Co., Ltd.
1999 Managing Director of Cosmo Investment Management Co., Ltd.
2005 Standing Corporate Auditor of Sammy NetWorks, Co., Ltd.
2008 Substitute Corporate Auditor of the Company
2009 Corporate Auditor of Sammy NetWorks Co., Ltd. (to present)
Corporate Auditor of SEGA TOYS CO., LTD. (to present)
Standing Corporate Auditor of the Company (to present)

Q. As an independent director/auditor, from what standpoint do you provide management oversight?

As an independent director/auditor, I strive to support the establishment of sounder, higher quality corporate governance by fulfilling my duty to provide management oversight from a third-party perspective.

The market environments surrounding the Company are changing significantly both in and outside Japan. The sustainability of the Company's corporate value would diminish, however if it focused excessively on short-term gains amid this difficult competitive environment. I strive to always maintain a medium- to long-term standpoint in overseeing corporate activity.

In overseeing management's decision-making, I verify that decisions are based on adequate and reliable information, that the duty of care is fulfilled, and that the Company's interests are not sacrificed.

Q. Do you provide oversight in consideration of the unique characteristics of the business?

There are many Group companies underneath the holding company, each of which has different customer bases, regulatory environments, product lifecycles and other characteristics particular to their business domain in which the company operates. I monitor activities to ascertain whether management resources are being invested in consideration of the unique characteristics of each business, or whether investments are made in consideration of optimizing the whole.

The brand and other embodiments of trust and reputation can be destroyed instantly, causing significant damage to corporate value. One of my critical tasks is to carefully monitor the level of compliance throughout the Group, to ascertain whether awareness is pervasive throughout the Group, including at subsidiaries and affiliated companies, and whether corporate activities are being undertaken by employees with a high sense of ethics.

As the entertainment business is such that hit products can have a powerful impact on financial results, it is also my responsibility to prevent activities that subject the Group to excessive risk-taking.

Q. How do you assess the Group's corporate governance?

It is not enough to simply establish systems for corporate governance. More important is how the Company enhances the effectiveness of corporate governance. The Board of Directors' meetings of the Company generate lively discussions, and the specialized knowledge of the outside directors and outside auditors, along with the recommendations they make based on their management experience, are reflected in management. In addition, organizational collaboration designed to enhance business execution, auditing, and oversight is being implemented laterally across the Group. For these reasons, I believe the corporate governance is functioning adequately.

I will continue to fulfill my duties in support of the Group as it overcomes a severe management environment to achieve sustainable growth.

Executive Officers

Hideo Yoshizawa
Senior Executive Officer

Koichi Fukazawa
Senior Executive Officer

Tetsushi Ikeda
Executive Officer

Seiji Shintani
Executive Officer

Takatoshi Akiba
Executive Officer

Kenichiro Hori
Executive Officer

1 Qualified external directors as provided in Paragraph 2, Clause 15 of the Companies Act of Japan.
2 Qualified external auditors as provided in Paragraph 2, Clause 16 of the Companies Act of Japan.

Today

Do our utmost to create fun and enjoyment through entertainment

For Tomorrow

Financial Section

Contents

Management's Discussion and Analysis

Summary of Fiscal 2011 (from April 1, 2010, to March 31, 2011)

- Net sales up 3.1% year on year, to ¥396.7 billion
- Operating income up 87.3% year on year, to ¥68.7 billion
- Net income up 104.8% year on year, to ¥41.5 billion
- Regarding the effect on business results of the Great East Japan Earthquake in March 2011, the Company recognized extraordinary loss of ¥1.2 billion due to loss on valuation of assets in Amusement Center Operations and fixed cost incurred during the suspension of operations.

Fiscal 2011 Business Results Analysis

Statement of Operations Analysis

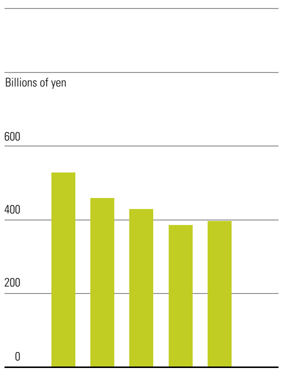
Net Sales Net sales for fiscal 2011, ended March 31, 2011, increased 3.1%, or ¥12.0 billion, year on year, to ¥396.7 billion. By business segment, the Company recorded year-on-year increases of 32.2%, or ¥51.6 billion, in the Pachislot and Pachinko Machine Business segment and 4.7 %, or ¥2.1 billion, in the Amusement Machine Sales Business segment, as well as year-on-year decreases of 16.6%, or ¥9.0 billion, in the Amusement Center Operations segment and 26.9%, or ¥32.6 billion, in the Consumer Business segment. Overseas sales were down 44.5%, or ¥35.5 billion, year on year, to ¥44.2 billion, or 11.2% of net sales.

Cost of Sales Cost of sales declined 6.2%, or ¥15.1 billion, year on year, to ¥230.6 billion, due to the reduction of parts procurement cost and the benefit of reusing parts. The cost of sales ratio improved 5.8 percentage points year on year, to 58.1%. Gross profit rose 19.6%, or ¥27.1 billion, year on year, to ¥166.0 billion.

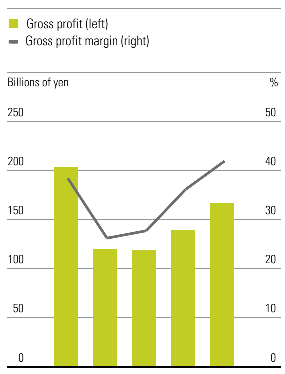
SG&A Expenses SG&A expenses were down 4.7%, or ¥4.8 billion, year on year, to ¥97.3 billion, due to the reduction of advertising expenses in the Pachislot and Pachinko Machine Business segment and the Consumer Business segment. SG&A expenses as a percentage of net sales decreased 2.1 percentage points year on year, to 24.5%.

Operating Income Operating income was up 87.3%, or ¥32.0 billion, to ¥68.7 billion, thanks to cost reductions and lower cost of sales and operating expenses as well as an increase in the percentage of net sales that high-margin pachislot machines generated in the Pachislot and Pachinko Machine Business segment. The operating margin increased from the previous fiscal year's 9.5% to 17.3%. The Pachislot and Pachinko Machine Business segment's operating income more than doubled year on year, contributing to the increase in operating income. The Amusement Machine Sales Business segment posted higher operating income for the second consecutive year, while the Amusement Center Operations segment recorded operating income for the first time in four fiscal years. The Consumer Business segment, which achieved operating income for the previous fiscal year, saw operating income decline.

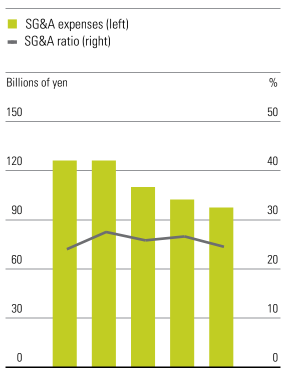
Net Sales



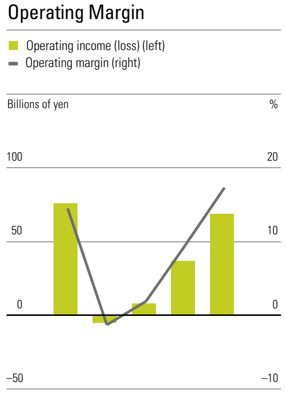
Gross Profit / Gross Profit Margin



SG&A Expenses / SG&A Ratio



Operating Income (Loss) / Operating Margin



Non-Operating Income (Expenses), Ordinary Income Other income decreased 7.5%, or ¥0.1 billion, year on year, to ¥1.8 billion, because decreases in interest income, dividends income, and income from operation of lease asset offset an increase in gain on investments in partnership. Other expenses were down 11.1%, or ¥0.3 billion, year on year, to ¥2.4 billion, reflecting decreases in loss on investments in partnership and penalty payment for cancellation of game center lease agreement, which counteracted higher commission fees and loss on valuation of derivatives. As a result, ordinary income rose 89.6%, or ¥32.1 billion, year on year, to ¥68.1 billion.

Extraordinary Gain and Extraordinary Loss Extraordinary gain was up 18.6%, or ¥0.5 billion, year on year, to ¥3.7 billion, due to distribution of patent royalty income for prior periods and gain on reversal of subscription rights to shares. Extraordinary loss rose 20.1%, or ¥2.4 billion, year on year, to ¥14.3 billion. This primarily reflected impairment loss mainly in the Amusement Center Operations segment, loss on liquidation of subsidiaries, cost of product compensation-related expenses for certain products, loss on adjustment for changes of accounting standard for asset retirement obligations, and loss on disaster.

Extraordinary Loss

Major loss/expenses	Millions of yen
Product compensation-related expenses	5,225
Impairment loss	1,502
Loss on liquidation of subsidiaries	1,468
Loss on valuation of investment securities	1,308
Loss on disaster	1,254
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,177
Others	2,427
Total	14,361

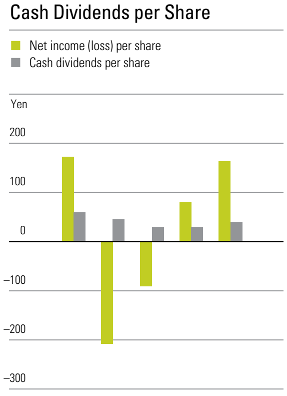
Income Taxes and Net Income Income taxes rose 136.7%, or ¥7.6 billion, year on year, to ¥13.3 billion. Net income after minority interests increased 104.8%, or ¥21.2 billion, year on year, to ¥41.5 billion. As a result, net income per share of common stock was ¥163.19, up from ¥80.46 for the previous fiscal year. Further, full-year cash dividends per share were ¥40.00, up ¥10.00 from ¥30.00 for the previous fiscal year. ROE was 16.2%, a significant improvement from 8.8% for the previous fiscal year.

Capital Expenditures and Depreciation and Amortization Capital expenditures were up 21.8%, or ¥3.5 billion, from the previous fiscal year's ¥16.1 billion, to ¥19.6 billion, as a result of the Pachislot and Pachinko Machine Business segment's acquisition of molds and a plant lot and the Amusement Center Operations segment's capital expenditures. Depreciation and amortization declined 7.1%, or ¥1.2 billion, from the previous fiscal year's ¥17.1 billion, to ¥15.9 billion, which was principally due to a reduction in the number of amusement centers in the Amusement Center Operations segment.

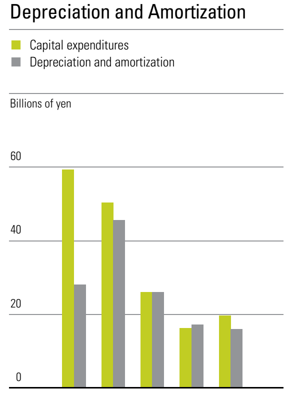
R&D Expenses, Content Production Expenses* R&D expenses and content production expenses, included in SG&A expenses and cost of sales, decreased 1.0%, or ¥0.3 billion, year on year, to ¥41.1 billion. This primarily resulted from lower expenditure due to reduction in the number of titles in the Consumer Business segment, which absorbed increases in the Pachislot and Pachinko Machine Business segment and the Amusement Machine Sales Business segment.

R&D expenses as a percentage of net sales was 10.4%, edging down from 10.8% for the previous fiscal year.

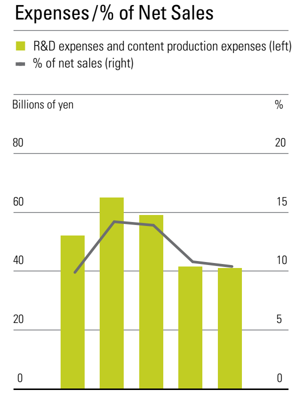
Net Income (Loss) per Share/ Cash Dividends per Share



Capital Expenditures/ Depreciation and Amortization



R&D Expenses and Content Production Expenses/% of Net Sales



* Years ended March 31

Major Expenses

Billions of yen

	2010	2011	% Change
R&D expenses, content production expenses*	41.5	41.1	–1.0%
Capital expenditures	16.1	19.6	+21.8%
Depreciation and amortization	17.1	15.9	–7.1%
Advertising expenses	20.7	15.1	–27.1%

* From fiscal 2010, in order to directly link content production expenses, which have been trending upward in recent years, to earnings and enable appropriate presentation of income and expenses for fiscal periods, the Company changed its accounting policy for the treatment of cost of sales from recognition when production expenses arise to recognition at time of sale.

(Reference) Effect of Adopting Consolidated Tax Return System and Comprehensive Income

Effect of Adopting Consolidated Tax Return System

Billions of yen

	2011	
Income before income taxes and minority interests	57.4	
Income taxes–current	27.4	
Income taxes–deferred	(14.1)	Effect of adopting consolidated tax return system: (¥12.1) billion
Income before minority interests	44.1	
Minority interests in income	2.6	
Net income	41.5	

Comprehensive Income

Billions of yen

	2011	
Net income	41.5	
Minority interests in income	2.6	
Income before minority interests	44.1	A
Other comprehensive income Valuation difference on available-for-sale securities	10.9	
Deferred gains or losses on hedges	(0.0)	
Foreign currency translation adjustment	(1.6)	
Share of other comprehensive income of associates accounted for using equity method	0.0	
Total other comprehensive income	9.2	B
Comprehensive income	53.4	A + B Comprehensive income ¥11.9 billion more than net income

Business Segment Analysis

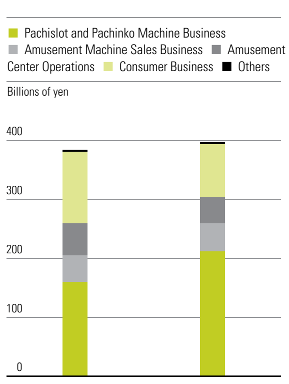
Pachislot and Pachinko Machine Business The Pachislot and Pachinko Machine Business segment recorded year-on-year increases of 32.2%, or ¥51.6 billion, in net sales, to ¥212.0 billion, and 117.9%, or ¥34.7 billion, in operating income, to ¥64.2 billion.

As for year-on-year growth in net sales by business, the pachislot machine business achieved 83.6%, while the pachinko machine business posted 10.5%. The operating margin improved significantly from the previous fiscal year's 18.4% to 30.3%. This was attributable to an improvement in the profit margin stemming from cost reduction measures that involved reusing parts as well as an increase in the percentage of net sales that the high-margin pachislot machine business generated.

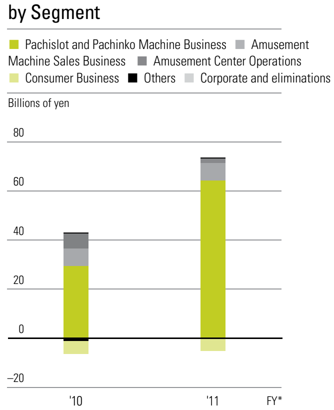
Amusement Machine Sales Business The Amusement Machine Sales Business segment posted year-on-year increases of 4.7%, or ¥2.1 billion, in net sales, to ¥47.2 billion, and 3.1%, or ¥0.2 billion, in operating income, to ¥7.3 billion. Favorable utilization of mainstay titles sold based on a revenue-sharing business model helped stabilize net sales. The operating margin remained almost unchanged, edging down from the previous fiscal year's 15.7% to 15.5%, because steady sales of high-margin CVT kits largely compensated for higher R&D expenses and content production expenses.

Amusement Center Operations Although the Amusement Center Operations segment saw a 16.6%, or ¥9.0 billion, year on year decrease in net sales, to ¥45.6 billion, it achieved operating income of ¥0.3 billion, compared with the previous fiscal year's operating loss of ¥1.3 billion. SEGA's existing domestic amusement center

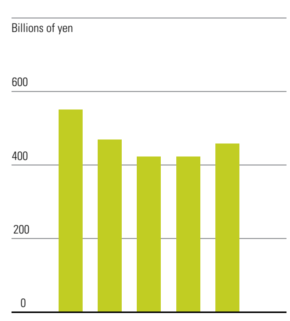
Net Sales by Segment



Operating Income (Loss) by Segment



Total Assets



* Years ended March 31

sales edged down 0.7% year on year. Further, the suspension of operations at certain amusement centers* and the shortening of certain amusement centers' business hours in accordance with planned power outages due to the Great East Japan Earthquake, which occurred in the fourth quarter, affected the business segment's results.

* Excluding 3 amusement centers, amusement centers have been restored and resumed operations as of July 31, 2011.

Consumer Business The Consumer Business segment recorded year on year decreases of 26.9%, or ¥32.6 billion, in net sales, to ¥88.8 billion, and 68.9%, or ¥4.3 billion, in operating income, to ¥1.9 billion. Although the home video game software business in Japan postponed the launch of mainstay titles until the current fiscal year due to the Great East Japan Earthquake, other titles achieved steady sales overall. Meanwhile, overseas sale of new titles were lackluster due to tough market conditions.

In the toy sales business, a joint project centered on five Group companies progressed steadily. In the game content for mobile phones, smartphones, and PCs business, pay-per-use services performed solidly. The animation business enjoyed steady revenues thanks to the success of movie-theater films.

Balance Sheet Analysis

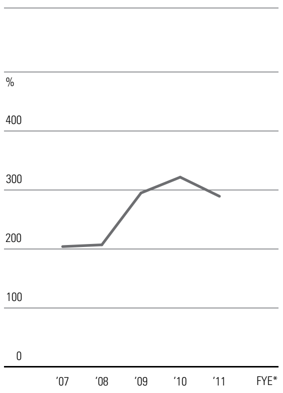
Total Assets Total assets at March 31, 2011, the fiscal year-end, stood at ¥458.6 billion, up ¥35.4 billion from the previous fiscal year-end. This was attributable to a ¥16.8 billion increase in total current assets, mainly due to higher cash and deposits, and an ¥18.6 billion increase in total non-current assets, due to higher goodwill and investment securities.

Total Current Assets and Total Current Liabilities Total current assets at fiscal year-end amounted to ¥315.5 billion, up ¥16.8 billion from the previous fiscal year-end. This mainly resulted from higher cash and deposits due to redemption at maturity of negotiable certificates of deposit as well as a revision of the collectability of deferred tax assets that accompanied the introduction of a consolidated tax return system from fiscal 2012, ending March 31, 2012, which counteracted redemption of corporate bonds. Total current liabilities rose ¥16.2 billion from the previous fiscal year-end, to ¥109.0 billion. This principally reflected an increase in income taxes payable. As a result, the Company maintained a high level of liquidity, with a current ratio of 289.4%.

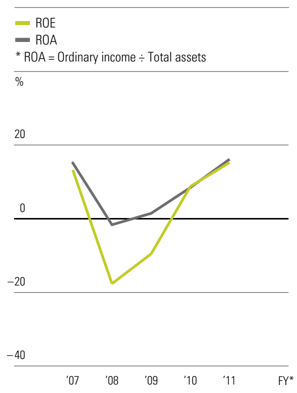
Total Non Current Asset Total non current asset at fiscal year-end stood at ¥143.0 billion, up ¥18.6 billion from the previous fiscal year-end. This was attributable to a ¥11.1 billion increase in total investments and other assets from the previous fiscal year-end, which resulted from a rise in investment securities reflecting an increase in the market value of securities, and a ¥9.3 billion increase in total intangible assets, which resulted from higher goodwill due to the conversion of Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD., into wholly owned subsidiaries through exchanges of shares.

Total Non-Current Liabilities Total non-current liabilities at fiscal year-end totaled ¥64.1 billion, a decline of ¥9.4 billion from the previous fiscal year-end. This was mainly because corporate bonds payable decreased ¥11.8 billion from the previous fiscal year-end, to ¥29.6 billion, due to the transfer of certain corporate bonds to the current portion of corporate bonds.

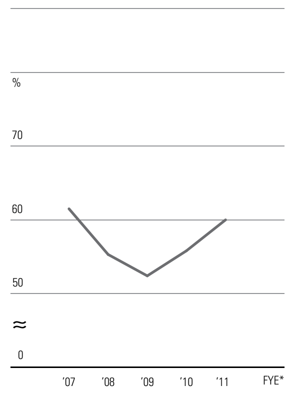
Current Ratio



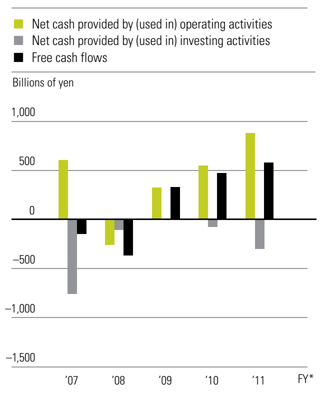
ROE / ROA*



Equity Ratio



Cash Flows



Total Net Assets Total net assets stood at ¥285.4 billion at fiscal year-end, up ¥28.6 billion from the previous fiscal year-end. This was primarily related to higher retained earnings, an increase in total shareholders' equity due to exchanges of shares, an increase in valuation difference on available-for-sale securities, the retirement of shares of treasury stock, compensating for cash dividends paid, and acquisition of treasury stock. Further, the equity ratio at fiscal year-end was 60.0%, an improvement of 4.2 percentage points from the previous fiscal year-end.

Cash Flows Analysis

Net Cash Provided by Operating Activities Net cash provided by operating activities increased ¥32.6 billion year on year, to ¥87.6 billion. This was mostly due to income before income taxes and minority interests of ¥57.4 billion and a ¥10.0 billion decrease in notes and accounts receivable–trade.

Net Cash Used in Investing Activities Net cash used in investing activities increased from the previous fiscal year's ¥7.6 billion to ¥29.5 billion. This was mainly attributable to purchase of short-term investment securities of ¥24.3 billion and purchase of property, plant and equipment of ¥10.9 billion.

Net Cash Used in Financing Activities Net cash used in financing activities was up from the previous fiscal year's ¥3.4 billion to ¥57.1 billion. This was primarily associated with cash dividends paid (including cash dividends paid to minority shareholders) of ¥9.2 billion, purchase of treasury stock of ¥24.5 billion, and redemption of corporate bonds of ¥20.6 billion.

As a result of the above, cash and cash equivalents at end of year amounted to ¥165.9 billion, down ¥1.0 billion from the previous fiscal year-end.

Fiscal 2012 Forecast (announced May 31, 2011)

For fiscal 2012, ending March 31, 2012, we expect a 13.4% year on year increase in net sales, to ¥450.0 billion. Mainly based on concern over an increase in parts procurement cost in the Pachislot and Pachinko Machine Business segment, we expect year-on-year decreases of 12.7% in operating income, to ¥60.0 billion, and 20.5% in net income, ¥33.0 billion.

Operational Risks

Risks that could affect the performance or operations of the SEGA SAMMY Group are given below. Further, these risks are not a comprehensive list of the operational risks faced by the Group. However, based on an awareness of the following risks, the Group implements measures to prevent the occurrence of incidents arising from those risks and to respond to such incidents in the event of their occurrence. In addition, forward-looking statements in the following text are the judgments of the Group as of March 31, 2011.

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

Also, in July 2004 revisions were enacted to regulations pertaining to the Entertainment Establishments Control Law that mainly curb the volatility characteristics and prevent the improper use of pachislot and pachinko machines. Such regulatory revisions, the progress of new-machine development, the requirements of format examinations and official licenses, product malfunctions, user preferences, and the sales trends of competitors' products could have a significant impact on the Group's performance or operations.

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

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

Home video game software is susceptible to changes in seasonal demand, which focuses on such periods as the year-end shopping season. If the Group is unable to supply new products during such selling periods, surplus inventory could result. To mitigate risks associated with such inventories, the Group takes measures including the use of common components, the shortening of lead times for component procurement, and the strengthening of inventory asset management. However, losses stemming from the disposal of inventory assets could result due to sales results that fall short of projections.

SBUs (Strategic Business Units) Tasked with Improving Profitability The Amusement Center Operations segment will endeavor to improve profitability by continuing to close or sell amusement centers with low profitability or potential and by improving amusement center operational capabilities. However, these operations are significantly influenced by trends in consumer spending, and due to such factors as the status of the introduction of amusement machines that meet diverse user needs, some time could be required for revenues/profits to improve. The Consumer Business segment faces a continual need for substantial up-front production expenses and advertising expenses, and according to the unit sales of home video game software, etc., some time could be required for revenues/profits to improve.

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

Adoption of Asset-Impairment Accounting In fiscal 2006, the Company adopted asset-impairment accounting. Depending on shifts in business conditions and future cash flows, the Company may be unable to recoup the value of certain investments and would be required to record a loss. If such a case were to occur, it could have a material adverse effect on the Company's operating results.

Investment Securities The Group holds investment securities for such purposes as building business relationships and earning an investment return. The valuation of investment securities is made in accordance with such factors as stock market trends and the financial positions and results of operations of the issuers. Accordingly, in the future, in the event that impairment processing is implemented due to declines in market prices or declines in effective prices, the Company's operating results could be affected by the recording of a loss on revaluation of investment securities.

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

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

Effect of a Disaster The interruption of manufacturing activities or sales activities as a result of physical damage or casualties among personnel at the headquarters, operating bases, or manufacturing bases of Group companies or those of the Group's business partners due to large-scale natural disasters—such as earthquakes, fires, or floods—or terrorist attacks or changes in political conditions could affect the business results of the Group.

Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
ASSETS			
Current assets			
Cash and deposits (Note 6(1))	¥149,006	¥101,324	$1,792,017
Notes and accounts receivable–trade	56,468	67,027	679,113
Allowance for doubtful accounts	(472)	(712)	(5,676)
Short-term investment securities	42,412	73,400	510,069
Merchandise and finished goods	5,889	6,500	70,830
Work in process	14,916	7,914	179,395
Raw materials and supplies	15,567	22,358	187,219
Income taxes receivable	5,861	2,534	70,487
Deferred tax assets	13,795	3,219	165,905
Other	12,136	15,163	145,958
Total current assets	315,580	298,730	3,795,320
Noncurrent assets			
Property, plant and equipment			
Buildings and structures (Note 6(1))	48,271	49,461	580,537
Accumulated depreciation	(28,150)	(26,974)	(338,554)
Buildings and structures, net	20,120	22,487	241,982
Amusement machines and facilities	49,869	54,832	599,748
Accumulated depreciation	(45,318)	(48,495)	(545,025)
Amusement machines and facilities,net	4,550	6,336	54,722
Land (Note 6(1))	24,643	22,632	296,368
Construction in progress	1,155	171	13,899
Other	41,889	42,035	503,776
Accumulated depreciation	(35,218)	(34,632)	(423,556)
Other, net	6,670	7,403	80,220
Total property, plant and equipment	57,140	59,030	687,194
Intangible assets			
Goodwill	15,559	6,767	187,124
Other	7,195	6,592	86,534
Total intangible assets	22,754	13,360	273,658
Investments and other assets			
Investment securities (Note 6(2))	44,193	28,605	531,490
Long-term loans receivable	306	1,638	3,687
Lease and guarantee deposits	12,396	13,493	149,089
Deferred tax assets	1,988	3,871	23,912
Other	5,646	7,593	67,907
Allowance for doubtful accounts	(1,382)	(3,162)	(16,626)
Total investments and other assets	63,149	52,040	759,460
Total noncurrent assets	143,044	124,431	1,720,313
Total assets	¥458,624	¥423,161	$5,515,634

See accompanying notes.

	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 1) 2011
LIABILITIES			
Current liabilities			
Notes and accounts payable–trade (Note 6(1))	¥ 37,513	¥ 37,387	$ 451,153
Short-term loans payable (Note 6(1))	2,857	3,489	34,363
Current portion of bonds	11,892	20,600	143,024
Income taxes payable	26,310	2,449	316,424
Accrued expenses (Note 6(1))	17,546	16,528	211,023
Provision for bonuses	2,373	2,539	28,541
Provision for directors' bonuses	956	656	11,503
Provision for point card certificates	143	161	1,731
Asset retirement obligations	185	–	2,227
Deferred tax liabilities	0	–	11
Other	9,247	9,004	111,216
Total current liabilities	109,028	92,817	1,311,221
Noncurrent liabilities			
Bonds payable	29,608	41,501	356,088
Long-term loans payable (Note 6(1))	5,316	6,173	63,935
Provision for retirement benefits	12,656	12,218	152,216
Provision for directors' retirement benefits	1,203	1,096	14,477
Deferred tax liabilities	2,782	399	33,460
Deferred tax liabilities for land revaluation	958	960	11,530
Asset retirement obligations	1,848	–	22,236
Other	9,760	11,223	117,379
Total noncurrent liabilities	64,135	73,573	771,325
Total liabilities	173,163	166,390	2,082,547
NET ASSETS			
Shareholders' equity			
Capital stock	29,953	29,953	360,229
Capital surplus	119,784	171,080	1,440,577
Retained earnings	164,669	132,128	1,980,394
Treasury stock	(25,329)	(73,694)	(304,628)
Total shareholders' equity	289,077	259,468	3,476,573
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	11,350	346	136,502
Deferred gains or losses on hedges	(0)	24	(0)
Revaluation reserve for land (Note 6(4))	(5,969)	(5,966)	(71,787)
Foreign currency translation adjustment	(19,264)	(17,626)	(231,679)
Total accumulated other comprehensive income	(13,883)	(23,222)	(166,965)
Subscription rights to shares	406	1,188	4,882
Minority interests	9,861	19,335	118,595
Total net assets	285,461	256,770	3,433,087
Total liabilities and net assets	¥458,624	¥423,161	$5,515,634

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net sales	¥396,732	¥384,679	$4,771,292
Cost of sales (Note 7(1) and (2))	230,677	245,811	2,774,237
Gross profit	166,055	138,867	1,997,054
Selling, general and administrative expenses (Note 7(2))	97,304	102,154	1,170,224
Operating income	68,750	36,712	826,830
Other income (expenses)			
Interest income	463	511	5,579
Dividends income	311	454	3,750
Equity in earnings of affiliates	35	37	428
Gain on investments in partnership	391	114	4,710
Income from operation of lease asset	92	188	1,114
Gain on valuation of derivatives	–	46	–
Interest expenses	(637)	(782)	(7,664)
Sales discounts	(198)	(21)	(2,391)
Commission fee	(399)	(74)	(4,807)
Provision of allowance for doubtful accounts	(32)	(2)	(390)
Loss on investments in partnership	(97)	(235)	(1,167)
Foreign exchange losses	(206)	(265)	(2,486)
Penalty payment for cancellation of game center lease agreement	(18)	(477)	(217)
Loss on valuation of derivatives	(263)	–	(3,173)
Gain on sales of noncurrent assets	34	528	417
Reversal of allowance for doubtful accounts	315	166	3,796
Gain on sales of subsidiaries and affiliates' stocks	–	29	–
Gain on sales of investment securities	52	258	630
Gain on change in equity	125	20	1,510
Reversal of recovery costs of video game arcades	544	1,043	6,548
Gain on outlawed debt (Note 7(3))	167	377	2,014
Gain on compensation payment	–	427	–
Gain on reversal of subscription rights to shares	1,174	–	14,123
Distribution of patent royalty income for prior periods	1,139	–	13,701
Loss on retirement of noncurrent assets	(296)	(497)	(3,564)
Loss on sales of noncurrent assets	(40)	(121)	(483)
Impairment loss (Note 7(7))	(1,502)	(3,857)	(18,068)
Loss on valuation of investment securities	(1,308)	(2,465)	(15,737)
Premium allowance of retirement	–	(184)	–
Loss on closing of stores	–	(844)	–
Loss on litigation	–	(371)	–
Loss on sales of stocks of subsidiaries and affiliates	–	(653)	–
Loss on liquidation of subsidiaries	(1,468)	(1,682)	(17,657)
Amortization of goodwill	(204)	–	(2,463)
Loss on adjustment for changes of accounting standard for asset retirement obligations (Note 3(3))	(1,177)	–	(14,158)
Cost of product compensation related (Note 7(5))	(5,225)	–	(62,844)
Loss on disaster (Note 7(6))	(1,254)	–	(15,088)
Other, net	(1,800)	(1,282)	(21,657)
Subtotal	(11,283)	(9,615)	(135,694)
Income before income taxes and minority interests	57,467	27,097	691,135
Income taxes–current	27,460	3,067	330,254
Income taxes–deferred	(14,140)	2,559	(170,055)
Total income taxes (Note 16(2))	13,320	5,627	160,199
Income before minority interests	44,147	–	530,935
Minority interests in income	2,636	1,200	31,707
Net income	41,510	20,269	499,227
Minority interests in income	2,636	–	31,707
Income before minority interests	44,147	–	530,935
Other comprehensive income (Note 7(9))			
Valuation difference on available-for-sale securities	10,986	–	132,130
Deferred gains or losses on hedges	(24)	–	(290)
Foreign currency translation adjustment	(1,684)	–	(20,260)
Share of other comprehensive income of associates accounted for using equity method	10	–	124
Total other comprehensive income	9,288	–	111,703
Comprehensive income (Note 7(8))	53,435	–	642,639
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	50,852	–	611,578
Comprehensive income attributable to minority interests	¥ 2,582	¥ –	$ 31,060

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Shareholders' equity			
Capital stock			
Balance at end of previous fiscal year	¥ 29,953	¥ 29,953	$ 360,229
Changes of items during the period			
Total changes of items during the period	–	–	–
Balance at end of current fiscal year	29,953	29,953	360,229
Capital surplus			
Balance at end of previous fiscal year	171,080	171,082	2,057,493
Changes of items during the period			
Increase by share exchanges	(11,294)	–	(135,837)
Retirement of treasury stock	(40,000)	–	(481,066)
Disposal of treasury stock	(1)	(2)	(12)
Total changes of items during the period	(51,296)	(2)	(616,915)
Balance at end of current fiscal year	119,784	171,080	1,440,577
Retained earnings			
Balance at end of previous fiscal year	132,128	119,417	1,589,040
Changes of items during the period			
Dividends from surplus	(8,816)	(7,557)	(106,036)
Net income	41,510	20,269	499,227
Change of scope of consolidation	(155)	–	(1,873)
Reversal of revaluation reserve for land	2	–	35
Total changes of items during the period	32,541	12,711	391,354
Balance at end of current fiscal year	164,669	132,128	1,980,394
Treasury stock			
Balance at end of previous fiscal year	(73,694)	(73,685)	(886,282)
Changes of items during the period			
Increase by share exchanges	32,890	–	395,555
Retirement of treasury stock	40,000	–	481,066
Purchase of treasury stock	(24,530)	(12)	(295,015)
Disposal of treasury stock	3	3	47
Total changes of items during the period	48,364	(8)	581,653
Balance at end of current fiscal year	(25,329)	(73,694)	(304,628)
Total shareholders' equity			
Balance at end of previous fiscal year	259,468	246,767	3,120,481
Changes of items during the period			
Dividends from surplus	(8,816)	(7,557)	(106,036)
Net income	41,510	20,269	499,227
Increase by share exchanges	21,595	–	259,718
Retirement of treasury stock	–	–	–
Purchase of treasury stock	(24,530)	(12)	(295,015)
Disposal of treasury stock	2	1	35
Change of scope of consolidation	(155)	–	(1,873)
Reversal of revaluation reserve for land	2	–	35
Total changes of items during the period	29,609	12,700	356,092
Balance at end of current fiscal year	¥289,077	¥259,468	$3,476,573

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at end of previous fiscal year	¥ 346	¥ (1,619)	$ 4,164
Changes of items during the period			
Net changes of items other than shareholders' equity	11,003	1,966	132,338
Total changes of items during the period	11,003	1,966	132,338
Balance at end of current fiscal year	11,350	346	136,502
Deferred gains or losses on hedges			
Balance at end of previous fiscal year	24	–	290
Changes of items during the period			
Net changes of items other than shareholders' equity	(24)	24	(290)
Total changes of items during the period	(24)	24	(290)
Balance at end of current fiscal year	0	24	(0)
Revaluation reserve for land			
Balance at end of previous fiscal year	(5,966)	(5,966)	(71,751)
Changes of items during the period			
Reversal of revaluation reserve for land	(2)	–	(35)
Total changes of items during the period	(2)	–	(35)
Balance at end of current fiscal year	(5,969)	(5,966)	(71,787)
Foreign currency translation adjustment			
Balance at end of previous fiscal year	(17,626)	(16,865)	(211,983)
Changes of items during the period			
Net changes of items other than shareholders' equity	(1,637)	(760)	(19,696)
Total changes of items during the period	(1,637)	(760)	(19,696)
Balance at end of current fiscal year	(19,264)	(17,626)	(231,679)
Total accumulated other comprehensive income			
Balance at end of previous fiscal year	(23,222)	(24,451)	(279,280)
Changes of items during the period			
Reversal of revaluation reserve for land	(2)	–	(35)
Net changes of items other than shareholders' equity	9,341	1,229	112,350
Total changes of items during the period	9,338	1,229	112,314
Balance at end of current fiscal year	(13,883)	(23,222)	(166,965)
Subscription rights to shares			
Balance at end of previous fiscal year	1,188	1,222	14,298
Changes of items during the period			
Net changes of items other than shareholders' equity	(782)	(33)	(9,416)
Total changes of items during the period	(782)	(33)	(9,416)
Balance at end of current fiscal year	406	1,188	4,882
Minority interests			
Balance at end of previous fiscal year	19,335	18,994	232,542
Changes of items during the period			
Net changes of items other than shareholders' equity	(9,474)	341	(113,946)
Total changes of items during the period	(9,474)	341	(113,946)
Balance at end of current fiscal year	9,861	19,335	118,595
Total net assets			
Balance at end of previous fiscal year	256,770	242,532	3,088,042
Changes of items during the period			
Dividends from surplus	(8,816)	(7,557)	(106,036)
Net income	41,510	20,269	499,227
Increase by share exchanges	21,595	–	259,718
Retirement of treasury stock	–	–	–
Purchase of treasury stock	(24,530)	(12)	(295,015)
Disposal of treasury stock	2	1	35
Change of scope of consolidation	(155)	–	(1,873)
Reversal of revaluation reserve for land	–	–	–
Net changes of items other than shareholders' equity	(915)	1,537	(11,012)
Total changes of items during the period	28,690	14,237	345,044
Balance at end of current fiscal year	¥285,461	¥256,770	$3,433,087

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	¥57,467	¥ 27,097	$ 691,135
Depreciation and amortization	15,949	17,175	191,810
Impairment loss	1,502	3,857	18,068
Amount of transfer of equipment by amusement center operation business	(3,074)	(4,344)	(36,974)
Amount of transfer of equipment by pachislot and pachinko rental business	–	(12)	–
Loss (gain) on sales of noncurrent assets	5	(407)	65
Loss on retirement of noncurrent assets	296	497	3,564
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,177	–	14,158
Loss (gain) on sales of stocks of subsidiaries and affiliates	–	624	–
Loss on liquidation of subsidiaries	1,468	1,682	17,657
Loss (gain) on sales of investment securities	113	(222)	1,364
Loss (gain) on valuation of investment securities	1,308	2,465	15,737
Loss (gain) on investments in partnership	(294)	120	(3,543)
Amortization of goodwill	1,875	1,004	22,557
Increase (decrease) in allowance for doubtful accounts	(719)	(156)	(8,655)
Increase (decrease) in provision for directors' bonuses	302	178	3,639
Increase (decrease) in provision for point card certificates	(17)	24	(213)
Increase (decrease) in provision for retirement benefits	438	1,344	5,273
Increase (decrease) in provision for directors' retirement benefits	107	(1,055)	1,290
Increase (decrease) in provision for bonuses	(136)	265	(1,641)
Interest and dividends income	(775)	(965)	(9,330)
Interest expenses	637	782	7,664
Foreign exchange losses (gains)	171	2	2,063
Equity in (earnings) losses of affiliates	(35)	(37)	(428)
Loss (gain) on change in equity	(81)	(20)	(985)
Decrease (increase) in notes and accounts receivable–trade	10,033	11,493	120,661
Decrease (increase) in inventories	(737)	2,862	(8,867)
Increase (decrease) in notes and accounts payable–trade	222	(13,061)	2,672
Increase (decrease) in guarantee deposits received	35	(751)	430
Other, net	7,268	3,925	87,417
Subtotal	94,507	54,370	1,136,591
Interest and dividends income received	653	843	7,854
Interest expenses paid	(653)	(753)	(7,864)
Income taxes paid	(9,565)	(16,572)	(115,039)
Income taxes refund	2,755	17,110	33,133
Net cash provided by (used in) operating activities	¥87,696	¥ 54,998	$1,054,676

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net cash provided by (used in) investing activities			
Payments into time deposits	¥ (1,185)	¥ (1,720)	$ (14,251)
Proceeds from withdrawal of time deposits	1,288	4,169	15,496
Purchase of short-term investment securities	(24,300)	(5,395)	(292,242)
Proceeds from redemption of securities	8,195	4,000	98,556
Purchase of trust beneficiary right	(7,293)	(6,163)	(87,710)
Proceeds from sales of trust beneficiary right	7,511	5,185	90,333
Purchase of property, plant and equipment	(10,901)	(8,608)	(131,111)
Proceeds from sales of property, plant and equipment	197	758	2,377
Purchase of intangible assets	(3,571)	(2,042)	(42,952)
Proceeds from sales of intangible assets	1	8	21
Purchase of investment securities	(5,413)	(3,323)	(65,107)
Proceeds from sales of investment securities	1,239	1,874	14,909
Proceeds from redemption of investment securities	3,800	–	45,700
Payments for investment in partnerships	(190)	(12)	(2,285)
Proceeds from distribution of investment in partnerships	1,062	564	12,773
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(120)	–	(1,448)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	30	219	364
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	–	(220)	–
Purchase of stocks of subsidiaries and affiliates	(1,030)	(996)	(12,398)
Payments of loans receivable	(66)	(1,178)	(803)
Collection of loans receivable	46	535	563
Payments for lease deposits	(563)	(381)	(6,774)
Collection of lease deposits	1,674	2,845	20,136
Proceeds from transfer of business	23	2,018	285
Other, net	(20)	222	(242)
Net cash provided by (used in) investing activities	(29,585)	(7,640)	(355,809)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	55	(2,503)	661
Proceeds from long-term loans payable	–	1,120	–
Repayment of long-term loans payable	(1,512)	(1,211)	(18,190)
Proceeds from issuance of bonds	–	10,783	–
Redemption of bonds	(20,600)	(5,027)	(247,751)
Proceeds from stock issuance to minority shareholders	103	–	1,248
Cash dividends paid	(8,810)	(7,571)	(105,953)
Cash dividends paid to minority shareholders	(399)	(305)	(4,808)
Purchase of treasury stock	(24,530)	(12)	(295,015)
Other, net	(1,473)	1,327	(17,720)
Net cash provided by (used in) financing activities	(57,168)	(3,401)	(687,529)
Effect of exchange rate change on cash and cash equivalents	(1,191)	(342)	(14,324)
Net increase (decrease) in cash and cash equivalents	(248)	43,614	(2,987)
Cash and cash equivalents at beginning of period	167,000	123,385	2,008,423
Increase in cash and cash equivalents from newly consolidated subsidiary	35	–	422
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(803)	–	(9,660)
Cash and cash equivalents at end of period (Note 9)	¥165,983	¥167,000	$1,996,198

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

Note 1

Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation for 2011 and 2010. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese-language consolidated financial statements is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the classifications used in 2011. These changes had no impact on previously reported results of operations or shareholders' equity.

The translation of the Japanese yen amounts into U.S. dollars is rounded down to the nearest unit amount, and is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was ¥83.15 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Note 2

Summary of Significant Accounting Policies

(1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant inter-company balances, transactions and unrealized profits have been eliminated. The number of consolidated subsidiaries is 68 and 65 in 2011 and 2010, respectively.

From the year ended March 31, 2011, the following companies became the Company's consolidated subsidiaries: TOCSIS Inc. and three other companies, because of the Company's acquisition of the shareholdings; Sammy Partners Co., Ltd., because of the increase of importance; Breaktime, Inc., and one other company, which were newly established with the Company's investment.

From the year ended March 31, 2011, the following companies have been excluded from the scope of consolidation: MARZA ANIMATION PLANET INC., because of its merger with SEGA SAMMY INVESTMENT & PARTNERS INC. (accordingly changing its trade name to MARZA ANIMATION PLANET INC.); GAMEWORKS LAS VEGAS, L.L.C., because of its merger with another consolidated subsidiary; Kenjinton Partners, because of its liquidation; Platinum Games Inc., because of reduced control thereon. The number of non-consolidated subsidiaries is 13 and 14 in 2011 and 2010, respectively. Main non-consolidated subsidiaries: United Source International Ltd., SEGA (Shanghai) Software Co., Ltd., etc.

All 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 not material.

(2) Equity method

Investments in affiliated companies over which the Company has the ability to exercise significant influence over their operation and financial policies are accounted for by the equity method. The number of affiliated companies accounted for under the equity method is 9 and 10 in 2011 and 2010, respectively.

Main equity-method affiliated companies: INTERLIFE HOLDINGS CO., LTD., CRI Middleware Co., Ltd., etc.

From the year ended March 31, 2011, Simuline Inc. has been excluded from the scope of the equity method affiliated company due to its capital increase.

As a result of the establishment of INTERLIFE HOLDINGS CO., LTD. via share transfer conducted by Nissho Inter Life Co., Ltd., the Company has come to own the shares in INTERLIFE HOLDINGS CO., LTD. in lieu of those in Nissho Inter Life Co., Ltd.

The number of non-consolidated subsidiaries and affiliated companies which are not accounted for by the equity method is 18 and 19 in 2011 and 2010, respectively.

Main non-consolidated subsidiaries and affiliated companies not accounted for by the equity method:
Liverpool Co., Ltd., etc.

The equity method was not applied to non-consolidated subsidiaries and affiliated companies because the combined amounts of these companies in net income and retained earnings applicable to the equity interest of the Company are not material.

(Changes in significant accounting policies used in preparation of consolidated financial statements)
From the year ended March 31, 2011, "Accounting Standard for Equity Method of Accounting for Investments" (Accounting Standards Board of Japan (ASBJ) Statement No.16, March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No.24, March 10, 2008) have been adopted. This change has no impact on the consolidated statement of income.

(3) Valuation 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 assets, 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 Instruments 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 (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

Also, work in process is stated at cost, cost being determined mainly by the specific identification method (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

(4) Depreciation and amortization for important assets

a. Property, plant and equipment (excluding lease 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.

Range of useful life for the assets is as follows:

Buildings and structures : 2–50 years

Amusement game machines : 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.

Regarding property, plant and equipment 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 property, plant and equipment 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 following fiscal year.

b. Intangible assets (excluding lease assets):
Depreciation is computed using the straight-line method.
The straight-line method is adopted over the useful life of within five years for software for internal use.

c. Lease assets
Lease assets involving finance lease transactions of which the ownership is transferred to lessees:

Depreciation method for such assets is the same as that which applies to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions of which the ownership is not transferred to lessees:

Depreciation method is the straight-line method with their residual values being zero over their leased periods used as the number of years for useful life.

(5) Allowances and provisions

a. Allowance for doubtful accounts

The reserve for doubtful accounts is provided in the amount sufficient to cover possible losses based on a historical write-off of general receivables. Allowance for doubtful accounts and bankrupt receivables are calculated based on an individual assessment of the possibility of collection.

b. Provision for bonuses

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

c. Provision for directors' bonuses

The estimated amount of bonuses was recorded to meet the bonus payments to directors and corporate auditors.

d. Provision for point card certificates

In order to prepare for expenses associated with the redemption of points earned by customers, an estimated amount related to future redemption is posted in the fiscal year.

e. Provision for retirement benefits

The Company and its consolidated subsidiaries provide provision for 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. 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 10 years. Actuarial gains and losses are charged to income in the succeeding period except for SEGA CORPORATION and three other subsidiaries that recognize actuarial gains and losses as expenses using the straight-line method over 10 years commencing from the succeeding period. The straight-line method is used for allocation of projected benefit obligations.

(Change in significant accounting policies used in preparation of consolidated financial statements)

Effective from the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No.19, issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no impact on the consolidated financial statements for the year ended March 31, 2010.

f. Provision for directors' retirement benefits

The Company and certain domestic consolidated subsidiaries provide provision for directors' retirement benefits to adequately cover payment of such benefits at the end of the applicable period in accordance with internal regulations.

(Additional information)

At the Ordinary General Meeting of the Company and Sammy Corporation, a consolidated subsidiary, held in June 2009, it was resolved to grant final retirement benefits to directors and corporate auditors in conjunction with the abolishment of the existing retirement benefits scheme for them. Due to this change, allowance for retirement benefits for directors and corporate auditors was reversed and the unpaid portion of final retirement benefits is recognized in "Other" of non-current liabilities.

(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 forward exchange contracts.

b. Hedging instruments and hedged items

Hedging instrument: Interest rate swaps, forward exchange contracts

Hedged item: Interest on loans payable, receivables and payables denominated in foreign currencies

c. Hedge policy

Derivative instruments are used to mitigate risks associated with foreign exchange and interest rate fluctuations.

As a rule, hedging is only used for items in 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 between the hedged item and the hedging instrument. For interest rate swaps applied to special treatment, hedge effectiveness is not evaluated.

(7) Consumption taxes

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

(8) Valuation of assets and liabilities of consolidated subsidiaries

The assets and liabilities of consolidated subsidiaries are evaluated using the fair value including the portion attributable to minority shareholders at the time of the acquisition.

(9) Amortization of goodwill and negative goodwill

If the duration of the effect of goodwill can be rationally estimated, amortization is made over the estimated number of years. In other cases, amortization is made over a five-year period by the straight-line method.

(10) Cash and cash equivalents in the consolidated statements of cash flows

In preparing the consolidated statement of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Note 3

Changes in Accounting Policies

(1) Adoption of accounting standards for construction contracts

Prior to the year ended March 31, 2010, the Company and domestic consolidated subsidiaries (the "domestic companies") recognized revenues and costs of construction contracts using the completed-contract method. Effective from the year ended March 31, 2010, the domestic companies adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No.15, issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, issued on December 27, 2007). Accordingly, when the outcome of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method to work commencing during the year ended March 31, 2010, otherwise the completed-contract method is applied. The percentage/stage of completion at the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost.

The change had no impact on the consolidated financial statements.

(2) Change in accounting treatment for content production expenses

Content production expenses related to game software and amusement machines conducted primarily by the consolidated subsidiary SEGA CORPORATION were accounted for as cost of sales at the time that such expenses were 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 year ended March 31, 2010, if the production is authorized to be commercialized, the costs are capitalized as inventories and non-current assets. For inventories, the amount equivalent to actual sales volume among projected sales volume is treated as cost of sales at the fiscal year-end. For non-current assets, the amount equivalent to depreciation expense calculated based on their respective useful lives is treated 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 corresponding earnings.

As a consequence of this change, work in process under inventories increased by ¥6,671 million, amusement machines under property, plant and equipment increased by ¥43 million, construction in progress increased by ¥6 million, other under intangible assets increased by ¥796 million, other under current assets decreased by ¥1,724 million, foreign currency translation adjustment decreased by ¥6 million, while operating income and income before income taxes and minority interests each increased by ¥5,799 million.

The effects on the segment information is disclosed in the relevant notes.

(3) Adoption of accounting standard for asset retirement obligations

Effective from the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No.18, issued on March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No.21, issued on March 31, 2008).

As a result of adopting these standards, operating income for the fiscal year decreased by ¥96 million ($1,159 thousand), while income before income taxes and minority interests decreased by ¥1,302 million ($15,661 thousand).

(4) Adoption of accounting standard for business combinations

Effective from the year ended March 31, 2011, "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued on December 26, 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No.23, issued on December 26, 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, issued on December 26, 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16, issued on December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008) have been adopted.

Note 4

Changes in Presentation

Consolidated statement of income and comprehensive income

(1) From the year ended March 31, 2011, "Ordinance of the Ministry of Justice which partially revises Ordinance for Enforcement of the Companies Act and Ordinance on Accounting of Companies, etc." (Ordinance of the Ministry of Justice No.7, issued on March 27, 2009) based on "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued on December 26, 2008) has been adopted. As a result, an item of "income before minority interests" is now included in the consolidated statement of income and comprehensive income.

(2) "Gain on reversal of subscription rights to shares" that was included in "other" in the previous fiscal year is separately itemized from the year ended March 31, 2011. The amount of gain on reversal of subscription rights to shares included in "other" in the previous fiscal year was ¥63 million.

Note 5

Additional Information

(1) Effective from the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25 issued, on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements"(ASBJ Statement No.22, revised on June 20, 2010). As a result of the adoption of these standards, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the year ended March 31, 2011.

As described above, the consolidated balance sheet and the consolidated statement of changes in net assets as of and for the year ended March 31, 2010 have been modified to conform with the new presentation rules of 2011.

(2) From the next fiscal year, the Company and some of its consolidated subsidiaries are scheduled to adopt a consolidated tax return system in which the Company is a consolidated parent corporation, following the successful application for such adoption in the year ended March 31, 2011. From the fiscal year, the Company has been adopting accounting treatments as a prerequisite to the adoption of a consolidated tax return system in accordance with "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (ASBJ Practical Issues Task Force (PITF) No.5, initially issued on October 9, 2002 and lastly revised on March 18, 2011) and "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (ASBJ PITF No.7, initially issued on February 6, 2003 and revised on June 30, 2010).

Note 6

Notes to Consolidated Balance Sheets

(1) Assets pledged

Millions of yen

Assets pledged	2011
Time deposits	¥ 5
Buildings and structures	1,202
Land	2,433
Total	¥3,641

Liabilities to be covered	2011
Accounts payable–trade	¥ 2
Accrued expenses	0
Short-term loans payable	900
Long-term loans payable	¥2,100

Assets pledged	2011	Liabilities to be covered	2011
	Thousands of U.S. dollars (Note 1)		
Time deposits	$ 60	Accounts payable–trade	$ 34
Buildings and structures	14,466	Accrued expenses	2
Land	29,272	Short-term loans payable	10,823
Total	$43,799	Long-term loans payable	$25,255

Assets pledged	2010	Liabilities to be covered	2010
	Millions of yen		
Time deposits	¥ 5	Accounts payable–trade	¥ 1
Buildings and structures	1,327	Accrued expenses	0
Land	2,433	Short-term loans payable	900
Total	¥3,766	Long-term loans payable	¥2,300

(2) Loan securities

Loan securities of ¥282 million ($3,396 thousand) and ¥279 million are included in investment securities as of March 31, 2011 and 2010, respectively.

(3) Guarantee

Guarantee to companies as of March 31, 2011 and 2010 are as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
Guarantee	Description	2011	2010	2011
Dimps Corporation	Guarantee to bank loan	¥ –	¥10	$ –
Orix Premium Ltd.	Lease obligation	11	43	138
Sega Games Holding Ltd.	Guarantee to accounts payable	–	8	–

(4) Revaluation reserve for land

SEGA CORPORATION, a consolidated subsidiary of the Company, revalues land for its business in accordance with the Land Revaluation Law, and records the entire difference between the carrying amount and revalued amount as revaluation reserve for land in a separate component of net assets.

Revaluation of land was performed by making a reasonable adjustment on the land based on the market value estimated in accordance with relevant provisions of the Land Revaluation Law.

Date of revaluation: March 31, 2002

Note 7

Notes to Consolidated Statements of Income and Comprehensive Income

(1) Devaluation of inventories

The book value devaluation of inventories held for normal sales purpose based on decline in profitability included in cost of sales amounted to ¥6,547 million ($78,743 thousand) and ¥4,664 million for the years ended March 31, 2011 and 2010, respectively.

(2) Research and development expenses

Expenses relating to research and development activities have been charged to income as incurred, and amounted to ¥29,613 million ($356,147 thousand) and ¥41,502 million for the years ended March 31, 2011 and 2010, respectively.

(3) Gain on outlawed debt

Gain on outlawed debt was recognized by being released from the debt booked as accrued expenses, due to being outlawed.

(4) Loss on closing of stores

Loss on closing of stores is the expenses such as restoration recognized due to closing of amusement arcades.

(5) Cost of product compensation related

Cost of product compensation related includes the provision of substitute machines that are free of charge as temporary product compensation in the pachislot and pachinko machines business and compensation of business.

(6) Loss on disaster

Loss on disaster is the Great East Japan Earthquake-related expenses including valuation loss on assets, estimated restoration expenses of amusement centers and offices, and fixed expenses during the suspended operation period.

(7) Impairment loss

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under other expenses in the consolidated financial statements.

The recoverable value is calculated using the fair value less cost to sell based on the current market price.

Impairment loss for the year ended March 31, 2011 consists of the following:

			Impairment Loss	
Use	Location	Type	Millions of yen	Thousands of U.S. dollars (Note 1)
Amusement facilities	Chiba-shi, Chiba, and 16 other locations	Buildings and structures	¥ 201	$ 2,419
		Amusement game machines	2	34
		Other property, plant and equipment	16	203
		Other intangible assets	9	115
Kids, card-related	Inba-gun, Chiba	Amusement game machines	776	9,341
Assets for business, etc.	Shibuya-ku, Tokyo, and 8 other locations	Buildings and structures	58	706
		Other property, plant and equipment	40	482
		Other intangible assets	396	4,765
Total			¥1,502	$18,068

Impairment loss for the year ended March 31, 2010 consisted of the following:

			Impairment Loss
Use	Location	Type	Millions of yen
Amusement facilities	U.S.	Buildings and structures	¥ 231
		Amusement game machines	165
		Other property, plant and equipment	88
	Ishioka-shi, Ibaraki, and 15 other locations	Buildings and structures	629
		Amusement game machines	182
		Other property, plant and equipment	14
		Other intangible assets	77
Assets for rent	Chuo-ku, Osaka	Buildings and structures	1,613
		Land	580
Assets for business, etc.	Ota-ku, Tokyo, and 4 other locations	Buildings and structures	25
		Other property, plant and equipment	153
		Other intangible assets	93
Total			¥3,857

(8) Comprehensive income for fiscal year ended March 2010

	Millions of yen
Comprehensive income attributable to owners of the parent	¥21,498
Comprehensive income attributable to minority interests	1,232
Total	¥22,731

(9) Other comprehensive income for fiscal year ended March 2010

	Millions of yen
Valuation difference on available-for-sale securities	¥1,995
Deferred gains or losses on hedges	24
Foreign currency translation adjustment	(765)
Share of other comprehensive income of associates accounted for using equity method	7
Total	¥1,261

Note 8

Notes to Consolidated Statements of Changes in Net Assets

(1) Number of outstanding common stock:

	2011	2010
Balance at beginning of the year	283,229,476	283,229,476
Decrease due to retirement of treasury stock	17,000,000	–
Balance at end of the year	266,229,476	283,229,476

(2) Number of outstanding treasury stock:

	2011	2010
Balance at beginning of the year	31,315,801	31,305,733
Increase due to purchase in the market by the resolution at the Board of Directors' meeting	14,000,000	–
Increase due to purchase demand pursuant to Article 797, Paragraph 1 of the Companies Act	150,144	–
Increase due to purchase of odd stock	18,445	11,718
Decrease due to retirement of treasury stock	17,000,000	–
Decrease due to share exchange	13,977,737	–
Decrease due to sale of odd stock	1,991	1,650
Balance at end of the year	14,504,662	31,315,801

(3) Dividends

Year ended March 31, 2011

1. Dividend

Resolution	Type of stock	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 14, 2010	Common stock	¥3,778	¥15	March 31, 2010	June 1, 2010
Board of Directors' meeting held on October 29, 2010	Common stock	5,038	20	September 30, 2010	December 2, 2010

Resolution	Type of stock	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' meeting held on May 14, 2010	Common stock	$45,444	$0.18	March 31, 2010	June 1, 2010
Board of Directors' meeting held on October 29, 2010	Common stock	60,591	0.24	September 30, 2010	December 2, 2010

2. Of the dividends of which the record date is in the year ended March 31, 2011, but the effective date is in the following fiscal year.

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 16, 2011	Common stock	Retained earnings	¥5,034	¥20	March 31, 2011	June 2, 2011

Resolution	Type of stock	Resource of dividend	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' meeting held on May 16, 2011	Common stock	Retained earnings	$60,547	$0.24	March 31, 2011	June 2, 2011

Year ended March 31, 2010

1. Dividend

Resolution	Type of stock	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 15, 2009	Common stock	¥3,778	¥15	March 31, 2009	June 3, 2009
Board of Directors' meeting held on October 30, 2009	Common stock	3,778	15	September 30, 2009	December 2, 2009

2. Of the dividends of which the record date is in the year ended March 31, 2010, but the effective date is in the following fiscal year.

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 14, 2010	Common stock	Retained earnings	¥3,778	¥15	March 31, 2010	June 1, 2010

Note 9

Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at March 31, 2011 and 2010 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Cash and deposits	¥149,006	$1,792,017
Short-term investment securities	42,412	510,069
Total	191,418	2,302,086
Time deposits with maturities of more than three months	(5,534)	(66,562)
Short-term investment securities excluding commercial papers maturing within three months from the acquisition date	(19,899)	(239,326)
Cash and cash equivalents	¥165,983	$1,996,198

	Millions of yen
	2010
Cash and deposits	¥101,324
Short-term investment securities	73,400
Total	174,724
Time deposits with maturities of more than three months	(4,530)
Short-term investment securities excluding commercial papers maturing within three months from the acquisition date	(3,194)
Cash and cash equivalents	¥167,000

Note 10

Information for Certain Leases

A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment losses and net book value for the years ended March 31, 2011 and 2010, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

				Millions of yen
March 31, 2011	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Structures	¥255	¥218	¥–	¥36
Tools, furniture and fixtures	145	132	–	12
Machinery and equipment	155	133	–	22
Amusement machines	14	11	–	2
Total	¥570	¥496	¥–	¥74

March 31, 2011	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
	Thousands of U.S. dollars (Note 1)			
Structures	$3,071	$2,629	$–	$441
Tools, furniture and fixtures	1,746	1,595	–	150
Machinery and equipment	1,869	1,602	–	267
Amusement machines	169	138	–	31
Total	$6,856	$5,965	$–	$891

March 31, 2010	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
	Millions of yen			
Structures	¥ 255	¥ 182	¥ –	¥ 73
Tools, furniture and fixtures	781	645	7	128
Machinery and equipment	174	127	–	46
Amusement machines	358	314	–	43
Software	76	70	5	0
Total	¥1,645	¥1,339	¥13	¥292

Finance lease transaction:

Lease assets mainly consist of the following: Property, plant and equipment that are mainly facilities for amusement center operations, such as buildings and structures, amusement game machines and intangible assets that are mainly software for amusement machine sales.

The methods of depreciation for lease assets are as follows: Lease assets involving finance lease transactions under which the ownership of the lease assets is transferred to lessees are the same methods that applied to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions under which the ownership of the lease assets is not transferred to lessees are straight-line method, with their residual values being zero over their leased periods used as the number of years for useful life.

Future lease payments under the finance leases that are accounted for in the same manner as operating leases as of March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Due within one year	¥76	¥230	$922
Due after one year	0	77	9
Total	¥77	¥307	$932
Liability of impairment loss for lease assets	¥ –	¥ 0	$ –

A summary of assumed amounts of lease payments, assumed depreciation and interest expenses for the years ended March 31, 2011 and 2010, with respect to the finance leases accounted for in the same manner as operating leases, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Lease payments	¥231	¥672	$2,788
Reversal of liability of impairment loss for lease assets	0	20	10
Depreciation	220	638	2,651
Interest expenses	3	18	43

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Due within one year	¥2,721	¥1,487	$32,729
Due after one year	5,145	5,971	61,886
Total	¥7,867	¥7,458	$94,615

Note 11

Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

The Group signed an agreement concerning commitment lines by the syndicated method, such as securing medium-term fund liquidity with the Company as the holding company, as a safety net for the entire Group. In addition, capital for each business is financed based on the financial plan as needed, through bank borrowing or bond issue applying Cash Management System for the purpose of the efficient utilization of the Group funds. Funds are invested in low-risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described later.

(2) Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable–trade are exposed to customer credit risks. In addition, foreign currency-denominated trade receivables are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Short-term investment securities and investment securities are mainly held-to-maturity debt securities and the stocks acquired for business collaborations with business partners, and are exposed to the risk of market price fluctuations.

Of the payables such as notes and accounts payable–trade, trade payables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Loans and bonds payable are for the purpose of procurement of funds necessary for operating funds and capital investment, and parts of them have floating interest rates. For this reason, they are exposed to interest rate fluctuation risks.

Derivative transactions consist of forward exchange contracts intended to hedge foreign currency exchange fluctuation risks for trade receivables and payables denominated in foreign currencies, as well as loan receivables denominated in foreign currencies, and interest swap transactions intended to hedge fluctuation risks of interests on loans. For details of hedging instruments, hedging items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to the aforementioned "Note 2 – Summary of Significant Accounting Policies, (6) Accounting for significant hedge."

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

With respect to trade receivables, departments in charge regularly monitor the situations of major customers in compliance with each company's management regulations for receivables, to control payment terms and balances of customers, in order to detect collection concerns such as worsening of financial conditions early and to lessen the possibilities for collection problems.

The credit risk for held-to-maturity debt securities is minimal because the investments of these financial assets are limited to high credit rating issuers in accordance with the fund operation management rules.

Customers of derivative transactions are in principle limited to correspondent financial institutions.

The amount of maximum risk as of the consolidated settlement date is expressed by the amounts of financial assets exposed to credit risks in the balance sheet.

2) Market risk management (foreign currency exchange and interest rate fluctuation risks)

Certain consolidated subsidiaries use forward exchange contracts to hedge foreign currency exchange fluctuation risks identified by currency and by month, in parts of trade receivables and payables and loan receivables denominated in foreign currencies, and trade receivables and payables which are expected to certainly occur due to exports and imports (forecasted transactions). In addition, certain consolidated subsidiaries use interest rate swap transactions intended to hedge fluctuation risks of interests on variable interest-loans. With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. In addition, holding of short-term investment securities and investment securities other than held-to-maturity debt securities are continuously reviewed in consideration of relationships with the counterparties.

With regards to derivative transactions, the financial department or the accounting department executes and manages transactions upon obtaining internal approvals in compliance with the regulations approved by each company's Board of Directors' meetings. In addition, reports on the situations of derivative transactions are made to each company's Board of Directors' meeting when and where appropriate.

3) Liquidity risk management on fund raising (risk for delinquency)

Trade payables and loans are exposed to liquidity risk. In the Group, liquidity risk is managed by setting an appropriate fund balance for each company, and by each company updating fund plans monthly to maintain the balance that exceeds the set fund balance, and by the Company confirming each company's cash position.

(4) Supplementary explanations concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in computing the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in the "Note 13 – Derivative Transactions" do not indicate the amounts of market risk exposed to derivative transactions.

2. Matters concerning the fair value of financial instruments

The consolidated balance sheet amount and fair value of financial instruments as of March 31, 2011 as well as the differences between these values are described below. Financial instruments whose fair values are not readily determinable are not included in the table. (See Note 2 below)

			Millions of yen
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥149,006	¥149,006	¥ –
(2) Notes and accounts receivable–trade	56,468	56,416	(51)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	2,018	2,021	2
2) Available-for-sale securities (*1)	77,523	77,523	–
3) Equity securities issued by affiliated companies	493	280	(213)
Total assets	285,511	285,248	(262)
(1) Notes and accounts payable–trade	37,513	37,513	–
(2) Short-term loans payable	2,857	2,857	–
(3) Long-term loans payable	5,316	5,333	(17)
(4) Current portion of corporate bonds	11,892	11,892	–
(5) Corporate bonds payable	29,608	29,356	252
Total liabilities	87,188	86,953	234
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	3	3	–
2) Derivative transactions to which hedge accounting is applied	(0)	(0)	–
Total derivative transactions	¥ 2	¥ 2	¥ –

			Thousands of U.S. dollars (Note 1)
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	$1,792,017	$1,792,017	$ –
(2) Notes and accounts receivable–trade	679,113	678,492	(621)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	24,281	24,312	31
2) Available-for-sale securities (*1)	932,339	932,339	–
3) Equity securities issued by affiliated companies	5,937	3,371	(2,565)
Total assets	3,433,688	3,430,532	(3,156)
(1) Notes and accounts payable–trade	451,153	451,153	–
(2) Short-term loans payable	34,363	34,363	–
(3) Long-term loans payable	63,935	64,147	(212)
(4) Current portion of corporate bonds	143,024	143,024	–
(5) Corporate bonds payable	356,088	353,053	3,034
Total liabilities	1,048,564	1,045,743	2,821
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	46	46	–
2) Derivative transactions to which hedge accounting is applied	(11)	(11)	–
Total derivative transactions	$ 35	$ 35	$ –

(*1) Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire composite financial instruments are evaluated, and included in investment securities.
(*2) Receivables and payables incurred by derivative transactions are presented in net amount.

Note 1: Calculation method of fair values of financial instruments and securities and derivative transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable–trade

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable–trade, those which have more than a year to the payment date from March 31, 2011 are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.

(3) Short-term investment securities and investment securities

The fair values of stocks are determined using the quoted price at the stock exchange, and those of bonds are determined using the quoted price at the exchange or the quoted price obtained from the financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see "Note 12 – Investment Securities."

Liabilities

(1) Notes and accounts payable–trade, (2) Short-term loans payable and (4) Current portion of corporate bonds

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

(3) Long-term loans payable and (5) Corporate bonds payable

These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

Derivative transactions

For notes concerning derivatives, please see "Note 13 – Derivative Transactions."

Note 2: Financial instruments whose fair values are not readily determinable

Item	Millions of yen Consolidated balance sheet amount
Unlisted equity securities	¥2,036
Investment in investment limited partnerships, etc.	1,352
Equity securities issued by non-consolidated subsidiaries	2,189
Equity securities issued by affiliated companies	765
Investments in capital of affiliated companies	224

Item	Thousands of U.S. dollars (Note 1) Consolidated balance sheet amount
Unlisted equity securities	$24,488
Investment in investment limited partnerships, etc.	16,271
Equity securities issued by non-consolidated subsidiaries	26,337
Equity securities issued by affiliated companies	9,205
Investments in capital of affiliated companies	2,700

These items are not included in "(3) Short-term investment securities and investment securities," because there is no market price, future cash flows cannot be estimated and it is very difficult to identify fair values.

Note 3: Redemption schedule of monetary assets and securities with contractual maturities

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥149,006	¥ –	¥ –	¥ –
Notes and accounts receivable–trade	55,775	693	–	–
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	600	805	500	100
Available-for-sale securities with maturities (Corporate bonds)*	–	2,000	–	1,000
Available-for-sale securities with maturities (Negotiable certificates of deposit)	41,800	–	–	–
Available-for-sale securities with maturities (Other)*	12	–	200	1,800
Total	¥247,193	¥3,498	¥700	¥2,900

	Thousands of U.S. dollars (Note 1)			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	$1,792,017	$ –	$ –	$ –
Notes and accounts receivable–trade	670,777	8,336	–	–
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	7,215	9,681	6,013	1,202
Available-for-sale securities with maturities (Corporate bonds)*	–	24,052	–	12,026
Available-for-sale securities with maturities (Negotiable certificates of deposit)	502,705	–	–	–
Available-for-sale securities with maturities (Other)*	147	–	2,405	21,647
Total	$2,972,864	$42,071	$8,418	$34,876

* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Note 4: For redemption supplemental schedule of corporate bonds payable, long-term loans payable, lease obligations and other interest-bearing liabilities after March 31, 2011, refer to "Supplemental schedule of corporate bonds" and "Supplemental schedule of borrowings" in "Note 24 – Supplemental Information."

The consolidated balance sheet amount and fair value of financial instruments as of March 31, 2010 as well as the differences between these values are described below. Financial instruments whose fair values are not readily determinable are not included in the table. (See Note 2 below)

Millions of yen

	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥101,324	¥101,324	¥ –
(2) Notes and accounts receivable–trade	67,027	66,872	(154)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	1,803	1,808	5
2) Available-for-sale securities (*1)	90,263	90,263	–
3) Equity securities issued by affiliated companies	511	198	(312)
Total assets	260,930	260,468	(461)
(1) Notes and accounts payable–trade	37,387	37,387	–
(2) Short-term loans payable	3,489	3,489	–
(3) Long-term loans payable	6,173	6,205	(31)
(4) Current portion of corporate bonds	20,600	20,600	–
(5) Corporate bonds payable	41,501	41,040	460
Total liabilities	109,152	108,723	428
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	92	92	–
2) Derivative transactions to which hedge accounting is applied	111	111	–
Total derivative transactions	¥ 203	¥ 203	¥ –

(*1) Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire composite financial instruments are evaluated, and included in investment securities.
(*2) Receivables and payables incurred by derivative transactions are presented in net amount.

Note 1: Calculation method of fair values of financial instruments and securities and derivative transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable–trade

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable–trade, those which have more than a year to the payment date from March 31, 2010 are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.

(3) Short-term investment securities and investment securities

The fair values of stocks are determined using the quoted price at the stock exchange, and those of bonds are determined using the quoted price at the exchange or the quoted price obtained from the financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see "Note 12 – Investment Securities."

Liabilities

(1) Notes and accounts payable–trade, (2) Short-term loans payable and (4) Current portion of corporate bonds

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

(3) Long-term loans payable and (5) Corporate bonds payable

These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

Derivative transactions

For notes concerning derivatives, please see "Note 13 – Derivative Transactions."

Note 2: Financial instruments whose fair values are not readily determinable

Millions of yen

Item	Consolidated balance sheet amount
Unlisted equity securities	¥1,645
Investment in investment limited partnerships, etc.	3,952
Equity securities issued by non-consolidated subsidiaries	2,403
Equity securities issued by affiliated companies	1,205
Investments in capital of affiliated companies	220

These items are not included in "(3) Short-term investment securities and investment securities," because there is no market price, future cash flows cannot be estimated and it is very difficult to identify fair values.

Note 3: Redemption schedule of monetary assets and securities with contractual maturities

Millions of yen

	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥101,324	¥ –	¥ –	¥ –
Notes and accounts receivable–trade	65,232	1,795	–	–
Short-term investment securities and investment securities				
Held-to-maturity debt securities	195	1,405	200	–
Available-for-sale securities with maturities*	73,205	800	–	3,000
Total	¥239,958	¥4,000	¥200	¥3,000

* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Note 4: For redemption supplemental schedule of corporate bonds payable, long-term loans payable, lease obligations and other interest-bearing liabilities after March 31, 2010, refer to "Supplemental schedule of corporate bonds" and "Supplemental schedule of borrowings" in "Note 24 – Supplemental Information."

(Additional information)

Effective from the year ended March 31, 2010, the Company adopted the revised accounting standard, "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, revised on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, revised on March 10, 2008).

Note 12

Investment Securities

Year ended March 31, 2011

1. Held-to-maturity debt securities (as of March 31, 2011)

(1) Securities whose market value exceeds the consolidated balance sheet amount

			Millions of yen
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government/municipal bonds	¥ –	¥ –	¥ –
b. Corporate bonds	606	616	10
c. Other	–	–	–
Total	¥606	¥616	¥10

			Thousands of U.S. dollars (Note 1)
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government/municipal bonds	$ –	$ –	$ –
b. Corporate bonds	7,295	7,418	123
c. Other	–	–	–
Total	$7,295	$7,418	$123

(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

			Millions of yen
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government/municipal bonds	¥ –	¥ –	¥ –
b. Corporate bonds	1,412	1,404	(7)
c. Other	–	–	–
Total	¥1,412	¥1,404	¥(7)

			Thousands of U.S. dollars (Note 1)
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government/municipal bonds	$ –	$ –	$ –
b. Corporate bonds	16,985	16,894	(91)
c. Other	–	–	–
Total	$16,985	$16,894	$(91)

2. Available-for-sale securities (as of March 31, 2011)

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥31,299	¥10,965	¥20,334
b. Bonds	–	–	–
c. Other	–	–	–
Total	¥31,299	¥10,965	¥20,334

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	$376,426	$131,874	$244,551
b. Bonds	–	–	–
c. Other	–	–	–
Total	$376,426	$131,874	$244,551

(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥ 1,226	¥ 1,689	¥(462)
b. Bonds	3,185	3,653	(467)
c. Other	41,812	41,812	–
Total	¥46,224	¥47,155	¥(930)

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	$ 14,749	$ 20,317	$ (5,567)
b. Bonds	38,309	43,937	(5,628)
c. Other	502,853	502,853	–
Total	$555,912	$567,108	$(11,196)

Note: "Bonds" in "Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost" include composite financial instruments, and the valuation losses of ¥346 million ($4,168 thousand) are posted in the Other expenses.

3. Available-for-sale securities sold during the year ended March 31, 2011 (from April 1, 2010 to March 31, 2011)

Millions of yen

Category	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	¥1,239	¥52	¥(165)
b. Bonds	–	–	–
c. Other	–	–	–
Total	¥1,239	¥52	¥(165)

Thousands of U.S. dollars (Note 1)

Category	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	$14,909	$630	$(1,995)
b. Bonds	–	–	–
c. Other	–	–	–
Total	$14,909	$630	$(1,995)

4. Impairment loss on securities (from April 1, 2010 to March 31, 2011)

During the year ended March 31, 2011, the Company recognized impairment loss on available-for-sale-securities in an amount of ¥1,308 million ($15,737 thousand).

Year ended March 31, 2010

Held-to-maturity debt securities (as of March 31, 2010)

	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
			Millions of yen
Securities whose market value exceeds the consolidated balance sheet amount:			
Corporate bonds	¥804	¥815	¥10
Securities whose market value is equal to or lower than the balance sheet amount:			
Corporate bonds	¥998	¥993	¥ (5)

Available-for-sale securities (as of March 31, 2010)

	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
			Millions of yen
Securities whose consolidated balance sheet amount exceeds the acquisition cost:			
Shares	¥12,190	¥11,056	¥1,133
Bonds	1,006	1,000	6
Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost:			
Shares	¥ 1,480	¥ 1,619	¥ (139)
Bonds	2,379	2,797	(417)
Other	73,205	73,205	–

Available-for-sale securities sold during the year ended March 31, 2010 (from April 1, 2009 to March 31, 2010)

Category	Amount of proceeds	Total gains on sales	Total losses on sales
			Millions of yen
a. Shares	¥ 863	¥255	¥(35)
b. Bonds	1,011	2	–
c. Other	–	–	–
Total	¥1,874	¥258	¥(35)

Note 13

Derivative Transactions

Year ended March 31, 2011

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

	Category	Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
					Millions of yen
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	UK pound	¥ 455	¥–	¥ (7)	¥ (7)
	U.S. dollar	354	–	23	23
	Euro	682	–	(8)	(8)
	Buying				
	U.S. dollar	501	–	(3)	(3)
Total		¥1,994	¥–	¥ 3	¥ 3

Thousands of U.S. dollars (Note 1)

	Category	Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	UK pound	$ 5,474	$–	$ (93)	$ (93)
	U.S. dollar	4,268	–	278	278
	Euro	8,209	–	(101)	(101)
	Buying				
	U.S. dollar	6,033	–	(36)	(36)
Total		$23,985	$–	$ 46	$ 46

Note: Fair values are calculated using prices quoted by financial institutions.

(2) Composite financial instruments

With respect to composite financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire composite financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in the "Note 12 – Investment Securities."

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Millions of yen

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Primary method	Forward exchange contracts				
	Selling	Accounts receivable–trade			
	Euro		¥ 36	¥–	¥(0)
Receivables or payables are translated using forward exchange contract rates	Forward exchange contracts				
	Buying	Accounts payable–trade			
	U.S. dollar		¥131	¥–	Note 2

Thousands of U.S. dollars (Note 1)

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Primary method	Forward exchange contracts				
	Selling	Accounts receivable–trade			
	Euro		$ 436	$–	$(11)
Receivables or payables are translated using forward exchange contract rates	Forward exchange contracts				
	Buying	Accounts payable–trade			
	U.S. dollar		$1,581	$–	Note 2

Notes: 1. Fair values are calculated using prices quoted by financial institutions.
2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable–trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable–trade, since they are used for recording accounts payable–trade as hedged items.

(2) Interest rates

Millions of yen

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Interest rate swaps meeting certain conditions	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	¥3,834	¥3,170	Note
Total			¥3,834	¥3,170	¥–

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
			Thousands of U.S. dollars (Note 1)		
Interest rate swaps meeting certain conditions	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	$46,109	$38,123	Note
Total			$46,109	$38,123	$–

Note: With respect to interest rate swap contracts which meet certain conditions, fair values of the interest rate swap contracts are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

Year ended March 31, 2010

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

	Category	Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
		Millions of yen			
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	UK pound	¥1,785	¥–	¥30	¥30
	Euro	1,441	–	68	68
	Buying				
	U.S. dollar	174	–	(8)	(8)
	Euro	79	–	2	2
Total		¥3,481	¥–	¥92	¥92

Note: Fair values are calculated using prices quoted by financial institutions.

(2) Composite financial instruments

With respect to composite financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire composite financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in the "Note 12 – Investment Securities."

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
			Millions of yen		
Primary method	Forward exchange contracts				
	Selling				
	UK pound	Accounts receivable–trade	¥2,020	¥–	¥125
	U.S. dollar		1,506	–	(28)
	Buying				
	UK pound	Accounts payable–trade	1,076	–	(10)
	U.S. dollar		904	–	24
	Total		¥5,506	¥–	¥111
Receivables or payables are translated using forward exchange contract rates	Forward exchange contracts				
	Buying				
	U.S. dollar	Accounts payable–trade	¥ 57	¥–	Note 2

Notes: 1. Fair values are calculated using prices quoted by financial institutions.
2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable–trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable–trade, since they are used for recording accounts payable–trade as hedged items.

(2) Interest rates

Millions of yen

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Interest rate swaps meeting certain conditions	Interest rate swaps				
	Floating rate into fixed rate	Long-term loans payable	¥3,834	¥3,502	Note
Total			¥3,834	¥3,502	¥–

Note: With respect to interest rate swap contracts which meet certain conditions, fair values of the interest rate swap contracts are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

Note 14

Retirement Benefits

Overview of retirement benefits plans

Domestic consolidated subsidiaries offer, based on the retirement benefit regulations, employees' pension plans and lump-sum retirement benefit plans. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer defined contribution pension plans.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2011 and 2010 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
1) Projected benefit obligation	¥(26,927)	¥(25,432)	$(323,843)
2) Pension assets	13,337	11,786	160,402
3) Unrecognized projected benefit obligation	(13,590)	(13,645)	(163,441)
4) Unrecognized actuarial differences	1,009	1,597	12,137
5) Unrecognized prior service cost	–	(63)	–
Difference	(12,580)	(12,112)	(151,303)
6) Prepaid pension cost	75	105	913
7) Provision for retirement benefits	¥(12,656)	¥(12,218)	$(152,216)

Note: Some consolidated subsidiaries use the simplified method for calculating projected benefit obligations.

Included in the consolidated statements of operations for the years ended March 31, 2011 and 2010, severance and retirement benefit expenses comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Service costs – benefits earned during the year	¥2,131	¥2,052	$25,638
Interest cost on projected benefit obligation	494	435	5,949
Expected return on plan assets	(275)	(306)	(3,309)
Amortization of actuarial difference	569	922	6,854
Amortization of prior service cost	(175)	(63)	(2,115)
Additional interim benefit	–	413	–
Other	208	346	2,513
Severance and retirement benefit expenses	¥2,954	¥3,800	$35,531

Notes: 1. Retirement benefit expenses of consolidated subsidiaries using the simplified method are added up in "Service costs."
2. "Other" is a premium paid to the defined contribution pension plan.
3. Sammy Corporation decided to revise its retirement benefit plan effective April 1, 2011, from the tax-qualified plan to a contract-type corporate pension plan (defined benefits plan type). Following this changeover, the balance of prior service cost (reduction in liabilities) of ¥(111) million ($1,345 thousand) has been amortized at once and included in "5) Unrecognized prior service cost."

	2011	2010
Discount rate	1.5~2.0%	1.5~2.0%
Rate of expected return on plan assets	1.0~2.5%	1.0~2.5%

Note 15

Stock Option Plan

The following tables summarize contents of stock options as of March 31, 2011.

Company name	The Company	The Company	The Company
Date of the annual shareholders' meeting	June 20, 2006	June 20, 2006	June 30, 2010
Position and number of grantees	The Company's directors: 4	The Company's employees, executive officers and subsidiaries' directors, executive officers and employees: 1,086	The Company's directors: 4
Class and number of stock	Common stock 43,000	Common stock 2,701,500	Common stock 172,000
Date of issue	August 14, 2006	August 14, 2006	July 31, 2010
Condition of settlement of rights	Continue to work from August 14, 2006 to August 14, 2008	Continue to work from August 14, 2006 to August 14, 2008	Continue to work from July 31, 2010 to July 31, 2012
Period grantees provide service in return for stock options	August 14, 2006 to August 14, 2008	August 14, 2006 to August 14, 2008	July 31, 2010 to July 31, 2012
Period subscription rights are to be exercised	August 15, 2008 to July 30, 2010	August 15, 2008 to August 13, 2010	August 1, 2012 to July 31, 2014

Company name	The Company	The Company	Sammy NetWorks Co., Ltd.
Date of the annual shareholders' meeting	June 31, 2010	December 24, 2010	June 22, 2005
Position and number of grantees	The Company's executive officers: 3 The Company's employees: 11 The Company's subsidiaries' directors: 8 The Company's subsidiaries' executive officers: 22 The Company's subsidiaries' employees: 1,831	The Company's subsidiaries' directors: 12 The Company's subsidiaries' executive officers: 6 The Company's subsidiaries' employees: 151	Sammy NetWorks Co., Ltd.'s employees: 18
Class and number of stock	Common stock 3,417,800	Common stock 464,000	Common stock 18
Date of issue	July 31, 2010	February 1, 2011	August 30, 2005
Condition of settlement of rights	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from February 1, 2011 to February 1, 2013	Continue to work through exercise of right
Period grantees provide service in return for stock options	July 31, 2010 to July 31, 2012	February 1, 2011 to February 1, 2013	August 30, 2005 to July 30, 2007
Period subscription rights are to be exercised	August 1, 2012 to July 31, 2014	February 2, 2013 to February 1, 2015	July 31, 2007 to July 30, 2012

Company name	Sammy NetWorks Co., Ltd.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 22, 2005	June 16, 2008	June 28, 2006
Position and number of grantees	Sammy NetWorks Co., Ltd.'s directors: 5 Sammy NetWorks Co., Ltd.'s corporate auditors: 1 Sammy NetWorks Co., Ltd.'s employees: 77	SEGA TOYS CO., LTD.'s employees: 127 SEGA TOYS CO., LTD.'s subsidiaries' directors: 4 SEGA TOYS CO., LTD.'s subsidiaries' employees: 36	TMS ENTERTAINMENT, LTD.'s directors: 6 TMS ENTERTAINMENT, LTD.'s employees and subsidiaries' directors: 93
Class and number of stock	Common stock 353	Common stock 751,500	Common stock 598,000
Date of issue	April 28, 2006	September 5, 2008	August 21, 2006
Condition of settlement of rights	Continue to work through exercise of right	The holder of stock acquisition rights needs to be in the position of an employee of SEGA TOYS CO., LTD. or a director or an employee of a subsidiary of SEGA TOYS CO., LTD. at the time of exercise of the rights. This excludes a decision of SEGA TOYS CO., LTD.'s Board of Directors that allows continuous holding of stock acquisition rights when justifiable reasons exist, such as retirement upon expiry of terms for directors and age-limit retirement for employees. Other terms and conditions shall be stipulated in the Agreement on Stock Acquisition Rights signed by SEGA TOYS CO., LTD. and holders of stock acquisition rights.	Continue to work from August 21, 2006 to June 30, 2008
Period grantees provide service in return for stock options	April 28, 2006 to July 30, 2007	September 5, 2008 to June 30, 2010	August 21, 2006 to June 30, 2008
Period subscription rights are to be exercised	July 31, 2007 to July 30, 2012	July 1, 2010 to June 30, 2013	July 1, 2008 to June 30, 2011

Company name	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 28, 2006	June 28, 2006	June 16, 2009
Position and number of grantees	TMS ENTERTAINMENT, LTD.'s directors: 5	TMS ENTERTAINMENT, LTD.'s directors: 5	TMS ENTERTAINMENT, LTD.'s employees: 100 Subsidiaries' directors: 7
Class and number of stock	Common stock 240,000	Common stock 240,000	Common stock 888,000
Date of issue	August 28, 2008	August 27, 2009	August 27, 2009
Condition of settlement of rights	Continue to work from August 28, 2008 to August 31, 2011	Continue to work from August 27, 2009 to August 31, 2012	Continue to work from August 27, 2009 to August 31, 2012
Period grantees provide service in return for stock options	August 28, 2008 to August 31, 2011	August 27, 2009 to August 31, 2012	August 27, 2009 to August 31, 2012
Period subscription rights are to be exercised	September 1, 2011 to August 31, 2016	September 1, 2012 to August 31, 2017	September 1, 2012 to August 31, 2017

The following tables summarize scale and movement of stock as of March 31, 2011.

Company name	The Company	The Company	The Company	The Company	The Company	Sammy NetWorks Co.,Ltd.
Date of the annual shareholders' meeting	June 20, 2006	June 20, 2006	June 30, 2010	June 30, 2010	December 24, 2010	June 22, 2005
Not exercisable stock options						
Stock options outstanding at April 1, 2010	–	–	–	–	–	–
Stock options granted	–	–	172,000	3,417,000	464,000	–
Forfeitures	–	–	–	38,800	3,200	–
Conversion to exercisable stock options	–	–	–	–	–	–
Stock options outstanding at March 31, 2011	–	–	172,000	3,379,000	460,800	–
Exercisable stock options						
Stock options outstanding at April 1, 2010	43,000	2,050,200	–	–	–	9
Conversion from not exercisable stock options	–	–	–	–	–	–
Stock options exercised	–	–	–	–	–	–
Forfeitures	43,000	2,050,200	–	–	–	9
Stock options outstanding at March 31, 2011	–	–	–	–	–	–

Company name	Sammy NetWorks Co., Ltd.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 22, 2005	June 16, 2008	June 28, 2006	June 28, 2006	June 28, 2006	June 16, 2009
Not exercisable stock options						
Stock options outstanding at April 1, 2010	–	447,500	–	240,000	240,000	868,000
Stock options granted	–	–	–	–	–	–
Forfeitures	–	30,100	–	240,000	240,000	868,000
Conversion to exercisable stock options	–	417,400	–	–	–	–
Stock options outstanding at March 31, 2011	–	–	–	–	–	–
Exercisable stock options						
Stock options outstanding at April 1, 2010	261	–	551,000	–	–	–
Conversion from not exercisable stock options	–	417,400	–	–	–	–
Stock options exercised	–	370,700	–	–	–	–
Forfeitures	261	46,700	551,000	–	–	–
Stock options outstanding at March 31, 2011	–	–	–	–	–	–

The following tables summarize price information of stock options as of March 31,2011.

Yen

Company name	The Company	The Company	The Company	The Company	The Company	Sammy NetWorks Co., Ltd.
Date of the annual shareholders' meeting	June 20, 2006	June 20, 2006	June 30, 2010	June 30, 2010	December 24, 2010	June 22, 2005
Exercise price	¥4,235	¥4,235	¥1,312	¥1,312	¥1,753	¥1,700,000
Average market price of the stock at the time of exercise	–	–	–	–	–	–
Fair value of the stock option at the date of grant	510	509	306	306	386	–

Company name	Sammy NetWorks Co., Ltd.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 22, 2005	June 16, 2008	June 28, 2006	June 28, 2006	June 28, 2006	June 16, 2009
Exercise price	¥1,053,914	¥280	¥472	¥268	¥237	¥237
Average market price of the stock at the time of exercise	–	419	–	–	–	–
Fair value of the stock option at the date of grant	–	90	126	62	52	52

U.S. dollars (Note 1)

Company name	The Company	The Company	The Company	The Company	The Company	Sammy NetWorks Co., Ltd.
Date of the annual shareholders' meeting	June 20, 2006	June 20, 2006	June 30, 2010	June 30, 2010	December 24, 2010	June 22, 2005
Exercise price	$50	$50	$15	$15	$21	$20,444
Average market price of the stock at the time of exercise	–	–	–	–	–	–
Fair value of the stock option at the date of grant	6	6	3	3	4	–

Company name	Sammy NetWorks Co., Ltd.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 22, 2005	June 16, 2008	June 28, 2006	June 28, 2006	June 28, 2006	June 16, 2009
Exercise price	$12,674	$ 3	$5	$3	$2	$2
Average market price of the stock at the time of exercise	–	419	–	–	–	–
Fair value of the stock option at the date of grant	–	1	1	0	0	0

Note 16

Income Taxes

(1) Significant components of deferred tax assets and liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Deferred tax assets:			
Allowance for doubtful accounts	¥ 1,243	¥ 1,009	$ 14,953
Loss on valuation of inventories	2,783	2,077	33,473
Provision for bonuses	1,669	1,480	20,079
Provision for retirement benefits	5,148	4,965	61,920
Depreciation expense	14,443	17,774	173,703
Loss on valuation of investment securities	3,518	4,250	42,315
Impairment loss	2,604	2,807	31,320
Others	12,679	11,561	152,485
Tax loss carry forward	54,924	51,517	660,544
Total	99,014	97,444	1,190,797
Valuation allowance	(76,839)	(89,776)	(924,106)
Offset against deferred tax liabilities	(6,392)	–	(76,873)
Net deferred tax assets	15,783	7,668	189,817
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(8,412)	(631)	(101,175)
Others	(1,721)	(1,305)	(20,701)
Subtotal of deferred tax liabilities	(10,134)	–	(121,876)
Offset against deferred tax assets	6,392	–	76,873
Total	(3,742)	(1,937)	(45,003)
Recorded deferred tax assets	¥ 12,041	¥ 5,731	$ 144,814

(2) Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the year ended March 31, 2011:

	%
Statutory tax rate	40.7
(Adjustment)	
Effect from the adoption of consolidated taxation system	(21.1)
Tax deduction for experiment and research expenses	(2.0)
Changes in valuation allowance	7.0
Other	(1.4)
Effective tax rate for financial statement purposes	23.2

Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the year ended March 31, 2010:

	%
Statutory tax rate	40.7
(Adjustment)	
Amount of excluded income such as dividends income	(8.1)
Deducted amount of inherited tax loss carry forward at merged companies	(13.9)
Changes in valuation allowance	4.0
Other	(1.9)
Effective tax rate for financial statement purposes	20.8

Note 17

Asset Retirement Obligation

This disclosure is omitted due to the immateriality of the total amount of the asset retirement obligation for the year ended March 31, 2011.

Note 18

Investment and Rental Property

(Additional information)

Effective from the year ended March 31, 2010, the Company adopted "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No.20, issued on November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No.23, issued on November 28, 2008) for the years ending on or after March 31, 2010.

This disclosure is omitted due to the immateriality of the total amount of the investment and rental property for the year ended March 31, 2011 and 2010.

Note 19

Segment Information

Year ended March 31, 2011

1. Outline of reporting segments

Reporting segments of the Company 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 are 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 "Pachislot and Pachinko Machines", "Amusement Machine Sales", "Amusement Center Operations" and "Consumer Business" are the reporting segments.

Line of business at each reporting segment is as follows:

(1) Pachislot and Pachinko Machines … Development, manufacture and sales of pachislot and pachinko machines and design for parlors

(2) Amusement Machine Sales … Development, manufacture and sales of game machines used in amusement arcades

(3) Amusement Center Operations … Development, operation, rent and maintenance of amusement centers

(4) Consumer Business … Development and sales of home video game software; development, manufacture and sales of toys; planning and production of entertainment contents for mobile phones, etc.; planning, production and sales of animated movies.

2. Information on the amounts of net sales, income, assets and other items by each reporting segment

Prior fiscal year (from April 1, 2009 to March 31, 2010)

Nothing is stated herein as information similar to that in compliance with the "Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No.17, issued March 27, 2009) is disclosed as segment information in the consolidated financial statements in accordance with the conventional segment information protocol.

Current fiscal year (from April 1, 2010 to March 31, 2011)

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	¥212,060	¥47,237	¥45,695	¥88,896	¥393,889	¥2,843	¥396,732
Inter-segment sales and transfers	233	3,082	25	654	3,995	979	4,975
Total	212,293	50,319	45,721	89,550	397,885	3,822	401,708
Segment income (loss)	64,284	7,317	342	1,969	73,914	(10)	73,903
Segment assets	¥125,565	¥27,374	¥36,019	¥98,535	¥287,495	¥2,252	¥289,748
Other items							
Depreciation	3,943	2,194	6,126	3,566	15,832	135	15,967
Increase in property, plant and equipment and intangible assets	5,725	1,538	7,701	4,848	19,813	92	19,905

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	$2,550,335	$568,099	$549,554	$1,069,106	$4,737,095	$34,196	$4,771,292
Inter-segment sales and transfers	2,805	37,071	308	7,870	48,056	11,778	59,834
Total	2,553,140	605,170	549,863	1,076,977	4,785,151	45,974	4,831,126
Segment income (loss)	773,117	88,005	4,121	23,680	888,924	(129)	888,794
Segment assets	$1,510,112	$329,217	$433,186	$1,185,034	$3,457,550	$27,093	$3,484,644
Other items							
Depreciation	47,431	26,390	73,685	42,896	190,404	1,632	192,037
Increase in property, plant and equipment and intangible assets	68,854	18,506	92,618	58,311	238,290	1,106	239,397

Note: "Other" is the business segment not included in the reporting segments, but includes information provider services, etc.

3. Major differences between the total amount of all reporting segments and the amounts on the consolidated financial statements (reconciliation of the difference)

Net sales	Millions of yen Current fiscal year
Total net sales in the reporting segments	¥397,885
Segment net sales in Other	3,822
Elimination of inter-segment transactions	(4,975)
Net sales in the consolidated financial statements for the year ended March 31, 2011	¥396,732

Net sales	Thousands of U.S. dollars (Note 1) Current fiscal year
Total net sales in the reporting segments	$4,785,151
Segment net sales in Other	45,974
Elimination of inter-segment transactions	(59,834)
Net sales in the consolidated financial statements for the year ended March 31, 2011	$4,771,292

Income (loss)	Millions of yen Current fiscal year
Total income in the reporting segments	¥73,914
Segment loss in Other	(10)
Elimination of inter-segment transactions	(126)
General corporate expenses (Note)	(5,026)
Operating income in the consolidated financial statements for the year ended March 31, 2011	¥68,750

Income (loss)	Thousands of U.S. dollars (Note 1) Current fiscal year
Total income in the reporting segments	$888,924
Segment loss in Other	(129)
Elimination of inter-segment transactions	(1,516)
General corporate expenses (Note)	(60,448)
Operating income in the consolidated financial statements for the year ended March 31, 2011	$826,830

Note: General corporate expenses are mainly consisted of the expenses of the Group management incurred by the holding company.

Assets	Millions of yen Current fiscal year
Total assets in the reporting segments	¥287,495
Segment assets in Other	2,252
General corporate assets (Note)	169,159
Other adjustments	(282)
Total assets in the consolidated financial statements for the year ended March 31, 2011	¥458,624

Assets	Thousands of U.S. dollars (Note 1) Current fiscal year
Total assets in the reporting segments	$3,457,550
Segment assets in Other	27,093
General corporate assets (Note)	2,034,386
Other adjustments	(3,396)
Total assets in the consolidated financial statements for the year ended March 31, 2011	$5,515,634

Note: General corporate assets mainly consist of excess funds in the Company, etc., and other assets, etc., of the Company.

	Millions of yen			
	Subtotal	Other	Adjustment	Amount in consolidated financial statements
Other	Current fiscal year	Current fiscal year	Current fiscal year	Current fiscal year
Depreciation	¥15,832	¥135	¥ (18)	¥15,949
Increases in property, plant and equipment and intangible assets	19,813	92	(219)	19,686

	Thousands of U.S. dollars (Note 1)			
	Subtotal	Other	Adjustment	Amount in consolidated financial statements
Other	Current fiscal year	Current fiscal year	Current fiscal year	Current fiscal year
Depreciation	$190,404	$1,632	$ (226)	$191,810
Increases in property, plant and equipment and intangible assets	238,290	1,106	(2,635)	236,762

Note: Adjustment includes corporate and elimination of inter-segment transactions.

(Additional information)

Effective from the year ended March 31, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No.17, issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Guidance No.20, issued on March 21, 2008).

[Related information]

Current fiscal year (from April 1, 2010 to March 31, 2011)

1. Information by each product and service

Nothing is stated herein as similar information is disclosed in segment information.

2. Geographical segment information

(1) Net sales

Millions of yen

Japan	North America	Europe	Other	Total
¥352,444	¥20,805	¥17,190	¥6,292	¥396,732

Thousands of U.S. dollars (Note 1)

Japan	North America	Europe	Other	Total
$4,238,653	$250,214	$206,745	$75,678	$4,771,292

Note: Net sales are geographically classified by country or region in which customers are located.

(2) Property, plant and equipment

Nothing is stated herein as amount of the property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheets.

3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statement of income and comprehensive income.

[Information on the amount of impairment loss on noncurrent assets by each reporting segment]

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	¥13	¥787	¥246	¥381	¥73	¥1,502

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	$156	$9,473	$2,963	$4,593	$881	$18,068

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

[Information on amortization of goodwill and unamortized balance by each reporting segment]

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	¥ 288	¥–	¥–	¥ 1,466	¥120	¥ 1,875
Balance as of March 31, 2011	1,062	–	–	14,497	–	15,559

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	$ 3,468	$–	$–	$ 17,638	$1,449	$ 22,557
Balance as of March 31, 2011	12,774	–	–	174,349	–	187,124

Notes: 1. "Other" is the business segment not included in the reporting segments, but includes information provider services, etc.
2. Amortization in the year ended March 31, 2011 includes amortization of goodwill in other expenses.

[Information on gain on negative goodwill by each reporting segment]

Not applicable

Prior fiscal year (from April 1, 2009 to March 31, 2010)

A. Industry segment information

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and eliminations	Consolidated
Net sales								
(1) Sales to third parties	¥160,376	¥45,117	¥54,788	¥121,575	¥2,821	¥384,679	¥ –	¥384,679
(2) Inter-segment sales and transfers	322	2,807	46	262	911	4,351	(4,351)	–
Total	160,698	47,925	54,835	121,838	3,732	389,030	(4,351)	384,679
Cost of sales and operating expenses	131,196	40,831	56,173	115,505	3,396	347,103	862	347,966
Operating income (loss)	¥ 29,502	¥ 7,094	¥ (1,338)	¥ 6,332	¥ 336	¥ 41,926	¥ (5,213)	¥ 36,712
Total assets	108,353	27,835	37,909	96,412	3,982	274,493	148,668	423,161
Depreciation and amortization	4,305	1,288	8,212	3,173	148	17,129	46	17,175
Impairment loss	93	15	3,584	137	26	3,857	–	3,857
Capital expenditures	3,297	974	7,796	3,952	189	16,210	(46)	16,164

Notes: 1. The Company has five operating segments based on its management control structure and the nature of products and markets.

2. Main products and line of business by segment:

(1) Pachislot and Pachinko Machines	Development, manufacture and sales of pachislot and pachinko machines and design for parlors
(2) Amusement Machine Sales	Development, manufacture and sales of game machines used in amusement arcades
(3) Amusement Center Operations	Development, operation, rent and maintenance of amusement centers
(4) Consumer Business	Development and sales of home video game software; development, manufacture and sales of toys; planning and production of entertainment contents for mobile phones, etc.; planning, production and sales of animated movies
(5) Others	Information provider services, etc.

3. General corporate expenses of ¥4,965 million, which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and eliminations."

4. Corporate assets of ¥149,052 million, which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and eliminations."

5. (Change of accounting policy)

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 were 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 year ended March 31, 2010, goods recognized as products for commercialization are posted under inventories and noncurrent assets, with opting to treat the amount of such expenses for the inventories equivalent to the actual sales volume recorded as of the fiscal year-end among projected sales volume as cost of sales, and treat the amount of such expenses for the noncurrent assets equivalent to the depreciation calculated based on their respective useful lives 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 ¥1,643 million in Amusement Machine Sales, ¥174 million in Amusement Center Operations and ¥3,980 million in Consumer Business, also each operating income increased in Amusement Machine Sales and Consumer Business by the same amount, respectively, and operating loss decreased in Amusement Center Operations by the same amount.

B. Geographical segment information

Millions of Yen

	Japan	North America	Europe	Others	Total	Corporate and eliminations	Consolidated
Net sales							
(1) Sales to third parties	¥322,012	¥27,079	¥31,985	¥3,602	¥384,679	¥ –	¥384,679
(2) Inter-segment sales and transfers	18,741	3,188	1,615	1,106	24,651	(24,651)	–
Total	340,754	30,268	33,600	4,708	409,331	(24,651)	384,679
Cost of sales and operating expenses	305,140	30,236	31,996	4,546	371,921	(23,954)	347,966
Operating income	¥ 35,614	¥ 31	¥ 1,603	¥ 161	¥ 37,410	¥ (697)	¥ 36,712
Total assets	¥270,584	¥21,026	¥18,242	¥1,323	¥311,176	¥111,985	¥423,161

Notes: 1. Segmentation of countries and regions is based on geographical proximity.

2. Major countries and regions are as follows.
(1) North America … United States
(2) Europe … United Kingdom, France, Germany, etc.
(3) Other … Australia, China, Taiwan, etc.

3. General corporate expenses of ¥4,965 million, which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and eliminations."

4. Corporate assets of ¥149,052 million, which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and eliminations."

C. Overseas sales

	North America	Europe	Other	Total
				Millions of yen
Total overseas sales	¥35,810	¥34,165	¥9,815	¥ 79,790
Consolidated net sales	–	–	–	¥384,679
Percentage of overseas sales to consolidated net sales	9.3%	8.9%	2.5%	20.7%

Notes 1. Segmentation of countries and regions is based on geographical proximity.
2. Major countries and regions are as follows.
(1) North America … United States
(2) Europe … United Kingdom, Italy, France, Germany, etc.
(3) Other …China, Korea, Taiwan, etc.
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and regions outside Japan.

Note 20

Related Party Transactions

Information on related party transactions for the years ended March 31, 2011 and 2010 and the related amounts as of those dates is summarized as follows.

Material transactions of the Company with related individuals or companies for the year ended March 31, 2011 are as follows:

Millions of yen

Name of related individual and company	Position and principal business	Description of the Company's transaction	Transactions 2011	Account	End of period account balance 2011
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	¥240	–	¥–
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	6	Prepaid expense	3
		Receipt and remittance of insurance	2	–	–
		Payment of outsourcing fee	11	–	–

Thousands of U.S. dollars (Note 1)

Name of related individual and company	Position and principal business	Description of the Company's transaction	Transactions 2011	Account	End of period account balance 2011
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	$2,886	–	$ –
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	80	Prepaid expense	41
		Receipt and remittance of insurance	26	–	–
		Payment of outsourcing fee	136	–	–

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% shares in FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

Material transactions of the Company's consolidated subsidiaries with related individuals or companies for the year ended March 31, 2011 are as follows:

Millions of yen

Name of related individual and company	Position and principal business	Description of the Company's transaction	Transactions 2011	Account	End of period account balance 2011
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	¥50	Prepaid expense	¥20
		Settle up insurance	2	–	–
		Payment of welfare expenses	2	–	–

					Thousands of U.S. dollars (Note 1)
			Transactions		End of period account balance
Name of related individual and company	Position and principal business	Description of the Company's transaction	2011	Account	2011
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	$604	Prepaid expense	$241
		Settle up insurance	24	–	–
		Payment of welfare expenses	24	–	–

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% shares in FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

Material transactions of the Company with related individuals or companies for the year ended March 31, 2010 are as follows:

					Millions of yen
			Transactions		End of period account balance
Name of related individual and company	Position and principal business	Description of the Company's transaction	2010	Account	2010
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	¥240	–	¥–
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	7	Prepaid expense	3
		Payment of outsourcing fee	10	–	–

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% shares in FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

Material transactions of the Company's consolidated subsidiaries with related individuals or companies for the year ended March 31, 2010 are as follows:

					Millions of yen
			Transactions		End of period account balance
Name of related individual and company	Position and principal business	Description of the Company's transaction	2010	Account	2010
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance	¥34	Prepaid expense	¥16
				Long-term prepaid expense	2
		Settle up insurance	3	–	–
		Payment of welfare expenses	2	–	–

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% shares in FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

Note 21

Business Combination

Share exchange to convert consolidated subsidiaries into wholly owned subsidiaries

1. Names and business of acquired companies, the date of conversion, the legal structure and the outline of the transactions including the purpose

(1) Names and business of acquired companies

Name	Description of business
Sammy NetWorks Co., Ltd.	Planning and production of music-related content over, e.g., mobile phones and the Internet
SEGA TOYS CO., LTD.	Development, production and sales of toys
TMS ENTERTAINMENT, LTD.	Planning, production and sales, etc., of animated movies

(2) Date of conversion

December 1, 2010

(3) Legal structure

Share exchange 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.

(4) Name of companies after the conversion

Unchanged

(5) Outline of the transactions including the purpose

The purpose of the transaction are that management resources such as strong intellectual properties and contents, etc., which are spread over in those companies, could be linked closely each other, and both synergy and complementary effects could be pursued. Furthermore, the Company and its Group companies are aiming for continued growth as a comprehensive entertainment group by making timely and appropriate human and physical resource allocations.

2. Summary of accounting treatment

The share exchange transactions were treated as transactions under common control provided in "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

3. Matters related to the additional acquisition of shares in subsidiaries

(1) Acquisition costs

Consideration of the acquisition

		Millions of yen	Thousands of U.S. dollars (Note 1)
Sammy NetWorks Co., Ltd.	The Company's common stock	¥ 9,919	$119,293
SEGA TOYS CO., LTD.	The Company's common stock	5,433	65,343
TMS ENTERTAINMENT, LTD.	The Company's common stock	6,243	75,081
Direct costs for the acquisitions	Advisory costs, etc.	349	4,200
Total acquisition costs		¥21,944	$263,919

(2) Type of stock and share exchange ratio, calculation of the share exchange ratio and number of shares delivered

1. Type of stock and share exchange ratio

Type of stock	SEGA SAMMY HOLDINGS INC. (Common stock)	Sammy NetWorks Co., Ltd. (Common stock)	SEGA TOYS CO., LTD. (Common stock)	TMS ENTERTAINMENT, LTD. (Common stock)
Share exchange ratio	1	333	0.33	0.26

2. Calculation of the share exchange ratio

To establish the share exchange ratios, each of SEGA SAMMY HOLDINGS INC., Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD. and TMS ENTERTAINMENT, LTD. has deliberated in good faith concerning the results of the share exchange ratio analyses submitted by the independent institutions.

3. Number of shares delivered

	Shares
Number of shares delivered for the common stock of Sammy NetWorks Co., Ltd.	6,420,240
Number of shares delivered for the common stock of SEGA TOYS CO., LTD.	3,516,696
Number of shares delivered for the common stock of TMS ENTERTAINMENT, LTD.	4,040,801
Total	13,977,737

(3) Goodwill amount incurred, the source, amortization method and period

1 Goodwill amount incurred

	Millions of yen	Thousands of U.S. dollars (Note 1)
Goodwill incurred due to the share exchange with Sammy NetWorks Co., Ltd.	¥ 5,027	$ 60,458
Goodwill incurred due to the share exchange with SEGA TOYS CO., LTD.	4,485	53,941
Goodwill incurred due to the share exchange with TMS ENTERTAINMENT, LTD.	1,293	15,553
Total	¥10,805	$129,952

2 The source of the goodwill

The goodwill incurred because the acquisition costs of the shares purchased from the minority shareholders of Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD. and TMS ENTERTAINMENT, LTD. exceeded the amounts of minority interests decreased.

3 Amortization method and the period

Straight-line method over five years

Note 22

Per Share Data

Net income per share is computed by dividing income available to common stockholders by the weighted-average number of common stock outstanding during the period. Diluted net income per share is similar to net income per share except that the weighted-average number of common stock outstanding is increased by the number of additional common stock that would have been outstanding if the potential common stock had been issued.

Per share data is as follows:

	Yen		U.S. dollars (Note 1)
	2011	2010	2011
Per share data			
Net assets per share	**¥1,093.23**	¥937.80	**$13.14**
Net income (loss) per share	**163.19**	80.46	**1.96**
Net income per share (diluted)	**163.01**	–	**1.96**

Diluted net income per share is not disclosed, because there are no residual securities that dilute the Company's net income per share for the year ended March 31, 2010.

Note 23

Significant Subsequent Events

A resolution has been reached at each of the Board meetings of the Company, Sammy Corporation ("SAMMY"), a wholly owned subsidiary of the Company, and TAIYO ELEC Co., Ltd. ("TAIYO ELEC"), a subsidiary of SAMMY, held on May 13, 2011 to conduct a share exchange involving common stock of the Company as consideration (the "Share Exchange") in order to convert TAIYO ELEC into a wholly owned subsidiary of SAMMY, which will become the wholly owning parent of TAIYO ELEC. The Share Exchange will be conducted pursuant to an agreement to exchange shares that has been executed between SAMMY and TAIYO ELEC (the "Share Exchange Agreement").

TAIYO ELEC obtained approval for the agreement of the Share Exchange from its shareholders at an ordinary general meeting held on June 21, 2011. SAMMY has on May 13, 2011 obtained the approval for the agreement of the Share Exchange from its shareholders at an extraordinary general meeting by means of a written resolution pursuant to Article 319(1) of the Companies Act of Japan.

Overview of the Share Exchange is as follows.

(1) Purposes of the share exchange

On December 1, 2010, the Company converted Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD. and TMS ENTERTAINMENT, LTD., which were listed subsidiaries, into wholly owned subsidiaries and consolidated the Group structure achieving an effective synergy of our management resources within the Group. The Share Exchange will further reinforce the management structure of the Group and promote the maximization of Group earning power by converting TAIYO ELEC, the sole listed subsidiary in the SEGA SAMMY Group, into a wholly owned subsidiary.

We believe that, for TAIYO ELEC to continue to expand its business through the development of more efficient and inventive pachislot and pachinko machines, the company needs to deepen its connections with SAMMY and take full advantage of business operations that are integrated with the SEGA SAMMY Group by implementing the Share Exchange.

Specifically, we think that a robust TAIYO ELEC brand can be established in the pachislot and pachinko machines market by improving TAIYO ELEC's pachislot and pachinko machine development capability through measures such as personnel exchanges involving highly skilled pachislot and pachinko developers, leveraging the substantial intellectual property of the SEGA SAMMY Group and joint development involving integrated technologies, in addition to the exchange of personnel from management and sales departments that have been conducted thus far. Also, from a production perspective, manufacturing costs are expected to be reduced further as a result of sharing of components, joint purchasing and other measures.

(2) Effective date of the share exchange

August 1, 2011 (tentative)

(3) Method of the share exchange

It has been determined that common stocks of the Company will be the consideration in the Share Exchange, given that, among other things, the minority shareholders of TAIYO ELEC will continue to be offered liquidity with respect to their shares, there will be a shared opportunity to benefit from synergies resulting from the Share Exchange and pursuant to the group strategy, it is necessary to maintain a wholly owned parent/subsidiary relationship between SAMMY and the Company. Common stocks in an amount necessary for such purpose were allotted to SAMMY through the Company's disposal of its treasury stock on May 30, 2011.

(4) Share exchange ratio

SAMMY will furnish 0.40 shares of common stock of the Company for a share of common stock of TAIYO ELEC, provided that SAMMY will not allot shares in the Share Exchange in connection with shares that SAMMY holds, consisting of 11,623,100 shares of common stock of TAIYO ELEC.

SAMMY acquired common stocks of the Company by subscribing to treasury stock disposed of by the Company on May 30, 2011.

(5) Basis for calculation of share exchange ratio

In order to achieve fairness and appropriateness in the share exchange ratios used for the Share Exchange, it was decided that SAMMY and TAIYO ELEC would each invite an independent institution to perform the calculations. SAMMY selected Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., and TAIYO ELEC selected SMBC Nikko Securities Inc. to perform such calculations.

After earnest discussions and negotiations in reference to the results of analysis of the share exchange ratio submitted by the third-party valuation companies described above, SAMMY and TAIYO ELEC reached the adoption of a resolution by the board of directors of each company setting a share exchange ratio for the Share Exchange.

(6) Outline of the company to be the wholly owning parent

Trading name:	Sammy Corporation
Capital stock:	¥18,221 million
Description of business:	Manufacture and sales of pachinko machines, pachislot machines, ball arranging machines, mahjong ball machines and related equipment

(7) Summary of accounting

The Share Exchange constitutes, out of transactions, etc., under common control, an additional acquisition of shares of a subsidiary by SAMMY from minority shareholders of TAIYO ELEC. It is expected that goodwill (or negative goodwill) will appear in the consolidated financial statements of SEGA SAMMY in association with the Share Exchange, but at present, no determination has been made as to the amount of goodwill (or negative goodwill).

Note 24

Supplemental Information

Supplemental schedule of corporate bonds

Company	Name of bond	Issuance date	Balance as of March 31, 2010 (Millions of yen)	Balance as of March 31, 2011 (Millions of yen)	Balance as of March 31, 2011 (Thousands of U.S. dollars (Note 1))	Interest rate (%)	Type	Date of maturity
Sammy Corporation	1st unsecured bonds	June 26, 2003	¥10,000	¥ –	$ –	0.41	Unsecured	June 25, 2010
	3rd unsecured bonds	August 27, 2008	13,125	9,375 (3,750)	112,748 (45,099)	Note 2	Unsecured	August 27, 2013
	4th unsecured bonds	September 25, 2008	10,000	8,330 (3,340)	100,180 (40,168)	Note 3	Unsecured	September 25, 2013
SEGA CORPORATION	8th unsecured bonds	December 28, 2007	10,000	10,000	120,264	1.22	Unsecured	December 28, 2012
	9th unsecured bonds	December 28, 2007	2,000	2,000	24,052	1.34	Unsecured	December 28, 2012
	10th unsecured bonds	March 25, 2008	3,000	3,000	36,079	1.30	Unsecured	March 25, 2013
	11th unsecured bonds	September 30, 2008	3,500	2,500 (1,000)	30,066 (12,026)	1.21	Unsecured	September 30, 2013
	12th unsecured bonds	June 30, 2009	8,350	5,050 (3,300)	60,733 (39,687)	Note 4	Unsecured	June 30, 2012
SEGA TOYS, CO., LTD.	4th unsecured bonds	March 31, 2008	238	–	–	0.92	Unsecured	March 31, 2011
	5th unsecured bonds	September 25, 2008	437	312 (125)	3,758 (1,503)	0.79 Note 5	Unsecured	September 25, 2013
	6th unsecured bonds	September 30, 2008	393	281 (112)	3,382 (1,352)	1.36	Unsecured	September 30, 2013
	7th unsecured bonds	June 30, 2009	417	252 (165)	3,036 (1,984)	0.83	Unsecured	June 29, 2012
	8th unsecured bonds	March 31, 2010	500	400 (100)	4,810 1,202	0.74	Unsecured	March 31, 2015
OASIS PARK Co., Ltd.	1st unsecured bonds	November 25, 2003	140	–	–	1.47	Unsecured	November 25, 2010
Total	–	–	¥62,101	¥ 41,501 ¥(11,892)	$ 499,113 $(143,024)	–	–	–

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2011" represent the current portion of corporate bonds.
2. The interest on Sammy Corporation's third debenture is a variable rate that uses six-month Japanese yen TIBOR.
3. The interest on Sammy Corporation's fourth debenture is a variable rate six-month Japanese yen TIBOR added with its 0.10%.
4. The interest on SEGA CORPORATION's twelfth debenture is a variable rate that uses six-month Japanese yen TIBOR.
5. The interest on SEGA TOYS CO., LTD.'s fifth debenture is a variable rate that is 1.00% less than the standard interest set for each interest-bearing period. The interest rate listed above is the rate as of March 31, 2011.
6. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2011 is as follows:

				Millions of yen
Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
¥11,892	¥25,265	¥4,243	¥100	¥–

				Thousands of U.S. dollars (Note 1)
Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
$143,024	$303,848	$51,037	$1,202	$–

Supplemental schedule of borrowings

Category	Balance as of March 31,2010 (Millions of yen)	Balance as of March 31,2011 (Millions of yen)	Balance as of March 31,2011 (Thousands of U.S. dollars (Note 1))	Average interest rate (%)	Repayment terms
Short-term borrowings	¥ 1,995	¥ 2,000	$ 24,052	0.8	–
Current portion of long-term borrowings due within one year	1,494	857	10,310	1.6	–
Current portion of lease obligations	351	321	3,865	Note 2	–
Long-term borrowings (Excluding current portion)	6,173	5,316	63,935	2.0	2012-2015
Lease obligations (Excluding current portion)	1,325	421	5,075	Note 2	2012-2017
Other interest-bearing debt					
Accounts payable–facilities	1,111	670	8,058	–	–
Accounts payable–facilities (Excluding current portion)	1,262	592	7,121	–	2012-2013
Total	¥13,714	¥10,179	$122,419	–	–

Notes: 1. The "Average interest rate" represents weighted-average interest rate over the year-end balance of loans.
2. The average interest rate on lease obligation is not listed because lease obligation is posted in the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.
3. The redemption schedule of long-term loans payable, lease obligations and interest-bearing debt (excluding current portion) after March 31, 2011 is summarized as follows:

Millions of yen

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term borrowings	¥5,283	¥ 13	¥13	¥ 6	¥–
Lease obligations	246	131	29	12	1
Other interest-bearing debt					
Accounts payable–facilities	592	–	–	–	–

Thousands of U.S. dollars (Note 1)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term borrowings	$63,536	$ 160	$163	$ 75	$ –
Lease obligations	2,969	1,578	358	152	17
Other interest-bearing debt					
Accounts payable–facilities	7,121	–	–	–	–

Supplemental schedule of asset retirement obligations

Supplemental schedule of asset retirement obligations is omitted from this document because the amount of the asset retirement obligations is less than 1% of total liabilities and net assets as of March 31, 2011.

Independent Auditors' Report

To the Shareholders and Board of Directors of
SEGA SAMMY HOLDINGS INC.:

We have audited the accompanying consolidated balance sheets of SEGA SAMMY HOLDINGS INC. and consolidated subsidiaries as of March 31, 2011 and 2010, the related consolidated statement of income and comprehensive income for the year ended March 31, 2011, consolidated statement of income for the year ended March 31, 2010, and consolidated statements of changes in net assets and cash flows for each of the two years in the period ended March 31, 2011, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SEGA SAMMY HOLDINGS INC. and consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in Japan.

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

As described in "Note 23–Significant Subsequent Events," a resolution has been reached at each of the Board meetings of the Company, Sammy Corporation, and TAIYO ELEC Co., Ltd., held on May 13, 2011 to conduct an exchange of shares involving common stock of the Company as consideration in order to convert TAIYO ELEC Co., Ltd., into a wholly owned subsidiary of Sammy Corporation, which will become the wholly owing parent of TAIYO ELEC Co., Ltd.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

(KPMG AZSA & CO.)
Tokyo, Japan

June 24, 2011

SEGA SAMMY HOLDINGS INC.

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

Printed in Japan

Today

SEGA SAMMY GROUP

Annual Report 2011

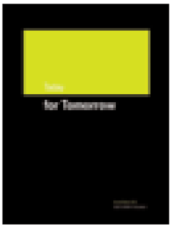
SEGA SAMMY HOLDINGS INC.

The "Today" booklet provides readers less familiar with the SEGA SAMMY Group with basic information on its business lines and the conditions in which it operates.

Contact

The SEGA SAMMY Group is continually enhancing its communication tools in order to improve communication with its shareholders, investors, and all of its other stakeholders. Starting in fiscal 2011, the Group began providing an HTML version of its annual report on the investor relations (IR) page of the SEGA SAMMY HOLDINGS web site.

Annual Report 2011



A booklet that contains basic information about the Group, "Today," has been appended to the front cover of Annual Report 2011 in order to further understanding of the Group among a wide range of readers.

SEGA SAMMY Group CSR Report 2011

SEGA SAMMY Group CSR Report 2011 gives a detailed account of the Group's corporate social responsibility (CSR) activities from various perspectives. Annual Report 2011 includes an overview of issues from this report that could affect the Group's medium-to-long-term strategies or business results.

Business Reports

Every six months, the SEGA SAMMY REPORT updates our shareholders on business results and topics.

Investor Relations Web Site

On the investor relations (IR) page of the SEGA SAMMY HOLDINGS web site, we post comprehensive, reliable information for shareholders and investors promptly. This includes timely disclosures as well as financial settlement figures in Excel format. For individual investors, the "For Individual Investors" section and other sections provide an easy-to-follow introduction to the Group's business lines.

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

Online Annual Report 2011

An HTML version of Annual Report 2011 is available on the IR page of the SEGA SAMMY HOLDINGS web site.

http://www.segasammy.co.jp/english/ir/ar2011

History

	SEGA		Sammy	
1950	1951	Founded		
1960	1964	Started production of amusement arcade machines.		
	1965	Started operation of amusement centers.		
1970			1975	Established Sammy Industry Co., Ltd.
1980	1985	Launched *Hang On*, the world's first force feedback game. Launched *UFO Catcher*.	1982	Began sales and marketing of pachislot machines.
			1989	Began sales of *Aladdin* single-bonus hitter pachislot machine.
1990	1990	Launched *R-360*, the world's first amusement arcade machine that could rotate 360 degrees in all directions.	1995	Began sales of pachinko machines.
	1991	Launched first title in the *Sonic the Hedgehog* series.	1997	Changed company name to Sammy Corporation.
	1993	Launched *Virtua Fighter*, the world's first amusement arcade 3D computer graphics fighting game.	1999	Registered stock on OTC market. Launched *GeGeGe No Kitaro*, the first pachislot machine equipped with an LCD.
	1995	Launched *Print Club* with ATLUS Co., Ltd.		
	1996	Opened *TOKYO JOYPOLIS* rooftop theme park		
2000	2000	Changed company name to SEGA CORPORATION.	2000	Made RODEO Co., Ltd. (formerly Barcrest Co., Ltd.), a subsidiary.
	2003	Launched *The King of Beetles "MUSHIKING"*.	2003	Launched *Hokuto No Ken* pachislot machine, which set a new record for unit sales.

SEGA SAMMY HOLDINGS

	2004	Establishment of SEGA SAMMY HOLDINGS INC. Launched *ALL.Net* network service (SEGA). Launched *LOVE AND BERRY Dress up and Dance!* girls'card game machine (SEGA).
	2005	Launched *Pachinko CR Hokuto No Ken* (Sammy). Launched *Hakushon Daimaoh*, the Company's first new-format pachislot machine (Sammy). Acquired all outstanding shares of The Creative Assembly Ltd. (SEGA). Launched first title in the *Ryu ga Gotoku* home video game series (SEGA). Launched first title in the *Sangokushi Taisen* series of network-enabled trading card games (SEGA).
	2006	Made SPORTS INTERACTIVE Ltd. a wholly owned subsidiary (SEGA). Launched *Pachislot Hokuto No Ken SE* (Sammy). Entered strategic business alliance with Sanrio Company, Ltd. (SEGA SAMMY HOLDINGS).
	2007	Made TAIYO ELEC Co., Ltd., a subsidiary (Sammy).
	2008	Reached agreement with Sanrio Company, Ltd., to jointly develop new characters (SEGA SAMMY HOLDINGS). Launched *Pachinko CR Hokuto No Ken* series, which set a new record for sales of Sammy pachinko machines (Sammy).
	2009	Made GINZA CORPORATION a subsidiary (Sammy). Established SEGA SAMMY VISUAL ENTERTAINMENT INC.* (SEGA SAMMY HOLDINGS). Established Bakugan Limited Liability Partnership (Bakugan LLP) (SEGA SAMMY HOLDINGS and Group companies).
2010	2010	Made Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD., wholly owned subsidiaries (SEGA SAMMY HOLDINGS). Cancelled 17 million shares of treasury stock (SEGA SAMMY HOLDINGS).

* Currently MARZA ANIMATION PLANET INC.

About Us

SEGA SAMMY HOLDINGS INC.

Date of Establishment
October 1, 2004
Capital
¥29.9 billion
Number of Employees
6,000 (consolidated)
As of March 31, 2011

SEGA SAMMY's dramatic progress worldwide

SEGA SAMMY blue success and growth

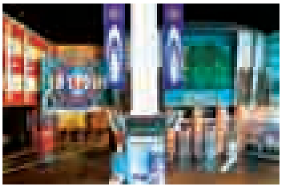
SEGA SAMMY green stability and permanence

The Group Logo

The logo symbolizes the creation of synergies by intertwining two renderings of the initial letter of both company names, the letter S, in the blue and green corporate colors of SEGA and Sammy. The curving lines linking SEGA and Sammy represent the Earth, simultaneously expressing the companies' solidarity and the Group's determination to develop globally.

Pachislot SOUTEN-NO-KEN
©2001 Tetsuo Hara & Bronson,
Approved No. SAH-310 ©Sammy

StarHorse3
Season I A NEW LEGEND BEGINS.
© SEGA



TOKYO JOYPOLIS

Pachislot and Pachinko Machine Business

Develops, manufactures, and sells pachinko and pachislot machines

This segment comprises the pachislot machine business, which has earned player endorsement and became the No. 1 manufacturer in the industry by offering products with innovative gameplay, and the pachinko machine business, which is heightening its presence by boosting development capabilities. Based on brand power supported by high utilization rates, a balanced product portfolio, and a leaner and stronger cost structure, this segment has built an earnings structure with the durability to withstand changing business conditions.

Amusement Machine Sales Business

Develops, manufactures, and sells amusement arcade machines

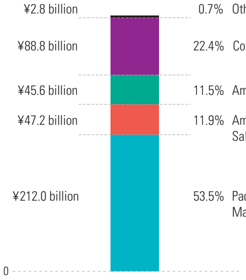
Breakthrough concepts and technological innovation have kept this segment at the forefront of market development. It caters to diverse needs through a broad lineup that extends from such high-value-added products as network-enabled game machines through to amusement arcade machines for families. As well as invigorating the market by introducing a new business model, the business has begun rolling out products in overseas markets in earnest.

Amusement Center Operations

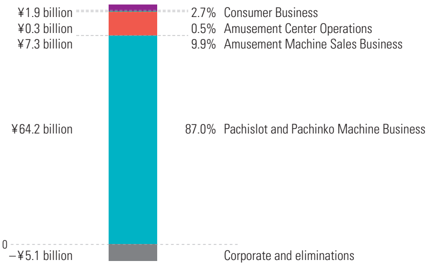
Develops and manages amusement centers

Based on close collaboration with the Amusement Machine Sales Business segment and a wide array of amusement center formats, this segment operates a network of amusement centers catering to the different needs of various regions. Restructuring efforts of recent years have borne fruit, with this business segment achieving operating income for the first time in four fiscal years.

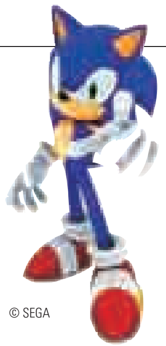
Net Sales by Business Segment
¥396.7 billion



Operating Income (Loss) by Business Segment*
¥68.7 billion



* Composition of operating income (loss) by business segment is net of corporate and elimination.



© SEGA

BAKUGAN
© SEGA TOYS / SPIN MASTER

ANPANMAN OSHABERI-IPPAI-IMAKARAHAJIMERU Seikatsu Cards
© Takashi Yanase / Froebel-kan · TMS · NTV

Consumer Business

Game content

Develops and sells game software; Plans and distributes content for mobile phones

Enjoying one of the highest levels of overseas unit sales among Japan's software publishers, this business has created the flagship *Sonic* series and many other world-famous titles. Similarly, in Japan the business boasts a lineup of titles with powerful brand appeal, such as *Ryu ga Gotoku*. Moreover, it is stepping up efforts to supply content for social networking services (SNS) and smartphones.

Toys

Develops, manufactures, and sells toys

As well as offering mainstay toys, this business is opening up new markets by launching edutainment toys and products for adults. Jointly developed with a Canadian toy manufacturer, *BAKUGAN* and *Zoobles* have become hit products worldwide.

Animation

Plans, produces, and sells animation and animated movies

In this business, we plan, produce, sell, and distribute high-quality works of animation in Japan and overseas. Covering timeless classics through to works that have come on-air more recently, our catalog of more than 9,500 animation episodes has earned many loyal fans. Further, the business provides the world with high-quality CG (computer-graphics) animation from Japan.

Pachislot & Pachinko

In order to further understanding of the Group's Pachislot and Pachinko Machine Business segment among readers, this section includes basic information on pachinko and pachislot.

How to Play Pachinko

Step 1: Rent balls

After deciding which machine to play, the player rents special balls and puts them into the machine's upper tray.

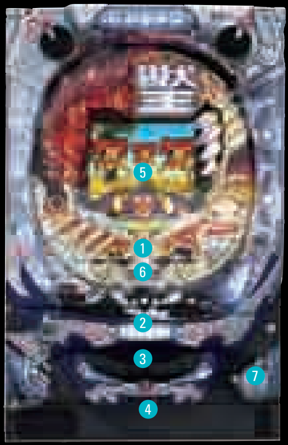
Step 2: Shoot balls

Turning the handle on the bottom right shoots the balls. For most machines, when a ball enters the start hole underneath the liquid crystal display (LCD), the machine gives the player a chance to win a jackpot. Therefore, the player uses the handle to adjust the impetus of the balls so that as many as possible enter the start hole.

Step 3: If the player hits the jackpot ...

If the LCD screen shows the same three figures (numbers) in a line, the player wins the jackpot. When the player wins the jackpot, the jackpot mouth in the lower part of the machine opens, and the player continues shooting balls. If a large number of balls fill the lower tray, the player can use the ball remover to transfer the balls to a box.

1. Start hole
2. Upper tray
3. Lower tray
4. Ball remover
5. LCD
6. Jackpot mouth
7. Handle



Pachinko CR Juoh
©Sammy

What Are Pachinko and Pachislot?

Pachinko machines trace their origins to bagatelle boards, imported to Japan almost a century ago, in the 1920s. In the 1930s, the first pachinko hall opened for business. The prototype of modern pachinko machines, the "Masamura Gauge" machine, appearing in 1949. Subsequently, pachinko machines evolved to reflect the preferences of Japanese players. Pachinko is a game in which players manipulate a handle in order to mechanically shoot steel pachinko balls with diameters of about 11 mm onto a vertically positioned board studded with numerous pins. When the balls fall into certain devices or the jackpot mouth, additional pachinko balls are won.

Meanwhile, the roots of pachislot are said to be slot machines brought from the United States after the end of the Second World War. The 1960s saw the emergence of modified slot machines requiring a certain level of playing skill because they incorporated buttons that allowed players to stop the reels spinning. Subsequently, these machines were upgraded to the current box-cabinets and spread to pachinko halls throughout Japan. The functions and gameplay of pachinko and pachislot machines have continued to evolve, creating a uniquely Japanese form of entertainment. Today, machines continue to entertain fans through varied, dynamic staging based on LCDs and a range of other electronic components.

How to Play Pachislot

Step 1: Rent tokens

After deciding which machine to play, the player rents special tokens.

Step 2: Enter tokens, spin the reels

The player puts three or more tokens into the machine's token slot and pushes the lever to spin the reels.

Step 3: Halt the reels

The player halts the reels by using the stop buttons on the front of the machine cabinet.

Step 4: Depending on the figures the halted reels show ...

If the reels show the same three figures in a line, depending on the figures, the player can either spin the reels again, receive a small payout of a set number of tokens, or begin a jackpot bonus game.

1. Main reels
2. Credit display
3. Bet button
4. Lever
5. Stop buttons
6. Payout display
7. Token slot
8. Panel
9. Tray for receiving tokens
10. Token discharge

Pachislot ALIYAN BEGINS
© Sammy

The History of Pachinko and Pachislot

	Pachinko	Pachislot
1920s	Bagatelle boards arrive in Japan from overseas	
1930s	First pachinko hall opens for business in Nagoya	
1940s	Prototype of modern machines, "Masamura Gauge" appears Entertainment Establishments Control Law enforced, pachinko halls begin operating under license	
1950s	Pachinko machine manufacturers' industry association, Nikkoso, established First pachinko machines with *Yakumono* appear	
1960s	Machines with tulip-shaped devices appear	Large slot machines imported to Japan
1970s	Electric pachinko machines appear	
1980s	Pachinko machines with digital displays, *digipachi*, appear	Pachislot machine manufacturers' industry association, Nichidenkyo, established Box-cabinets appear and spread rapidly
1990s	1991 Pachinko machines with LCDs appear 1992 "CR machines" compatible with prepaid cards appear First tie-up pachinko machine appear	No. 2 through No. 4 pachislot machines appear
2000s	2004 Revised Entertainment Establishments Control Law enforced New-format machines appear	Games diversify with appearance of modified slot machines, CT machines, multi-line, and large-jackpot machines 2004 Revised Entertainment Establishments Control Law enforced No. 5 pachislot machines appear

Pachislot & Pachinko

Market Structure

This section focuses on the pachinko and pachislot machine market's highly distinctive structure and regulatory environment.

Market Scale

One of Japan's flagship leisure industries, pachinko and pachislot claims a major share of the country's leisure market. Comprising the ball and token rental fees that the halls charge, this market accounts for roughly 28.4% of the leisure market, revenues of ¥19.3 trillion,[1] and 16.7 million players.

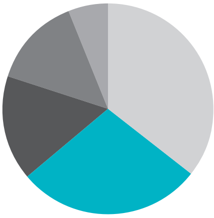
Of the approximately ¥1,173.6 billion[2] in revenues generated, the pachinko machine market represents 75.6%, or ¥886.9 billion, and the pachislot machine market 24.4%, or ¥286.7 billion. Recently, the evolution of this market has been extending the boundaries of the pachinko and pachislot machine industry to include new industries (e.g. the increasing use of advanced technologies for pachinko and pachislot machines is strengthening ties with manufacturers of LCDs, light-emitting diodes (LEDs), sensors). Meanwhile, the growing automation of the pachinko halls is supporting an industry that produces peripheral equipment for the machines.

1 2010. Source: *White Paper on Leisure Industry 2011*, Japan Productivity Center
2 2010. Source: Yano Research Institute Ltd.

Shares of Pachinko and Pachislot in Japan's Leisure Market

	Trillions of yen	%
Games / Publicly Operated Sports / Eating and Drinking	24.1	35.5
Pachinko and Pachislot[1]	19.3	28.4
Hobbies	10.8	15.9
Tourism	9.5	14.0
Sports	4.0	5.9

Japan's Leisure Market[2] ¥67.9 trillion

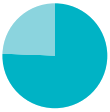


Source: *White Paper on Leisure Industry 2011*, Japan Productivity Center

Pachinko and Pachislot Machine Market Scale[3]

	Billions of yen
Pachinko machines	886.9
Pachislot machines	286.7

¥1,173.6 billion



Source: Yano Research Institute Ltd.

1 Total amounts of hall ball and token rentals
2 2010.
3 Fiscal 2010 (settlement dates from July to June)

Competitive Conditions of the Pachinko and Pachislot Machine Market

The pachinko and pachislot machine market comprises 34[3] pachinko machine manufacturers and 84[4] pachislot machine manufacturers. Manufacturers' shares of the market fluctuate significantly depending on whether or not they have hit titles. Recent years, however, have seen a concentration of orders on a certain group of manufacturers, increasing the market shares and consolidating the standing of the leading manufacturers. This reflects the strengthening of a tendency among pachinko hall operators—who face tough market conditions—to choose machines and brands that have proven high utilization rates and hence likely to give a reliable return on investment. Consequently, the industry is witnessing a growing trend toward tie-ups and mergers centered on companies with robust development capabilities and abundant funds for investment.

3 As of July 31, 2011. Member companies of Nikkoso, the pachinko machine manufacturers' industry association
4 As of February 28, 2011. Member companies of pachislot manufacturing network

Overview of the Regulatory Environment and Its Effect

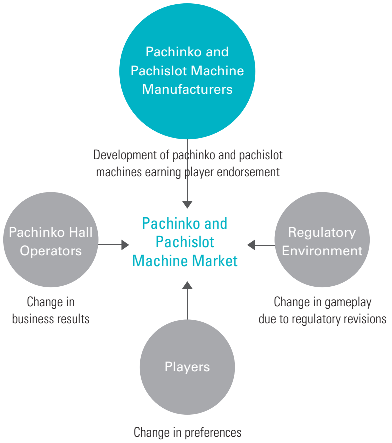
Before launching a machine, manufacturers are required to navigate an approval process in accordance with the Entertainment Establishments Control Law. First, they must file an application for prototype testing with the Security Electronics and Communications Technology Association, acquire certification that elements like materials, functions, and gameplay are in conformance with the law. Then, the machines are verified by the Public Safety Commission in each prefecture. Only then can they be supplied to pachinko halls. Before operations, the halls must acquire approval from district police stations.

The Entertainment Establishments Control Law and the internal regulations of industry bodies have been revised with a view to the sound development of the industry. These changes, and manufacturers' innovations in response, have driven cyclical changes in market conditions. In the 1990s, changes in regulations and internal regulations aimed at controlling excessive gambling elements caused a sudden slump in the pachinko market, while triggering expansion of the pachislot market. More recently, July 2004 saw the revision of regulations pertaining to the Entertainment Establishments Control Law, which initiated major changes that continue to affect the market.

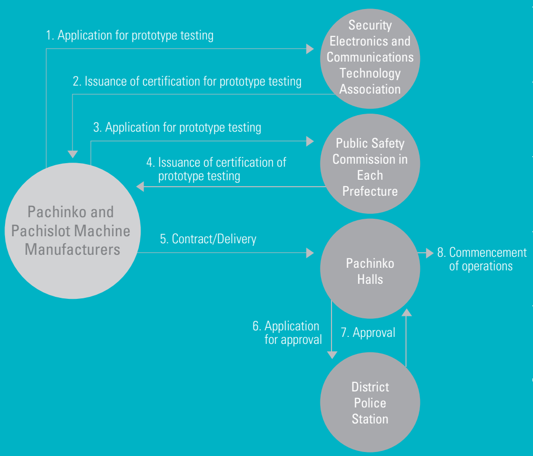
Market Factors

Pachinko and pachislot are subject to regulation under the Entertainment Establishments Control Law. Changes in this regulatory environment affect the development of pachinko and pachislot machines and lead to structural change in the market as a whole.

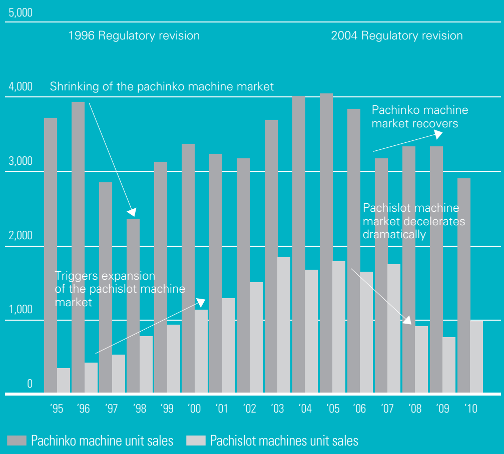
The business results of pachinko hall operators affect sales in the pachinko and pachislot machine market. When they are in a favorable financial position and have extra capital investment capacity, pachinko hall operators actively replace existing machines with new ones to attract customers. A good gauge of pachinko hall operators' investment appetite is annual turnover, which shows how many times pachinko hall operators replace machines during one year. Whether or not hall operators install appealing pachinko and pachislot machines that cater to fans' needs significantly affects their business results. Machines with high utilization rates—the utilization time of pachinko and pachislot machines as a percentage of business hours—have earned player endorsement.



Approval Process for Pachinko and Pachislot Machines



Cyclically Changing Market Conditions



Fiscal years (settlement dates from July to June)
Source: Yano Research Institute Ltd.

The Market

Pachinko and Pachislot Machine Market

Long-Term Trends—from the 1990s to 2005

After peaking in 1995, the pachinko and pachislot market[1] entered a period of long-term decline, stemmed from a reduction in the number of players, mainly due to casual players leaving the market because an increasing number of machines featured more complicated gameplay or strong gambling elements. Fiercer competition among pachinko halls to attract players and major operators' expanding market share led to a shakeout of small halls, and the number of halls continued to decrease.

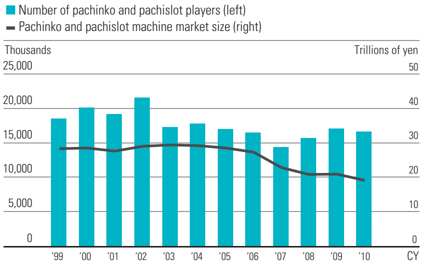
Meanwhile, unit sales of pachinko and pachislot machines remained solid, thanks to heavy demand from pachinko halls as they sought to secure players by replacing existing machines with new models. The market generated higher revenue levels as the prices of machines continued to rise due to the incorporation of such features as LCDs. From the mid-1990s onward, however, regulatory reform caused pachinko machine installations to trend downward, while installations of pachislot machines grew because they offered a wider scope of gameplay thanks to the requirement of much more playing skill and the incorporation of such new functions as "assist time."

Following the July 2004 Regulatory Revision
1. Pachislot Machine Sales Slump, Pachinko Machine Sales Rise (from 2006 to mid-2009)

Focused on controlling excessive gambling elements, the regulatory revision of July 2004 narrowed the scope of pachislot machines' gameplay. The effect of the revision became clear from fall 2007: after the interim measures period[2] ended. As hall operators proceeded in stages with the replacement of old-format pachislot machines with those compliant with the new regulations, players' departure from the market accelerated due to difference in gameplay. In response, hall operators actively replaced pachislot machines with pachinko machines, which were recording steady utilization rates.[3] This resulted in an upturn in installations of pachinko machines. Also, the pachinko machine market continued to expand on a revenue basis due to higher prices, attributable to the increasing use of advanced technologies and a hike in copyright fees that reflected fiercer competition over the acquisition of intellectual property. Facing deteriorating profitability as the investment burden of machine replacement grew while player numbers declined, hall operators sought reliable returns by introducing machines that promised high utilization rates. This caused the market to polarize further into two groups: leading manufacturers and other manufacturers.

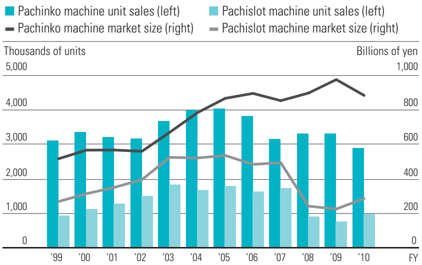
1 The total of pachinko hall operators' ball rental fees and token rental fees
2 Viewing to mitigate sudden change of conditions and investment burden of hall operators, the regulatory revision of July 2004 included a three-year interim measures period for replacing old machines with new-format machines.
3 The utilization time of pachinko and pachislot machines as a percentage of business hours

Pachinko and Pachislot—Player Numbers and Market Size



Source: *White Paper on Leisure Industry 2011*, Japan Productivity Center

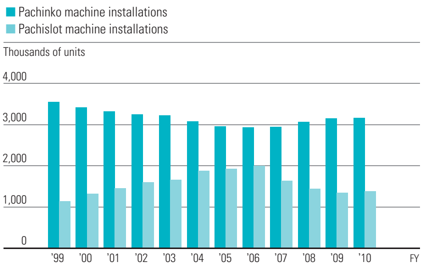
Pachinko and Pachislot Machines—Unit Sales and Market Size



Source: Yano Research Institute Ltd.

Settlement dates from July to June

Pachinko and Pachislot Installations



Source: National Police Agency

2. Pachinko Machine Sales Decelerate, Pachislot Machine Sales Recover (mid-2009 to the first half of 2011)

From around 2008, casual players began to leave the pachinko market due to the increasing installation of pachinko machines with a strong gambling element, known as "Max-type" machines. Aiming to counter this trend and broaden the base of players, hall operators adopted a strategy of lowering ball rental fees called "one yen pachinko," while manufacturers introduced pachinko machines with a weaker gambling element, called "amadigi."

Although lowering ball rental fees increased utilization rates, in the short-term it led to a decline in sales per machine for hall operations, which worsened their business. As the sudden drop in annual turnover shows, the softening of replacement demand for new pachinko machines—which had underpinned the market—became pronounced from the second half of 2009.

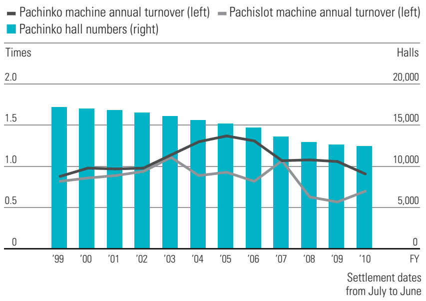
Meanwhile, the downward trend in pachislot machine sales since fall 2007 is approaching a turning point. Manufacturers' development efforts have enhanced the appeal of pachislot machines and restored their popularity. The marked improvement of a range of indicators testifies to this positive change. With pachinko hall operators' replacement of low-utilization pachinko machines with pachislot machines providing a tailwind, hit pachislot machines that ship nearly 100,000 units per title are emerging.

Tasks the Industry Must Tackle

Although there are promising signs, such as the pick-up in pachislot machine sales, annual turnover remains low. This indicates pachinko hall operators' cautiousness about introducing new machines is largely unchanged and that the industry has outstanding tasks to address to achieve a recovery in the overall market. The manufacturers that are able to enhance competitiveness by using their abundant funds for development and advanced development capabilities is becoming even more clearly defined. And, the industry is seeing intensified tie-up and merger activity.

To realize a full-fledged recovery of the pachinko and pachislot machine market, hall operators—manufacturers' primary customers—have to stabilize their business positions. To achieve this, increasing the number of players is indispensable. Therefore, the industry must make a concerted effort to develop new groups of players. Pachinko and pachislot machine manufacturers have to cater to the needs of a wide range of players by concentrating on the development of machines that are easier to play. At the same time, pachinko halls need to manage operations with an emphasis on broadening their base of players.

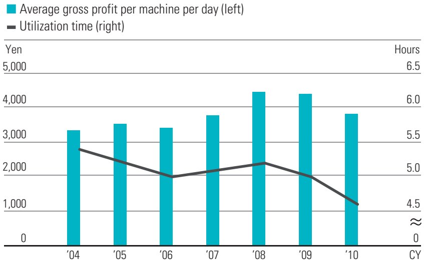
Annual Turnover* and Pachinko Hall Numbers



* Annual turnover = Annual unit sales ÷ Machine installations
Sources: The Company has calculated annual turnover based on data from the National Police Agency and Yano Research Institute Ltd. Pachinko hall numbers are from National Police Agency.

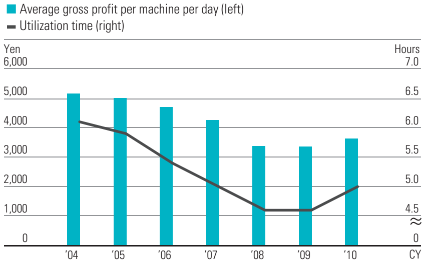
Utilization of Pachinko and Pachislot Machines

Pachinko Machines



Source: Daikoku Denki Co., Ltd., *DK-SIS* data

Pachislot Machines



Source: Daikoku Denki Co., Ltd., *DK-SIS* data

Amusement Market (amusement arcade machines/amusement center operations)

Amusement Center Operations Market Continues to Contract

Having contracted until around 2001, the amusement center operations market expanded for five consecutive years, from fiscal 2002 through 2006. This growth was due to an increase in amusement centers in shopping centers and a rise in the popularity of kids' card games and other family-oriented game machines.

However, partly because efforts to target families by increasing the number of amusement centers within shopping centers had strengthened the correlation between the amusement center operations market and consumer spending trends, the downturn in consumer spending accompanying the financial crisis significantly impacted the market, and it began to shrink from fiscal 2007.

Existing amusement centers sales have continued to edge down year on year since fiscal 2004. Efforts to stimulate sales by introducing arcade machines differentiated from home video games, such as network-compatible games have been unable to attract new players in sufficient numbers to grow market size.

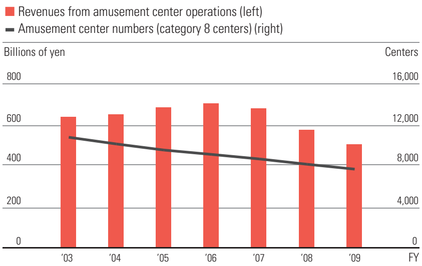
Existing Amusement Centers Slump, Fund-Raising Conditions Worsen

Reflecting the downturn in consumer spending, in fiscal 2009 sales from amusement center operations dropped 12.0% year on year. Faced with fund-raising difficulties arising from the financial crisis and decreasing revenues due to players leaving the market, amusement center operators began to lose the extra capital investment capacity required to invigorate their amusement centers. Given the rising prices of machines due to the introduction of such high-value-added machines as online-compatible machines, enabling operators to lower their initial investment burden and heighten investment efficiency has become a pressing task.

By game type, while video game revenues have decreased a significant 17.6%, games that can be differentiated from home video games, such as prize game machines and medal games, are performing comparatively well. Further, network-compatible games are accounting for a growing share of revenues.

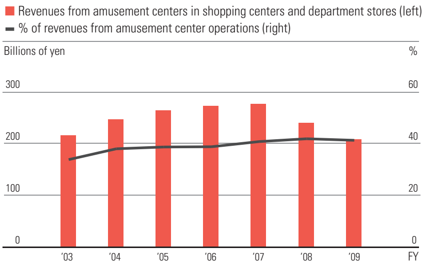
Since fiscal 2008, the decline in the number of amusement centers has been accelerating. Initially, this was attributable to the withdrawal of small amusement center operators. Recently, however, major amusement center operators' closure of unprofitable amusement centers has become an increasingly important factor. In fiscal 2009, the number of amusement centers was down 5.8% year on year.

Amusement Center Numbers and Market Size



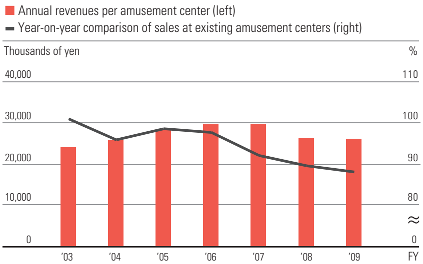
Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2009*

Revenues from Amusement Centers in Shopping Centers and Department Stores



Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2009*

Year-on-year Comparison of Annual Revenues per Center and Sales at Existing Amusement Centers



Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2009*

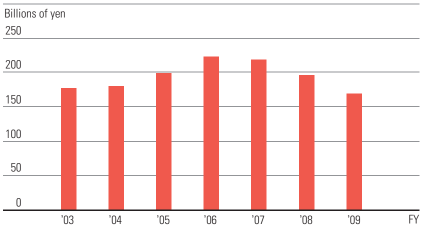
Amusement Machine Sales Decrease

The capital investment of amusement center operators directly affects the market for amusement arcade machines.

The market for amusement arcade machines, which had expanded continuously for five years, began to contract from fiscal 2007—coinciding with a year-on-year decrease in amusement center revenues. Fiscal 2009 saw an increase in the rate of contraction as revenues fell 13.5% year on year.

Against a backdrop of fewer amusement centers and lower extra investment capacity among amusement center operators, demand for large and high-priced products is weakening.

Amusement Arcade Machine Sales*



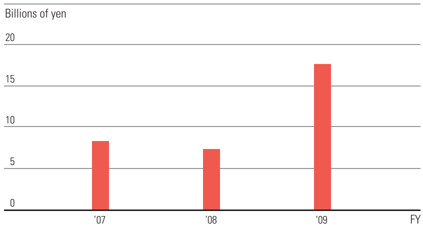
Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2009*

* Total domestic sales and exports

New Business Models Support Amusement Center Operators

The industry is taking various measures to break out of a vicious cycle in which the absence of steps to invigorate game centers loses players. For example, revenue-sharing business models are becoming widespread. Under such arrangements, manufacturers sell amusement arcade machines at low prices and share revenues from machine utilization with amusement center operators. This model is likely to become even more common because it enables the entire industry to benefit. Other initiatives manufacturers are pursuing include standardizing machine cabinets, adopting systems that enable amusement center operators to upgrade content by simply replacing computer graphics boards or downloading through networks, and introducing multipurpose computer graphics boards that reduce cost.

Revenues from Content Fees / Revenue-sharing Business Models



Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2009*

Manufacturers Target the Development of New Groups of Players

Widening the base of players is a task the industry must address if it is to achieve sustained growth. Therefore, the industry is increasing the establishment of new usage fees and rates, such as time charges or content fees, that encourage a wider group of users to play amusement arcade machines while facilitating the diversification of earnings sources. Also, the industry is expanding and improving services with the introduction of electronic money enabling the use of additional services. Amid sluggish market conditions, new business models including such charge formats and revenue-sharing business models are growing impressively; more than doubling revenues year on year. The industry is also looking to develop services that link PCs, mobile phones, and home video game consoles.

In recent years, the increasing number of senior citizens visiting amusement centers has been attracting attention. As birth rates decline and society ages, the industry is regarding senior citizens as a promising new customer group. In order to tap into this potential, the industry must embark upon new initiatives. Specifically, amusement center operators need to enhance services that cater to senior citizens, while amusement arcade machines manufacturers have to develop products suited to them.

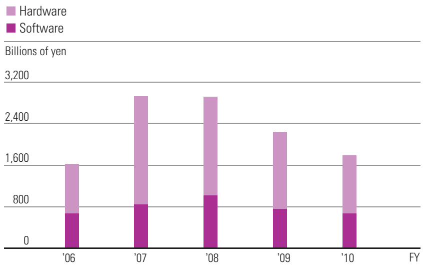
The Market

Home Video Game Software Market

Home Video Game Software Market Trends toward Contraction

In 2010, Japan's home video game software market shrank for the fourth straight year, Overseas, contraction of the market continued from the previous year in Europe and in North America. Diverse changes in conditions are affecting the home video game software market. These include slumping consumer spending, an expanding pre-owned market, more customers purchasing through downloads, and the emergence of free video games. In addition, among software publishers the increasing market dominance of hit titles is widening the gap between winners and losers. As a result, many software publishers are having to restructure their businesses.

Global Shipment of Home Game Software



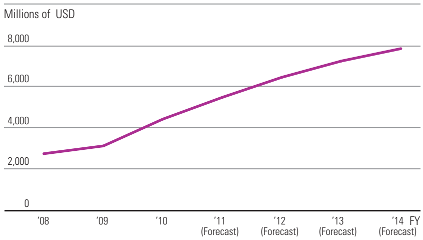
Sourse: CESA *Game White Paper 2011*

Game Content Market Sees Significant Structural Change

In 2010, global smartphone shipments were up 74%* year on year. Thanks to communications infrastructure with wider bandwidths and the dramatically better performance of handsets, this latest generation of mobile phones is steadily attracting casual players and new players mainly to game content that they can play casually. Also, the number of players of social games available through SNS is rising rapidly due to the huge worldwide memberships of such services. Around the world, these new game platforms are causing a major tectonic shift in the home video game software industry.

* Source: *Famitsu Game Whitepaper 2011*

Forecast for Game Download Market for Mobile Phones in North America, Europe, Japan, China, Korea, and India

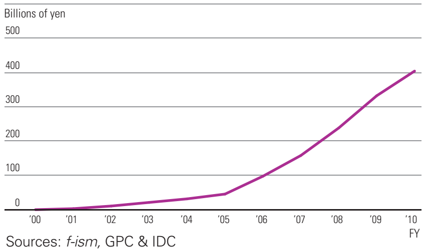


Sources: *f-ism,* Screen Digest

Home Video Game Software Industry Hastens to Change Business Models

In response to the contraction of existing markets, software publishers are intensifying efforts to roll out content for new platforms with growth potential. As competition in new markets becomes fiercer, tasks that software publishers must tackle include shortening development lead times, catering to different player groups and playing environments, and differentiating their offerings effectively among a huge amount of content. Accordingly, software publishers are reweighting their allocation of development resources by establishing subsidiaries or divisions dedicated to these new markets. Further, they are rapidly switching over to new business models through the introduction of such initiatives as charging by item. Also, software publishers are beginning efforts to develop Asia's online game market, which continues to grow.

The Size of China's Online Game Market



Sources: *f-ism,* GPC & IDC

Toy and Animation Markets

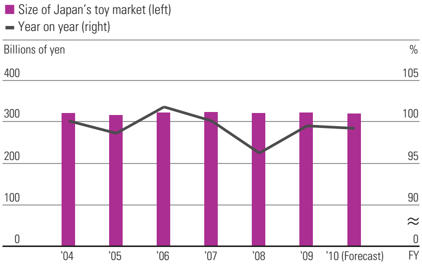
Toy Industry Steps up Marketing for Broader Groups

In fiscal 2010, the size of Japan's toy shipment market, comprising eight main product categories and excluding home video game platforms and software, is expected to edge down 0.7%* year on year, to ¥321.5 billion. Despite increasingly conservative, thrifty consumer sentiment, the emergence of hit products in the card games, trading card games, and boys' character toys categories are supporting the market. Mindful of Japan's declining birth rates and an aging society, the toy industry is redoubling efforts to develop new markets through toys that promote the well-being of senior citizens while strengthening initiatives to roll out products in overseas markets.

CG and 3D Animation Emerge as New Growth Areas in Animation Market

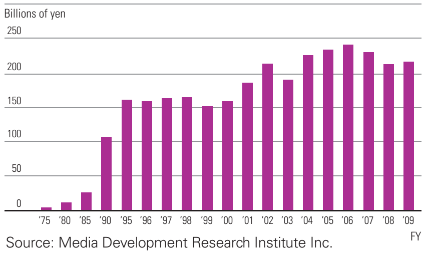
Having declined since 2006, the number of animation series broadcast on television picked up slightly. Diversified broadcasting, in terms of TV stations, broadcast days, and broadcast times, has become established and caters to the preferences of a range of different viewers. There has been a pronounced trend toward some animation works that were originally in video format becoming hits after showing at movie theaters. Other animation works are seeing steady sales growth due to demand for high-quality products from core fans. Further, the evolution of technologies for CG animation as well as 3D-compatible animation are attracting interest as keys to fresh growth in the animation market.

Toys-Market Size in Japan
(excluding home video game software and platforms)



* Shipment basis
Source: Yano Research Institute Ltd.

Animation Market
(for movie theaters, television, DVDs, network distribution)



Source: Media Development Research Institute Inc.

Market Data

Number of Pachinko Halls

Number of halls

CY	2006	2007	2008	2009	2010
Number of pachinko halls with pachinko machines installed	12,588	12,039	11,800	11,722	11,576
Number of pachinko halls with only pachislot machines installed	2,086	1,546	1,137	930	903
Total	14,674	13,585	12,937	12,652	12,479

Source: National Police Agency. Number of pachinko halls with pachinko machines installed includes halls that combine installations of pachinko machines, pachislot machines, arrange-ball machines, and other machines.

Pachislot Machine and Pachinko Machine Sales, Installed, and Market Scale

CY/FY*		2006	2007	2008	2009	2010
Pachislot machines	Machine sales (units)	1,647,759	1,744,308	913,094	766,094	979,794
	Machines installed (units)	2,003,482	1,635,860	1,448,773	1,347,176	1,390,492
	Market scale (millions of yen)	490,959	502,501	247,860	225,860	286,700
Pachinko machines	Machine sales (units)	3,837,960	3,173,725	3,339,146	3,332,984	2,900,286
	Machines installed (units)	2,932,952	2,954,386	3,076,421	3,158,799	3,163,650
	Market scale (millions of yen)	898,646	868,623	921,338	985,227	886,914

Sources: National Police Agency (machines installed) and Yano Research Institute Ltd. (machine sales and market scale)

* Number of installed machines is on a calendar year basis. Number of machine sales and market scale information is on a fiscal year basis (settlement dates from July to June).

Amusement Machine and Amusement Center Operations Markets

FY	2005	2006	2007	2008	2009
Net sales of amusement machines (millions of yen)	199,227	223,357	219,061	196,164	169,632
Net sales from amusement center operations (millions of yen)	682,458	702,857	678,099	573,104	504,271
Number of amusement centers	9,515	9,091	8,652	8,137	7,662
Year-on-year comparison of sales at existing amusement centers (%)	98.7	97.8	92.2	89.7	88.2

Source: JAMMA, AOU, NSA, *Amusement Industry Survey 2009*

Global Shipment of Home Game Software

Billions of yen

FY	2006	2007	2008	2009	2010
Software	674.1	848.6	1,024.3	758.6	670.5
Hardware	958.1	2,087.7	1,908.3	1,490.8	1,126.9

Source: CESA *GAME White Paper 2011*

Forecast for Game Download Market in Major Markets*

Millions of USD

CY	2008	2009	2010	2011 (Forecast)	2012 (Forecast)	2013 (Forecast)	2014 (Forecast)
Game download market for mobile phones	2,764	3,139	4,437	5,491	6,461	7,248	7,848

* North America, Europe, Japan, China, Korea, and India

Sources: *f-ism*, Screen Digest