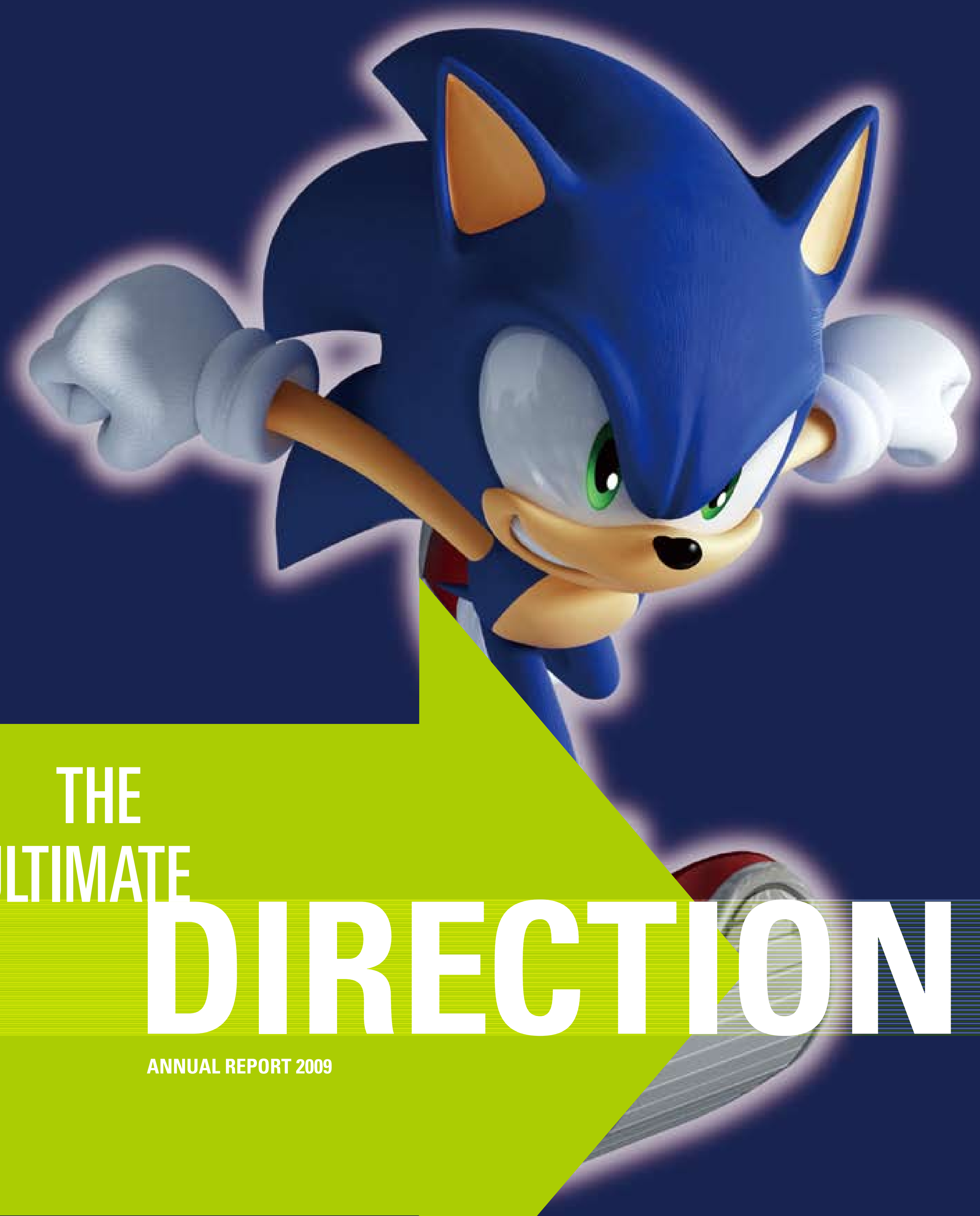
SEGA SAMMY HOLDINGS INC.



THE ULTIMATE DIRECTION

ANNUAL REPORT 2009

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.]

SEGA SAMMY HOLDINGS

IN ASSOCIATION WITH ITS SUBSIDIARIES

PRESENTS

THE ULTIMATE DIRE

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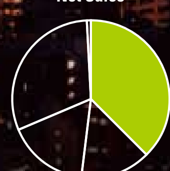
ANNUAL REPORT 2009

Business Overview

Pachinko CR Hokuto No Ken

Composition of Net Sales



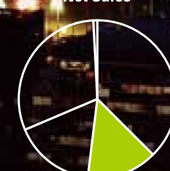
37.7%

PACHINKO AND PACHISLOT MACHINE BUSINESS

This segment, which is a key source of revenues and profits for the Group, comprises the pachinko machine business and the pachislot machine business. In the pachinko machine business, we are aiming to enhance our market presence by further strengthening development, and in the pachislot machine business we are working to develop and supply machines with innovative gameplay that will contribute to the reactivation of the market.

Sangokushi Taisen 2

Composition of Net Sales



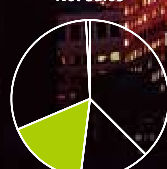
14.4%

AMUSEMENT MACHINE SALES BUSINESS

In this business, we have contributed to the development of the market by making full use of our unsurpassed development capabilities to break new ground with the introduction of innovative products. The segment has established a full lineup of products that appeal to a wide range of players, including network-enabled trading card games and other high-value-added products, which are one of the segment's strengths. Moreover, aiming to reactivate the amusement-related market, we are introducing new business models.

TOKYO JOYPOLIS

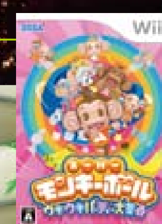
Composition of Net Sales



16.6%

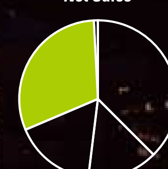
AMUSEMENT CENTER OPERATIONS

Through cooperation with the Amusement Machine Sales Business segment, the Amusement Center Operations segment can offer in-house products that meet the needs of a wide range of players. This ability is one of the segment's key strengths. As demonstrated by the success of such products as *Print Club, UFO Catcher*, and *The King of Beetles "MUSHIKING"*, the segment is tracking market needs and reflecting them in the development of amusement arcade machines.



Super Monkey Ball Step & Roll
© SEGA

Composition of Net Sales



30.6%

CONSUMER BUSINESS

The home video game software business offers a number leading titles, such as the *Sonic* series, and the SEGA brand has established a strong presence around the world. We are working to further increase revenues and profits by establishing an organization based on the integration of marketing and development divisions and by strengthening cooperative initiatives among Japan, the United States, and Europe. In addition, through Group companies we are also active in such businesses as content for mobile phones and PCs, toys, and animation-related products.

Management Environment
Pachinko and Pachislot Machine Market

Note: The pachinko and pachislot market comprises the sales of pachinko hall operators such as from the rental of balls and tokens, while the pachinko and pachislot machine market refers to the market for the sales of these machines to pachinko hall operators.

For basic information about the pachinko and pachislot market

DECLINE IN PLAYER POPULATION LEADS TO SLUGGISH PACHINKO AND PACHISLOT MARKET

Since peaking in the mid-1990s, the scale of the pachinko and pachislot market has contracted. A The context for this trend is a decline in the player population stemming from the loss of players resulted from an increase in the installation of machines with complex gameplay and a heightened gambling element. B As the player population has declined, annual spending per player has increased, demonstrating the increase in the proportion of frequent players due to the decline in casual players.

PACHINKO AND PACHISLOT MACHINE MARKET REMAINS STRONG

Despite the increasingly sluggish trends in the player population and the scale of the pachinko and pachislot market, annual unit sales of pachinko and pachislot machines nonetheless remained strong. C The reason is that, as competition among pachinko halls to attract players intensified, pachinko halls stepped up the replacement of machines as one facet of their efforts to bolster their operations. In addition, accompanying a trend toward higher-value-added machines, such as machines incorporating large LCD screens, machine prices have increased, and the pachinko and pachislot machine market has followed a growth trend. A

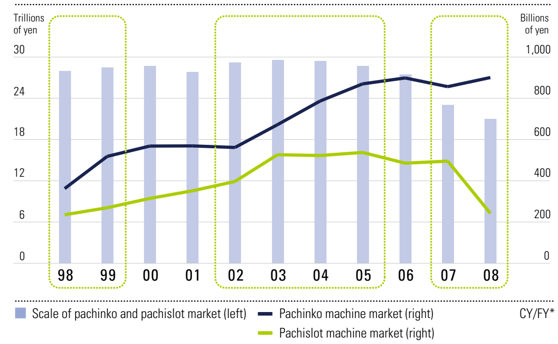
TURNOVER CLEARLY DEMONSTRATES CHANGES IN MARKET ENVIRONMENT

Although total machine installations have been sluggish, annual turnover has been increasing. D High-frequency machine replacement, undertaken by pachinko halls with the objective of bolstering pachinko hall operations, has supported growth in the pachinko and pachislot machine market. Annual turnover – annual unit sales divided by the total number of machines installed – indicates how many times a year machines are replaced. It is an important indicator for understanding the condition of the pachinko and pachislot machine market. A change in that trend can be seen from 2004, and that change is the key to analyzing the current market environment.

PACHINKO HALL MANAGEMENT ENVIRONMENT SUBSTANTIALLY INFLUENCED BY REGULATORY REVISION

A revision of regulations pertaining to the Entertainment Establishments Control Law was implemented in July 2004. Under the influence of changes in gameplay accompanying the regulatory revision, the player population decreased, especially for pachislot. In addition, as a result of the increased capital investment burden on account of the changeover to new-format machines and the increase in machine costs, the pachinko hall management environment worsened further. In this setting, the reason why the number of installed machines per hall is increasing is that smaller halls are closing as major chain operators open large halls, and accordingly the number of halls is declining. E

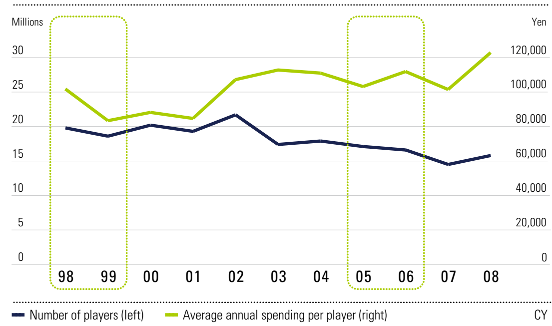
A Scale of Pachinko and Pachislot Market and Pachinko and Pachislot Machine Market



Source: Pachinko and pachislot market – *White Paper on Leisure Industry 2009*, Japan Productivity Center; Pachinko and pachislot machine market: Yano Research Institute Ltd.

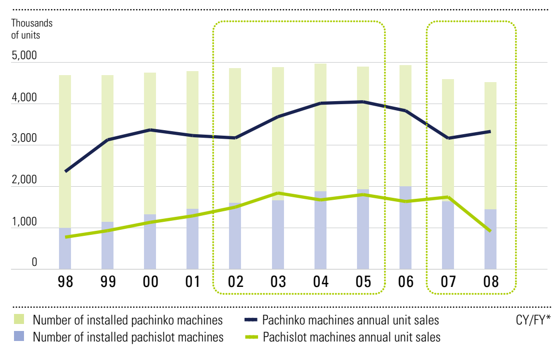
* Pachinko and pachislot market information is on a calendar year basis. Pachinko and pachislot machine market information is on a fiscal year basis (settlement dates from July to June).

B Number of Players and Average Annual Spending per Player



Source: *White Paper on Leisure Industry 2009*, Japan Productivity Center

C Number of Installed Pachinko and Pachislot Machines and Annual Unit Sales

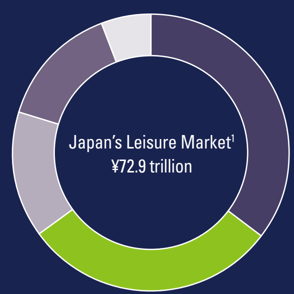


Sources: Number of installed machines: National Police Agency; Annual unit sales: Yano Research Institute Ltd.

* Number of installed machines is on a calendar year basis. Annual unit sales are on a fiscal year basis (settlement dates from July to June).

Pachinko and Pachislot Market Structure

Share of Pachinko and Pachislot in Japan's Leisure Market



- Games/Public Gambling/ Eating and Drinking ¥25.7 trillion 35.3%
- **Pachinko and Pachislot[2] ¥21.7 trillion 29.8%**
- Hobbies ¥10.7 trillion 14.7%
- Tourism ¥10.5 trillion 14.4%
- Sports ¥4.2 trillion 5.8%

Source: *White Paper on Leisure Industry 2009*, Japan Productivity Center
1 2008
2 Total amount of ball and token rentals

PACHINKO AND PACHISLOT MARKET

A Dominant Position in Popular Entertainment

Pachinko's roots are said to lie in the import of *Bagatelles* from overseas in the 1920s. In pachinko, the gameplay is similar to pinball, but a large number of pins are attached to the board, which is nearly vertical. Pachinko is played with balls that have a diameter of about 11 mm. When the balls fall into the tulip-shaped devices or the jackpot mouth, additional pachinko balls are won from the jackpot. This is a distinctive aspect of the entertainment value of pachinko. In recent years, the main trend in pachinko machines has been a type known as *Digipachi*, or digital pachinko machines. These machines incorporate a variety of electronics, such as large-screen LCDs.

Slot machines were introduced to Japan from the United States in the 1960s. They were subsequently improved, resulting in an original form of entertainment available only in Japan – pachislot. A major difference from slot machines is that players can choose when to use a button to stop the rotating reels.

Fans continue to be attracted by ongoing advances in the entertainment value offered by pachinko and pachislot, which form a huge market of ¥21 trillion*, or about 30% of Japan's leisure market. Pachinko and pachislot have established a dominant position in popular entertainment in Japan.

* Total amount of pachinko hall ball and token rentals in 2008

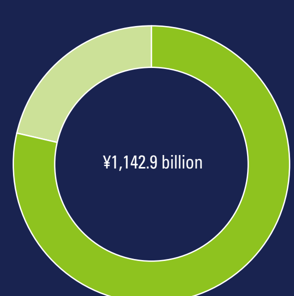
PACHINKO AND PACHISLOT MACHINE MARKET

A Broad Base of Supporting Industries

Pachinko and pachislot have an extremely broad base of supporting industries. In addition to the pachinko and pachislot market, which is centered on the rental of balls and tokens by pachinko halls to players, the industry includes the pachinko and pachislot machine market, which has a scale of about ¥1.14 trillion[1]. Furthermore, against a backdrop of growing use of advanced technology in pachinko and pachislot machines, the industry influences a wide range of industrial areas, such as LCD panels, LEDs, semiconductors, and sensors. As of June 30, 2009, there were 30 pachinko machine manufacturers[2] and 82 pachislot machine manufacturers[3]. In both of these markets, the companies with superior brands and development capabilities have high market shares.

1 Source: Yano Research Institute Ltd.
2 As of the end of June 2009. Member companies of Nikkoso, a pachinko machine manufacturers industry association.
3 As of the end of June 2009. Member companies of pachislot manufacturing network.

Pachinko and Pachislot Machine Market Scale*



- Pachinko machine market scale ¥900.6 billion
- Pachislot machine market scale ¥242.3 billion

Source: Yano Research Institute Ltd.
* Fiscal 2008 (settlement dates from July to June)

Market with a Broad Base of Supporting Industries

Pachinko and Pachislot Market (ball rental and token rental): ¥21.7 trillion

Pachinko and Pachislot Machine Market: ¥1,142.9 billion

Pachinko and Pachislot Machine Component Market (Cabinets • Boards • Devices): about ¥460.0 billion
- LCDs
- LEDs
- Semiconductors
- Sensors
- Security devices
- Sound equipment

Pachinko and Pachislot Peripherals Equipment Market: about ¥160.0 billion
- Prize POS
- Automatic prize-dispensing machines
- Member management systems
- Counting systems
- Ball (token) supply systems
- Prepaid systems

Prizes

Pachinko Machine

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

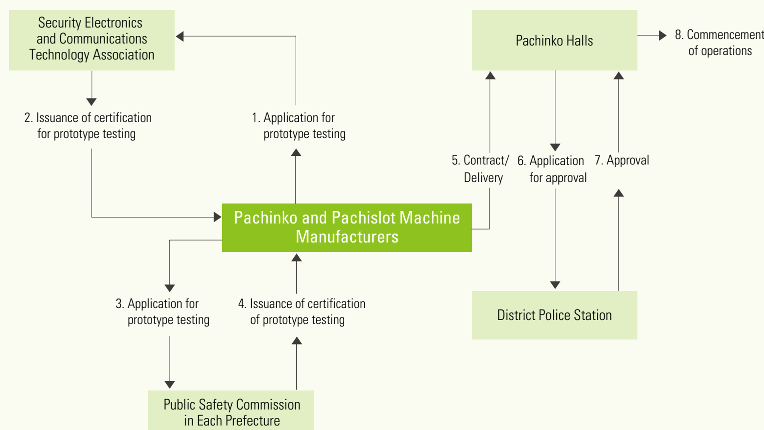
Pachislot Machine

Pachislot Hard-Boiled
© Sammy

REGULATORY ENVIRONMENT

Before they launch a pachinko or pachislot machine, manufacturers are required to navigate an approval process with multiple stages in accordance with the Entertainment Establishments Control Law. First, manufacturers must file an application for prototype testing with the Security Electronics and Communications Technology Association. They must acquire certification that such elements as materials, functions, and gameplay are in conformance with the requirements of the Entertainment Establishments Control Law. Then, the machines are verified by the Public Safety Commission in each prefecture. Only then can they be sold and supplied to pachinko halls. At that point, the pachinko halls must apply for approval of the machines from the district police stations, and after approval is obtained, the new machines can be used in operations.

Approval Process for Pachinko and Pachislot Machines



REGULATORY REVISIONS INFLUENCE DEVELOPMENT OF PACHINKO AND PACHISLOT MACHINES

The Entertainment Establishments Control Law is periodically revised, with a focus on such issues as limiting the gambling element, eliminating misconduct, and diversifying gameplay. In general, the pachinko and pachislot machine manufacturers have been able to retain and attract fans and have continued to support the growth of the market. In July 2004, a revision of regulations pertaining to the Entertainment Establishments Control Law was implemented. From the mid-1990s, there was an increase in the installation of machines with a strong gambling element, and frequent players began to account for a growing share of the player population. The July 2004 revisions were intended to promote sound industry development through the control of the excessive gambling element and the supply of machines that could be easily enjoyed by casual players. With pachinko machines, the regulatory revision made it possible to develop innovative machines with integrated gameplay due to the elimination of the previous machine categories*. With pachislot machines, the focus of the regulatory revision was on promoting the development of machines with gameplay that could be enjoyed for long periods of time for a small amount of money by a wide range of players. Accordingly, pachinko and pachislot machine manufacturers responded to these revisions by adjusting the directions of their machine development efforts. (For more information, please see pages 8 and 11.)

* Prior to the July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law, the regulations classified pachinko machines into three types: Type 1 *Digipachi*, Type 2 *Hane-mono*, and Type 3 *Kenri-mono*.

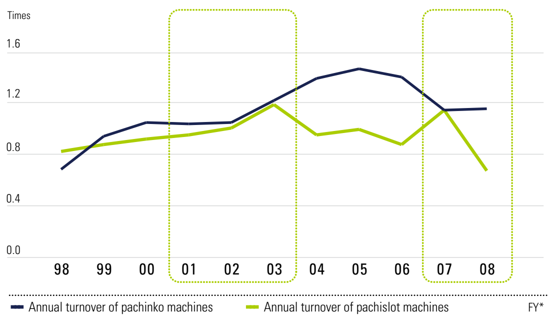
MAJOR CHANGES IN THE PACHINKO AND PACHISLOT MACHINE MARKET

From 2005, pachinko halls struggled with limited capital investment resources, and have taken an increasingly cautious approach to replacing their machines. As a result, pachislot machine turnover began to decline especially rapidly, as time was required to develop pachislot machines with gameplay that met market needs under the revised regulations. D In 2007, the market reached the limit for the installation of old-format machines in accordance with an interim measure that had been established to ameliorate the short-term influence of the regulatory revision. As a result, in 2007 old-format machines were simultaneously replaced with new-format machines, and pachislot machine turnover temporarily showed a sharp increase.

PACHINKO MACHINE AND PACHISLOT MACHINE MARKET SINCE REGULATORY REFORM

Under the influence of regulatory revisions, the pachinko machine and pachislot machine markets have different characteristics. With a greater degree of latitude in development, manufacturers are developing and supplying pachinko machines that meet diverse user needs, and the market environment has remained comparatively favorable. On the other hand, in the pachislot machine market, due to major changes in gameplay in comparison with the old regulations, time has been required to develop innovative gameplay, and annual unit sales and installations are on a declining trend. C In March 2008, the Standards for Interpretation of Technical Specifications related to the development of pachislot machines were partially relaxed. Manufacturers have moved ahead with the development of machines offering gameplay that is attractive to players, but the market has not yet been reactivated. To increase their investment efficiency with the limited funds available, pachinko halls have increasingly replaced pachislot machines with pachinko machines offering comparatively high machine-utilization. In addition, in selecting machines, the halls are taking an increasingly rigorous approach to the certainty of fund recovery. In this setting, demand is concentrated on leading titles from top companies with competitive edges in such areas as development capabilities and brand strength, reinforcing the trend toward top companies holding the majority of the market. F

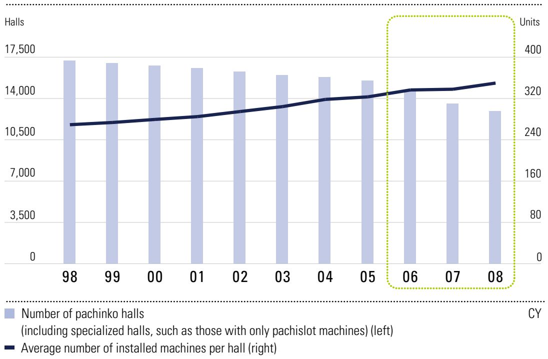
D Annual Turnover



Source: Company analysis of data from National Police Agency or Yano Research Institute Ltd.

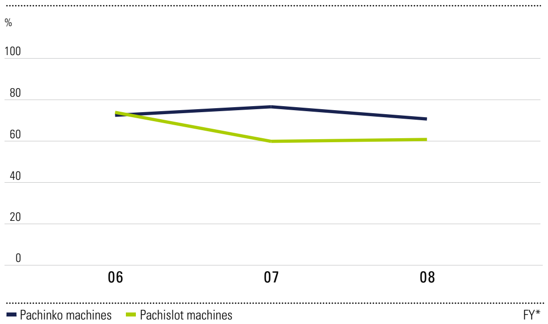
* Settlement dates from July to June

E Number of Pachinko Halls and Average Number of Installed Machines per Hall



Source: National Police Agency

F Market Share of Top Five Companies



Source: Yano Research Institute Ltd.

* Settlement dates from July to June

Management Environment Amusement-Related Market

Amusement Arcade Machines and Center Operations

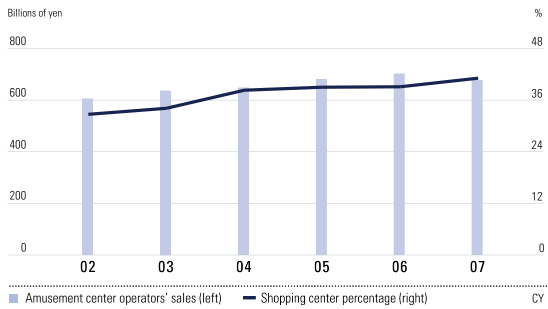
DIFFICULT COMPETITIVE ENVIRONMENT MARKED BY SLUGGISH EXISTING-CENTER SALES

In tandem with improving economic conditions, the amusement center operations market recorded five consecutive years of growth through fiscal 2007. The driving forces behind that expansion included an accelerated pace of amusement center openings in large commercial facilities, such as shopping centers, and the accompanying enhancement of family-oriented machines, such as kids' card games. Amusement centers in shopping centers have maintained a major market presence. In fiscal 2008, for example, sales at these centers accounted for 41.1% of the total amusement center operations market. On the other hand, against a background of trends toward consolidation and larger centers opened by major operators, the number of centers has begun to decline each year. Moreover, centers have not attracted enough new players, and existing-center sales have decreased steadily since fiscal 2005. Another key feature of the market environment in recent years has been increasing pressure on the profitability of amusement center operators. A trend toward higher-value-added machines, for example, has been accompanied by a rise in prices, which in turn has led to longer investment recovery periods and increased amusement center opening expenses.

SLUGGISH CONSUMER SPENDING LEADS TO A MORE DIFFICULT ENVIRONMENT

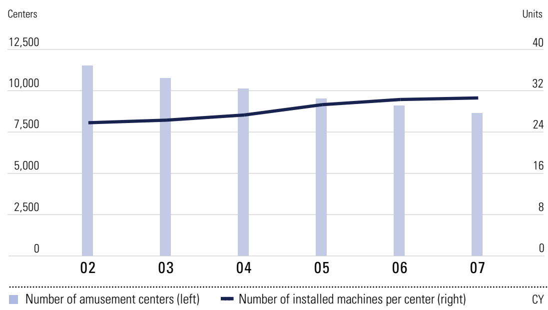
The acceleration of store openings in large commercial facilities, such as shopping centers, and efforts to attract families are supposed to strengthen the correlation between the amusement center operations market and consumer spending trends. Concerns about economic conditions led to sluggish consumer spending, which had an adverse effect on the amusement center operations market, and in fiscal 2008, sales in the amusement center operations market declined year-on-year for the first time in six years. Furthermore, weak financial market conditions have contributed to the market slowdown, and sales are expected to decline again in fiscal 2009. Also, the deterioration of the financial environment has made it more difficult for amusement center operators to obtain financing, and to improve cash flow and profitability, operators are stepping up the closure of unprofitable centers. Through the further uptake of new home video game consoles, the ranks of consumers who enjoy games have been expanding, and moving forward, a key challenge for the amusement industry will be drawing these potential users into amusement centers.

Amusement Center Operators' Sales and Shopping Center Percentage



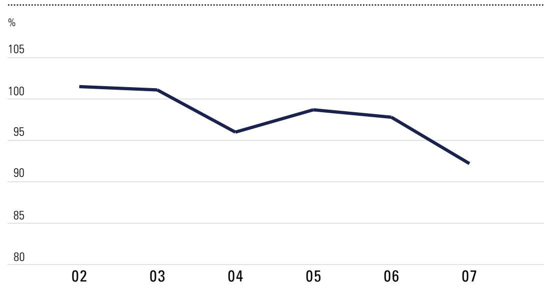
Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2007*

Number of Amusement Centers and Number of Installed Machines per Center



Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2007*

Year-on-Year Change in Existing-Center Sales



Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2007*

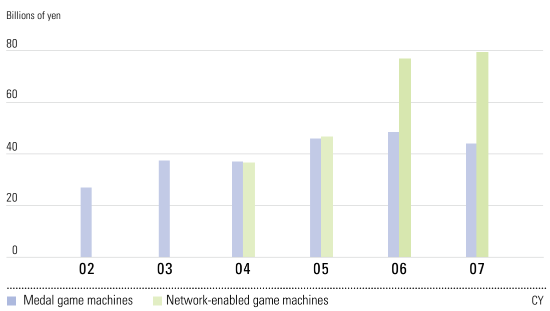
CHANGES IN THE AMUSEMENT ARCADE MACHINE MARKET

In recent years, the domestic amusement arcade machine market has moved in step with the amusement center operations market, recording five consecutive years of growth through fiscal 2007. Over that period, market growth was driven by large machines that are clearly differentiated from home video game consoles, such as network-enabled trading card game machines, as well as by medal games and kids' card games in centers located in large-scale commercial facilities.

However, from fiscal 2008 – when the amusement center operations market contracted year-on-year – the amusement arcade machine market also turned downward. In fiscal 2008, under the influence of the downturn in the amusement center operations market and the fund-raising difficulties faced by operators, the domestic amusement arcade machine market contracted 2.2%, to ¥205.5 billion, while exports expanded 2.7%, to ¥13.6 billion. Overall, the scale of the amusement arcade machines market was down 1.9%, to ¥219.1 billion. In fiscal 2009, business sentiment worsened, and acceleration in the contraction of the market is expected.

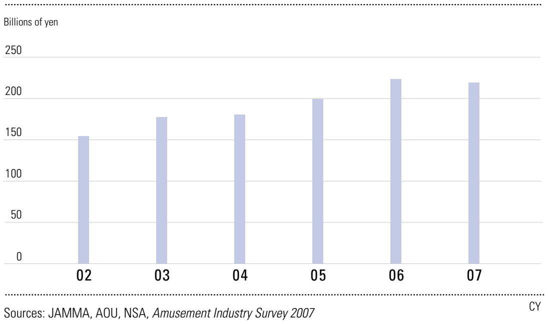
In this environment, there is a trend toward diversification in revenues and profits under new business model initiatives. These include various usage fee and rate setting schemes as well as the revenue-sharing model, under which the amusement center operators and the amusement arcade machine manufacturers share revenues in accordance with machine-utilization.

Medal Game and Network-Enabled Game Machines Sales



Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2007*

Amusement Arcade Machine Sales (Total of Domestic and Export)



Sources: JAMMA, AOU, NSA, *Amusement Industry Survey 2007*

Management Environment
Home Video Game Software Market

PENETRATION OF CURRENT-GENERATION PLATFORMS REACTIVATES THE MARKET

Until now, growth in the home video game software market has been linked to the transition to and the uptake of new generations of game platforms. The recent launches of current-generation platforms – the Xbox360® in winter 2005 and the PLAYSTATION®3 and Wii® in winter 2006 – have supported market expansion on a global scale. Economic conditions have slowed accompanying the global financial crisis, but even in this environment the North American and European markets continue to record growth against a backdrop of rapid adoption of platforms and an increasing player population supported by the acquisition of new players, such as families and women. In 2008, the total scale of the North American and European markets expanded to approximately ¥2 trillion, about six times the scale of the domestic home video game software market.

INCREASE IN PLAYER POPULATION AGAINST A BACKDROP OF MARKET EXPANSION

The current-generation platforms are making the most of their respective capabilities as they compete for market share, but the major driving force of the current market expansion is the growth in game software that offers new methods of play by leveraging the distinctive capabilities of the platforms. The increase in software titles that anyone can casually enjoy has attracted new players in markets around the world and is driving market growth.

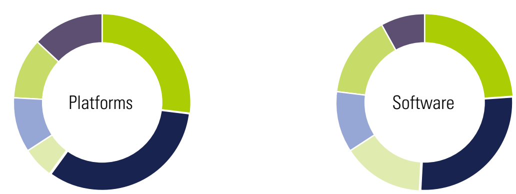
In addition, the Internet connection capabilities that are a part of current-generation platforms are generating new services and business opportunities in the provision of communications functions and the online distribution of casual games and older titles. Moving forward, the key to sustained market growth will continue to be initiatives with a focus on the creation of new demand from all perspectives – platforms, software, and services.

Scale of the Markets for Home Video Game Software in Japan, the United States, and Europe

	Markets (2001)	%		Markets (2008)	%
	Japan	35.0		Japan	14.0
	The United States	43.0		The United States	47.0
	Europe	22.0		Europe	39.0

Source: *Famitsu Game White Paper 2009*

Composition of Sales of Major Home Video Game Consoles and Software in Japan, the United States, and Europe*



	Platforms: Thousands of units	%	Software: Thousands of units	%
Wii	21,646	27.3	131,974	24.3
DS	25,909	32.7	145,772	26.9
PS2	4,366	5.5	80,234	14.8
PS3	8,254	10.4	61,826	11.4
Xbox360	8,781	11.1	79,713	14.7
PSP	10,273	13.0	42,928	7.9

* 2008
Source: *Famitsu Game White Paper 2009*

GAME SOFTWARE COMPANIES CONTINUE TO DIVERSIFY RISK

Not all game software companies are benefiting from the adoption of current-generation platforms. Unlike the peak adoption period for previous platforms, third-party game software companies face a difficult management environment in developing for current-generation platforms. One reason is that the cost of developing game software for current-generation machines is much higher in comparison with previous platforms.

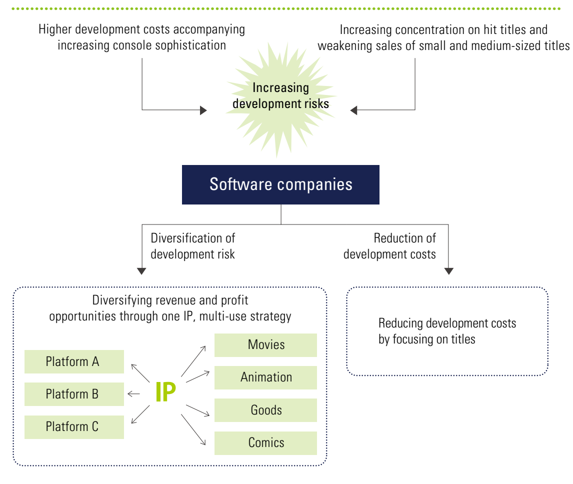
In businesses that are dominated by hit products, such as home video game software, higher development costs are directly linked to increased risks. Consequently, each company is working to use creative means of diversifying risk, reducing development costs, and recovering costs with a higher degree of certainty. These initiatives include developing content for multiple platforms; conducting multifaceted development of IP in such areas as animation, goods, and movies; and building hit products into series.

In addition, market power is increasingly concentrated in the hands of certain companies with hit titles, and changes in the competitive environment include declines in per-title unit sales for small and medium-sized titles due to the increase in the number of titles. In this setting, there are signs of a trend toward even more aggressive measures to reduce development risk, such as substantial streamlining of titles.

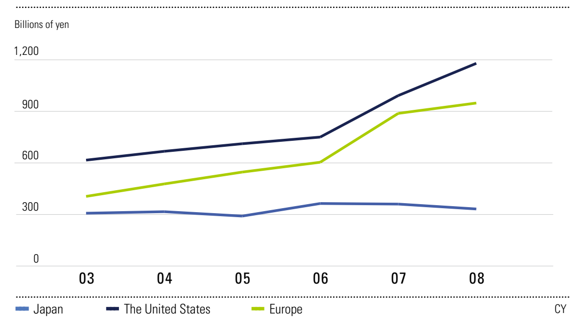
EUROPE AND NORTH AMERICA REMAIN THE KEY MARKETS FOR GAME SOFTWARE COMPANIES

The domestic home video game software market recovered in 2006, but it subsequently trended downward, declining 7.9% in 2008, to ¥332.1 billion. The deterioration of the economic environment has had an adverse effect, but the biggest factor behind this trend is the slowing uptake of handheld game terminals and current-generation platforms, which had previously driven the market's growth. The scale of the platform market was down 24%, a much larger decline than the fall in home video game software, for the market's first decrease in four years. In comparison with 2007, growth in the home video game software markets in Europe and North America is sluggish. Nonetheless, the markets remain firm, with sales up 7% year-on-year, to ¥948.5 billion, in Europe and 19%, to ¥1,179.3 billion, in North America. Moving forward, the major markets for software companies will likely be Europe and North America, which still have substantial room for growth. In particular, domestic game software companies, which face an increasingly mature home market, need development and sales strategies that approach the market from a global viewpoint.

Development Risk Diversification and Cost Reduction



Scale of the Market for Home Video Game Software



Source: *Famitsu Game White Paper 2009*

Consolidated Financial Highlights

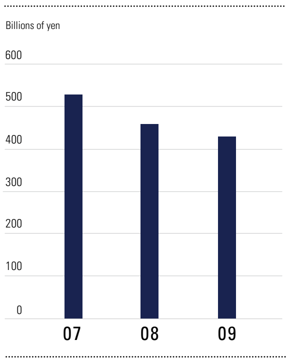
SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years Ended March 31

	Millions of yen, unless stated otherwise					Thousands of U.S. dollars[1]
	2005	2006	2007	2008	2009	2009
Net sales	¥515,668	¥553,241	¥528,238	¥458,977	¥429,195	$4,369,286
Gross profit	211,559	229,012	203,079	120,403	119,093	1,212,389
Selling, general and administrative expenses	106,469	109,868	126,549	126,232	110,729	1,127,242
Operating income (loss)	105,090	119,144	76,530	(5,829)	8,364	85,147
EBITDA [2]	122,764	140,999	104,578	39,782	35,009	356,398
Net income (loss)	50,574	66,222	43,456	(52,471)	(22,882)	(232,943)
Capital expenditures	32,468	37,650	59,272	50,422	26,610	270,895
Depreciation and amortization	17,674	21,855	28,048	45,611	26,645	271,251
Research and development expenditures	41,590	36,338	52,107	65,385	59,676	607,513
Net cash provided by (used in) operating activities	77,762	83,228	60,623	(25,879)	32,199	327,792
Net cash provided by (used in) investing activities	(39,618)	(54,706)	(75,395)	(10,399)	937	9,539
Net cash (used in) provided by financing activities	(25,703)	(21,153)	(1,713)	(7,580)	(7,653)	(77,909)
Free cash flow [3]	38,144	28,522	(14,772)	(36,278)	31,262	318,253
Total assets	438,991	522,914	549,940	469,643	423,939	4,315,779
Total net assets / shareholders' equity [4]	258,954	316,680	358,858	281,628	242,533	2,469,031
Number of shares outstanding (shares)	140,551,522	283,229,476	283,229,476	283,229,476	283,229,476	

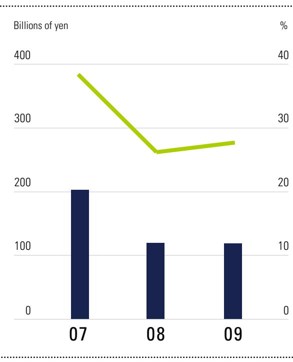
Fiscal 2009 Highlights

- **Net sales were down 6.5%,** due primarily to lower revenues in the Amusement Center Operations segment and the Consumer Business segment.
- Returned to profitability at the operating level, **recording operating income of ¥8.4 billion,** due principally to substantially higher profits in the Pachinko and Pachislot Machine Business segment.
- **Capital expenditures and depreciation and amortization were reduced substantially** through a reduction in rental assets in the Pachinko and Pachislot Machine Business segment and through a reduction in the number of centers in the Amusement Center Operations segment.
- **Net loss of ¥22.9 billion** was attributable to expenses associated with restructuring measures.
- **Annual cash dividends per share were ¥30.**

Net Sales

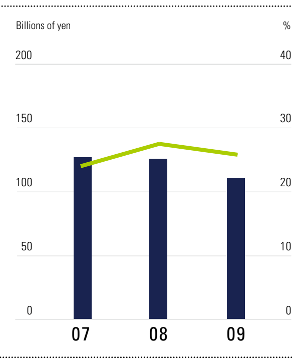


Gross Profit/
Gross Profit Margin



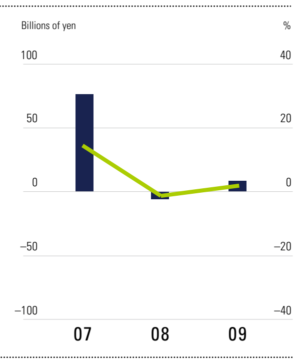
■ Gross profit (left)
— Gross profit margin (right)

SG&A Expenses/SG&A Ratio



■ SG&A expenses (left)
— SG&A ratio (right)

Operating Income (Loss)/
Operating Margin



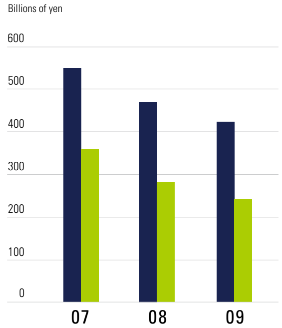
■ Operating income (loss) (left)
— Operating margin (right)

Per share data	Yen 2005	2006	2007	2008	2009	U.S. dollars[1] 2009
Net income (loss)	¥ 205.27 [5]	¥ 261.06	¥ 172.47	¥ (208.26)	¥ (90.83)	$(0.92)
Diluted net income	200.48 [5]	260.35	172.35	–	–	–
Total net assets / shareholders' equity [4]	1,033.96 [5]	1,254.14	1,341.80	1,030.09	882.47	8.98
Cash dividends	60.00	80.00	60.00	45.00	30.00	0.31

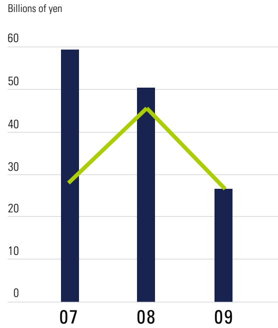
Key ratios	% 2005	2006	2007	2008	2009
Gross profit margin	41.0	41.4	38.4	26.2	27.7
SG&A ratio	20.6	19.9	24.0	27.5	25.8
Operating margin	20.4	21.5	14.5	–	1.9
Research and development expenditures to net sales	8.1	6.6	9.9	14.2	13.9
ROE	19.5 [6]	23.0	13.3	–	–
ROA	11.5 [6]	13.8	8.1	–	–
Total net assets ratio	59.0	60.6	61.5	55.3	52.4

1 Yen amounts have been translated into U.S. dollars solely for convenience at the rate of ¥98.23 = US$1, the approximate exchange rate at March 31, 2009.
2 EBITDA = operating income + depreciation and amortization
3 Free cash flow = net cash provided by (used in) operating activities + net cash provided by (used in) investing activities
4 Following the enactment of the new Japanese Corporate Law in 2006, the Company presents total net assets for the fiscal years ended March 31, 2007 and 2008, which represent the shareholders' equity figure used in previous years plus minority interests and share subscription rights.
5 All net income per share figures have been adjusted as if the 2-for-1 stock split that was implemented on November 18, 2005 had been implemented on April 1, 2005.
6 ROE and ROA for the fiscal year ended March 31, 2005 are calculated using total shareholders' equity and totals assets at the end of the fiscal year.

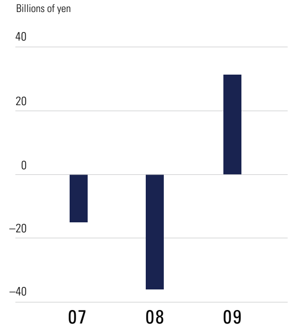
Total Assets/Total Net Assets (Shareholders' Equity)



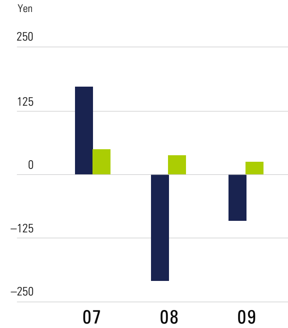
Capital Expenditures/ Depreciation and Amortization



Free Cash Flow



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



OUR STRATEGIC DIRECTION FOR ACHIEVING RENEWED GROWTH

To reinforce our profit foundation, we will continue to implement reforms and will undertake strategic initiatives in new markets. Rather than excessively concentrating on operational scale, we will focus on quality growth accompanied by higher profitability.

To Our Stakeholders

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

The SEGA SAMMY Group has implemented bold management reforms in recent years. Moving forward, we will work to build a foundation for renewed growth by keeping up the pace of reforms.

Progress with Reforms

RESULTS ARE FAVORABLE, BUT PROFITABILITY IS NOT YET SATISFACTORY

In fiscal 2009, the year ended March 31, 2009, the SEGA SAMMY Group's consolidated net sales declined 6.5%, to ¥429.2 billion, but nonetheless the Group recorded operating income of ¥8.4 billion, compared with the previous fiscal year's operating loss of ¥5.8 billion.

By segment, the Pachinko and Pachislot Machine Business segment recorded substantial gains in sales and profits, led by the pachinko machine business, where we have worked to strengthen our development capabilities. The Amusement Center Operations segment recorded lower sales due to a reduction in the number of centers following the closure of centers with low profitability and future potential, and to a year-on-year decline in existing-center sales stemming from sluggish consumer spending, and, as in the previous fiscal year, the segment recorded an operating loss. In the Amusement Machine Sales Business segment, with consideration for the difficult management environment faced by amusement center operators, we halted development and sales of certain large-scale, high-priced titles, and as a result, the segment's sales and profits declined.

Although we recorded our second consecutive net loss, I believe this is a result of the initiatives we have implemented in order to ensure improved performance in the years ahead.

In the Consumer Business segment, sales decreased due to sluggish domestic sales of game software, but the segment reduced the scale of its operating loss as a result of lower R&D expenditures.

In the fiscal year under review, we reduced R&D expenditures 8.7%, or ¥5.7 billion, principally through cuts in the Amusement Machine Sales Business and Consumer Business segments. In addition, due to such factors as the conclusion of pachinko and pachislot machine rental plans and to closures and limited openings of amusement centers, capital expenditures were down 47.2% year-on-year, or ¥23.8 billion, and depreciation and amortization declined 41.6%, or ¥19.0 billion. Moreover, we also made progress in reducing other expenses, such as personnel and advertising expenses.

Net loss for the year was ¥22.9 billion. This was attributable to net other expense of ¥28.3 billion, including losses related to restructuring initiatives. Such losses included impairment losses and loss on closing of stores in the Amusement Center Operations segment and loss on withdrawal from the pachinko and pachislot peripheral business, as well as premium allowance of retirement and loss on cancellation of game content under development.

Despite the recording of a net loss, we paid a dividend for the fiscal year, comprising interim and year-end dividends of ¥15 each, to meet shareholder expectations for the payment of stable dividends.

Looking at our performance in fiscal 2009, I believe that the return to profitability at the operating level is the result of the reforms that we have implemented, and my confidence in our direction has been reinforced. Although we recorded our second consecutive net loss, I believe this is a result of the initiatives we have implemented in order to ensure improved performance in the years ahead. On the other hand, with an operating margin of 1.9%, we are not satisfied with our current level of profitability. Next, I will explain the results of our initiatives to date and the direction of our future initiatives targeting recovery in revenues and profits.

BOLSTERING OUR PRESENCE IN THE PACHINKO MACHINE MARKET

I believe that this success is evidence of our ability to develop products that are the equal of, or better than, those of the leading manufacturers.

Given the changes in the operating environment in the pachislot machine business, which has been a key revenue and profit driver, the Group took steps to strengthen its operations in the pachinko machine business, where market conditions have remained comparatively favorable and the Group has room to expand its market share. A representative example of these initiatives is the transition to a new development system that we implemented in September 2007. Specifically, under this new system we commence development based on market needs, maintain close communications between development and marketing sections, and repeatedly cycle through quality verification and testing processes. Only when we are confident that a product will be a hit do we apply for prototype testing. In September 2008, about a year after the transition to this system, we launched *Pachinko CR Hokuto No Ken* under the Sammy brand. Since it went on sale, its innovative gameplay has earned the strong support of the market, and in fiscal 2009 the series sold a total of 260,000 units, a record high for a Sammy pachinko machine. Our pachinko machine sales increased from about 100,000 units a year earlier to about 390,000 units, and our market share from 3.4% to 11.8%. *Pachinko CR Hokuto No Ken* played the lead role in these gains.

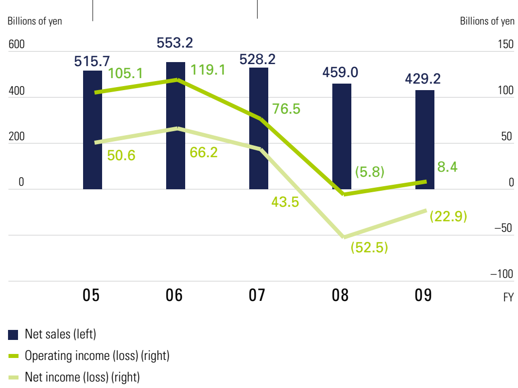
Moreover, other titles launched after *Pachinko CR Hokuto No Ken* are also generally recording higher unit sales than we achieved previously. I believe that this success is evidence of our ability to develop products that are the equal of, or better than, those of the leading manufacturers.

Course of Reform to Date

Management Integration

Dramatic Changes in Management Environment

- Changes in pachinko hall management environment due to the influence of regulatory revision
- YOY decline in existing-center sales in amusement center industry
- Launch of current-generation home video game platforms



Progress with Business Restructuring Measures

Expanded Revenues and Profits in Growth Fields

Thoroughly strengthened pachinko machine business

- Made transition to new development system
- Made TAIYO ELEC Co., Ltd., a subsidiary (fiscal 2007)

Rebuilding Our Profit Structure

Restructured the Amusement Center Operations segment

- Closure or sale of amusement centers with low profitability and potential (fiscal 2008: 92 centers; fiscal 2009: 47 centers; fiscal 2010: 82 centers (planned))

Reduced fixed expenses by moving to appropriately sized workforce

- Introduced voluntary early retirement plan at SEGA (fiscal 2008: 400 people; fiscal 2009: 560 people)

Machines with innovative functionality conforming to the revised standards for interpretation earned a certain degree of market support. We are beginning to see a positive response to our efforts to develop machines that will be accepted in the marketplace.

Next, I will discuss the pachislot machine business. Although pachislot machines with heightened gameplay were launched following the partial amendment of Standards for Interpretation of Technical Specifications* in March 2008, the market nonetheless has yet to undergo a full-fledged recovery. In fiscal 2009, there was a rebound from the replacement demand accompanying the simultaneous transition to new-format machines in the previous fiscal year. Moreover, time was required to develop and get approval for innovative machines, and to improve quality we delayed the launch of certain titles to the following period. As a result, the Group's unit sales of pachislot machines were down substantially, declining by 260,000 units, to 120,000 units for the fiscal year. Consequently, our market share declined from 21.8% in the previous fiscal year to 13.5% in the fiscal year under review, but machines with innovative functionality conforming to the revised standards for interpretation earned a certain degree of market support. We are beginning to see a positive response to our efforts to develop machines that will be accepted in the marketplace.

In addition, to increase our competitiveness by focusing management resources on the pachinko machine and the pachislot machine business, in the year under review we decided to withdraw from the peripheral equipment business, which had remained unprofitable. Accompanying this move, we recorded a loss on withdrawal from the business of ¥2.1 billion, but I believe that this step will have a positive effect on the Group's profitability from the current fiscal period. Also, aiming to bolster our brand strength and maximize our revenues and profits by increasing the percentage of management resources allocated to the highly profitable Sammy brand, we dissolved our business and capital tie-up with GINZA CORPORATION. In addition, we implemented initiatives to enhance profitability from a variety of angles, such as cost-reduction measures promoting the reuse of parts.

* Rules that stipulate the approval process that must be followed by machine manufacturers from development to sales

Focusing management resources on core operations

- Halted development of the entertainment complex in the Minato Mirai 21 development zone (fiscal 2008)
- Sold shares of NISSHO INTER LIFE CO., LTD., which handles design and construction of pachinko halls (fiscal 2008)
- Withdrew from pachinko and pachislot machine peripheral equipment business (fiscal 2009)
- Dissolved business and capital tie-up with GINZA CORPORATION (fiscal 2009)

Increasing efficiency in R&D spending

- Reduced R&D expenditures in Amusement Machine Sales Business segment and Consumer Business segment (fiscal 2009)

Bolstering cost competitiveness

- Took steps to promote the reuse of parts in the Pachinko and Pachislot Machine Business segment

Results of Reforms to Date

- Increase in unit sales of pachinko machines: fiscal 2008: 110,000 → fiscal 2009: 390,000 → fiscal 2010: 450,000 (planned)
- Improvement in profitability resulting from withdrawal from pachinko and pachislot machine peripheral business: about ¥2.0 billion
- Reduction in SG&A expenses resulting from SEGA's voluntary early retirement program: about ¥5.0 billion
- Reductions in capital expenditures and in depreciation and amortization in the Amusement Center Operations segment resulting from closures and limited openings of centers: capital expenditures – fiscal 2008: ¥15.9 billion → fiscal 2009: ¥14.9 billion → fiscal 2010: ¥8.7 billion (planned); depreciation and amortization – fiscal 2008: ¥17.1 billion → fiscal 2009: ¥15.9 billion → fiscal 2010: ¥7.8 billion (planned)
- Reductions in R&D expenditures in the Amusement Machines Sales Business segment and the Consumer Business segment: fiscal 2008: ¥50.7 billion → fiscal 2009: ¥44.2 billion → fiscal 2010*: ¥33.6 billion (planned)

* R&D expenditures in fiscal 2010 are after the application of a change in accounting principles.

IMPLEMENTING REFORMS TO REVITALIZE SEGA

In our efforts to return the Group to a growth track, the single biggest challenge that we face is improving SEGA's profitability. Currently, Sammy's pachinko and pachislot machine business is leading the Group in terms of revenues and profits, but to achieve growth in profits over the medium-to-long term, we must rebuild SEGA, which operates businesses on a global scale and holds high potential for growth as well as for improvement in revenues and profits. Based on this belief, in the fiscal year under review we took the following steps to improve revenues and profits at SEGA.

In the Amusement Center Operations segment, we closed or sold centers with low profitability and potential, and streamlined headquarters' functions in the previous fiscal year. However, against a background of sluggish consumer spending, the operating environment was more challenging than we had anticipated in the fiscal year under review, and existing-center sales and profits were down year-on-year. In this environment, we decided to close or sell another 110 centers.

In the Consumer Business segment's home video game software business, solid results are being posted in Europe and the United States. On the other hand, in Japan, the percentage of unprofitable titles that did not recover their development costs remained high. Targeting the optimal allocation of management resources, we reduced the number of development titles and decreased R&D expenditures.

In the same way, we also worked to limit R&D expenditures in the Amusement Machine Sales Business segment. This step was taken in response to the contraction of the domestic amusement arcade machine market against a background of dramatic change in the management environment faced by amusement center operators.

With the objective of achieving a workforce size that is appropriate to the scale of SEGA's revenues and profits, we offered voluntary early retirement to about 560 employees, thereby making progress in the reduction of fixed costs. As a result of these measures, we are forecasting cuts of about ¥5.0 billion in annual SG&A expenses.

Priority Initiatives by Segment

Pachinko and Pachislot Machine Business	• Improve profitability in the pachinko machine business by increasing the board sales percentage • Develop and supply innovative pachislot machines that reactivate the market • Improve profitability by reevaluating pricing strategies by title and by reducing part procurement costs
Amusement Machine Sales Business	• Introduce business models and services that will realize both improved investment efficiency for amusement center operators and stable profits for the SEGA SAMMY Group • Develop operations in China and other Asian markets
Amusement Center Operations	• Continue to close or sell amusement centers with low profitability and potential • Improve existing-center sales by strengthening operations • Develop new business format that transcends the traditional framework of "game centers"
Consumer Business	• Strengthen cooperative initiatives among Japan, the United States, and Europe • Reduce R&D expenditures by streamlining development titles

Strategies in Fiscal 2010

PREPARING TO GO ON THE OFFENSIVE

In fiscal 2010, the year ending March 31, 2010, with a focus on raising profitability, we will strengthen our operations in preparation for going on the offensive on a Groupwide basis.

Quantitative plans include revenue gains of 15.0% in the Pachinko and Pachislot Machine Business segment and 3.5% in the Consumer Business segment. On the other hand, we are forecasting revenue declines of 30.6% in the Amusement Machine Sales Business segment and 27.1% in the Amusement Center Operations segment. Consequently, our plans call for consolidated net sales of ¥420.0 billion, a decline of 2.1% year-on-year. In operating income, we expect a 63.7% drop in the Amusement Machine Sales Business segment. On the other hand, we anticipate a 51.4% gain in the Pachinko and Pachislot Machine Business segment, a smaller loss in the Amusement Center Operations segment, and a return to profitability in the Consumer Business segment. Consequently, we are forecasting operating income of ¥27.0 billion*, a substantial gain from the level of ¥8.4 billion in the fiscal year under review, and as a result we expect the operating margin to improve 4.5 percentage points from the fiscal year under review, to 6.4%*.

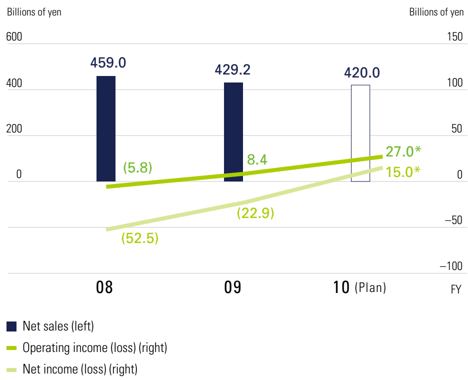
Due to the influence of other expenses accompanying business restructuring, we recorded a net loss of ¥22.9 billion in the fiscal year under review, but for the current fiscal year we are forecasting net income of ¥15.0 billion*.

Due to such factors as a decline in the number of centers in the Amusement Center Operations segment, we plan on capital expenditures of ¥16.9 billion, down 36.5% year-on-year, and depreciation and amortization of ¥18.2 billion, a decline of 31.7%. In R&D expenditures, we are planning ¥51.2 billion*, down 14.1%, on account of reductions in the Amusement Machine Sales Business segment and Consumer Business segment. Next, I will explain our key strategies for achieving these plans.

* To more appropriately match content production expenses, which are on an increasing trend, with revenues and profits, a change was made in the accounting principles for content production expenses. Please note that this change had the effect of increasing the planned level of operating income by ¥5.0 billion in comparison with calculations made in accordance with the previous accounting principles. For further information, please see page 71.

Quantitative Plans

Net Sales/Operating Income (Loss)/Net Income (Loss)



Quantitative Plans by Segment

Billions of yen

FY			2009	2010 (Plan)*	Change
Pachinko and Pachislot Machine Business		Net sales	¥161.7	¥186.0	+24.3
		Operating income	14.5	22.0	+7.5
Amusement Machine Sales Business		Net sales	61.9	43.0	–18.9
		Operating income	6.9	2.5	–4.4
Amusement Center Operations		Net sales	71.3	52.0	–19.3
		Operating loss	(7.5)	(1.0)	+6.5
Consumer Business		Net sales	131.4	136.0	+4.6
		Operating income (loss)	(0.9)	8.5	+9.4
Other		Net sales	2.9	3.0	+0.1
		Operating income	0.3	0.0	–0.3

* After the application of a change in accounting principles

We will follow-up *Pachinko CR Hokuto No Ken* with the launch of several major titles. At the same time, we will advance multifaceted initiatives targeting improved profitability.

PACHINKO MACHINE BUSINESS –
ENHANCING OUR POSITION AND IMPROVING PROFITABILITY

In the pachinko machine business, the Group's share of installed pachinko machines increased dramatically due to the success of *Pachinko CR Hokuto No Ken* in the fiscal year under review. This means that the market for the replacement of the boards that are attached to Group pachinko frames has expanded. With this foothold, we will work to further expand our share through the stable supply of hit products and the introduction of strategic titles. We are planning unit sales of 450,000 units for the fiscal year. We will make full use of our development capabilities, which we have steadily strengthened, to follow up *Pachinko CR Hokuto No Ken* with the launch of several major titles as we strive to achieve our plan. At the same time, we will advance multifaceted initiatives targeting improved profitability. Through the stable supply of hit titles for the Group's pachinko frames, which have garnered an increased share, we will raise the ratio of highly profitable pachinko board sales. In addition, while maintaining a careful watch on market and competitor trends, we will reevaluate our pricing strategy for each machine.

There will be no change in our policy of steadfastly striving to recapture our position of leadership in the pachislot machine market. We will endeavor to realize this objective by expanding our lineup of machines emphasizing gameplay that will be accepted by players, within the limits of the current standards. With our existing development capabilities, we have succeeded in developing machines with industry-leading gameplay, and I believe that we can steadily increase unit sales from the level achieved in the fiscal year under review. We are planning unit sales of 180,000 units. In addition, we will also pay attention to the cost structure in the pachinko and pachislot machine business overall. In this regard, we will take such steps as reducing the procurement costs of parts and reducing waste parts through rigorous order and production control.

We will identify areas where we can expect a return commensurate with investment, and will continue to focus our investment of management resources on these areas. At the same time, we will take on the challenge of new initiatives that draw out SEGA's high potential.

BUILDING A FOUNDATION FOR SEGA'S RESURGENCE

For SEGA, we will identify areas where we can expect a return commensurate with investment, and will continue to focus our investment of management resources on these areas. At the same time, we will solidify our footing for the resurgence of SEGA by drawing out SEGA's high potential through such initiatives as the introduction of a new business model and the opening up of new markets.

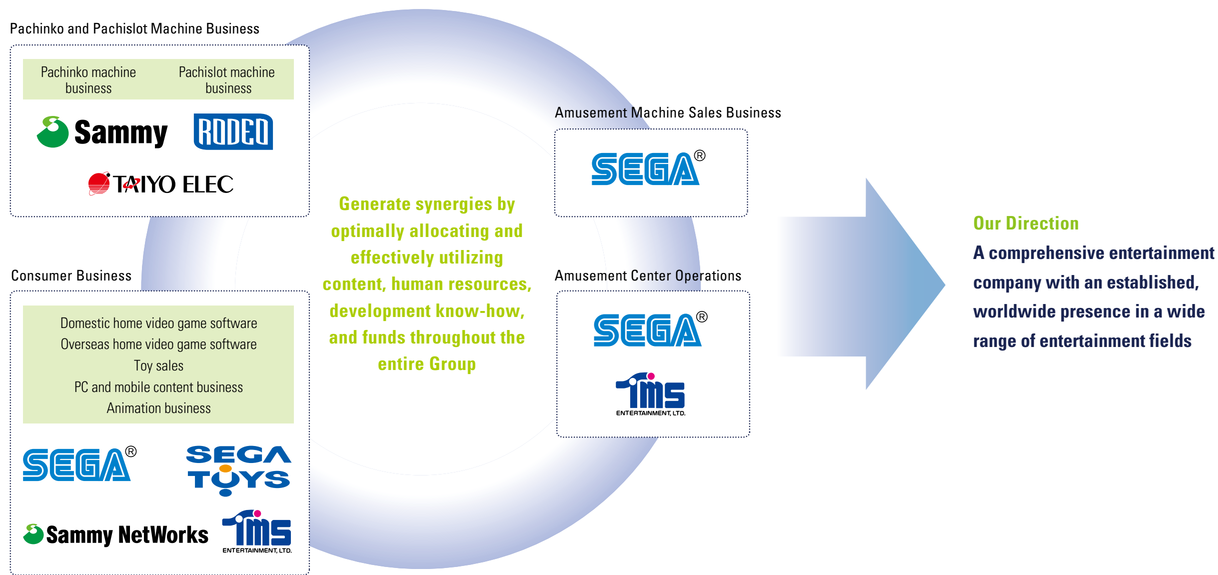
In consideration of the management issues faced by amusement center operators, we expect the operating environment for the Amusement Machine Sales Business segment to remain challenging. We are forecasting a 30.5% year-on-year decline in sales and a 63.7% fall in operating income. In this business, we will support amusement center operators in their efforts to increase their investment efficiency while securing stable profits over the long-term for SEGA as a manufacturer of amusement arcade machines. We will strive to achieve this objective by promoting the revenue-sharing model, which reduces the initial investment burden of operators; utilizing highly cost-effective multipurpose computer graphic boards*; promoting cabinet standardization and supporting machine-utilization through flexible content replacement. In addition, our entry into China and other Asian markets will play a key strategic role in our efforts to achieve continued gains in revenues and profits in this business. We will work to open up markets by building a product portfolio that is competitive overseas in terms of both price and quality.

Under the influence of sluggish consumer spending, we expect the operating environment in the Amusement Center Operations segment to remain difficult, and are forecasting a year-on-year decline of 6.4% in existing-center sales. We will continue to close or sell centers with low profitability and potential and to strengthen operations at the centers we retain, aiming for a rapid turnaround in existing-center sales. At the same time, we will continue to plant the seeds of future growth from a medium-to-long-term viewpoint, such as developing new center formats that surpass existing frameworks and coordinating product development activities with these new formats.

In the Consumer Business segment's domestic home video game software business, we will rigorously apply selection and concentration to development titles and aim to secure profit commensurate with development costs. In fiscal 2010, we plan to reduce the number of titles, from 36 in the fiscal year under review to 17. We will aim to further increase our presence in the overseas home video game software business, centered on major titles. Through such measures as a reduction in the number of development titles, we plan to reduce R&D expenditures in the segment by 24.7% year-on-year. In the domestic market, we expect unit sales to decline, but due to sales growth in overseas markets, we plan on sales of 29.70 million units, about the same as in the fiscal year under review.

* Please see the special feature – Implementing a Thorough Market Focus and Creating New Value – on pages 40 and 41.

Direction of the Group's Medium-to-Long-Term Strategies



OVERCOMING CHALLENGES AND CULTIVATING NEW OPPORTUNITIES WHILE MAINTAINING A FOCUS ON OUR MANAGEMENT VISION

Since the management integration in October 2004, the SEGA SAMMY Group has worked to establish a presence as "a comprehensive entertainment company" in a wide range of entertainment fields around the world by effectively utilizing the Group's internal management resources. There is no change in our pursuit of this objective. To this end, all of the subsidiaries, centered on SEGA and Sammy, must overcome the obstacles they face and reinforce their footing. On the other hand, we will continue to avoid an excessive focus on the short-term and steadily advance the cultivation of new business opportunities. We will achieve a resurgence, record sustained gains in enterprise value, and achieve our management vision – "By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture."

I would like to ask our shareholders and investors for their continued support of the SEGA SAMMY Group.

August 2009

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

Message from the COO of Sammy Corporation

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

The new record for unit sales of Sammy-brand pachinko machines set by *Pachinko CR Hokuto No Ken* is one of the clear results of the reform measures implemented by Sammy. But we are still in the early stages of the reform process. We are committed to completing the establishment of a system that can generate steady profits in any operating environment, with marketing, development, and production working together as a single cohesive unit.

REFORMS ARE STILL AT THE MIDWAY POINT

In July 2004, the revision of regulations pertaining to the Entertainment Establishments Control Law was enacted. In the pachinko machine market, the revision resulted in increased latitude in machine development, and the market turned toward recovery. In the pachislot machine market, however, the revision stipulated major changes in gameplay, and manufacturers required time to develop new machines. Consequently, the market has slumped. Sammy has maintained a high share in the pachislot machine market, but in order to achieve growth in profits over the medium-to-long-term, we needed to rapidly strengthen our pachinko machine business, where the market remained strong but still offered substantial room for us to secure market share. In accordance with its corporate declaration of “always proactive, always pioneering,” Sammy moved ahead proactively with the development of innovative pachinko machines, some of which became hit products. However, because our products were too advanced, at times we diverged from market needs, and had many titles that did not meet our expectations for sales.

When I became Sammy’s president, I made it my personal mission to build a strong organization that can respond flexibly yet rapidly to any type of changes in the market environment and to

“In establishing a profit structure that can generate stable profits, no matter how the market environment changes, it is essential that each employee is keenly aware of problems and that their efforts to implement reforms are precisely aligned.”

steadily generate high levels of sales and profits. Our key strategies called for building a stable development system for hit products in the pachinko machine business and for creating products that contribute to the revitalization of the market in the pachislot machine business. On that basis, we moved ahead with the implementation of a range of initiatives.

To realize the stable development of hit products, it is necessary to accurately track latent market needs and to promptly yet accurately reflect these needs in development activities. Accordingly, we built a system for the promotion of development with close communication between the development headquarters, which covers the stages from planning to development, and the marketing headquarters, which maintains contact with customers. We also established multiple quality checkpoints in the development process and added evaluations of machines from a third-party viewpoint. In this way, we established a process for the completion of products that are certain to be accepted in the marketplace. We made repeated improvements to *Pachinko CR Hokuto No Ken* at the development stage, and these efforts paid off. The series has set Sammy's new unit-sales record of 260,000 units. Furthermore, in April 2009 we established the Product Strategy Department. This department, which comprises the rights, marketing, planning, and product strategy sections, is in charge of tracking market needs and industry information, formulating title lineup strategy, and conducting character-related market research and licensing management. Currently, we have clarified the responsibility of the development headquarters and the marketing headquarters and have established an efficient, effective development system, while maintaining close communication between the two headquarters, centered on the title lineup strategy formulated by the Product Strategy Department.

In the pachislot machine business, in order to create products that will help to reactivate the pachislot machine market, we have moved to a new development system, as we did in the pachinko machine business. Through this new system, we are working within the limits of the current regulations to develop machines with innovative gameplay. To take the lead over other companies in developing and obtaining approval for strong titles that can reactivate the market, a certain amount of time is required. Accordingly, we did not launch new machines in fiscal 2009 under the new development system, but I believe that our system can launch multiple innovative titles in fiscal 2010.

These initiatives not only enhance the development of marketable products but also foster heightened reform awareness in development divisions, such as improved cost consciousness. (Please refer to the detailed explanation of Sammy's new development system in the special feature – Implementing a Thorough Market Focus and Creating New Value – on pages 38 to 39.) Following regulatory reform, as pachinko halls shifted to new-format machines, the capital investment burden increased and pachislot utilization declined, resulting in a difficult management environment for pachinko halls. In this setting, pachinko halls are increasingly focusing their investment on the core pachinko and pachislot machines of major manufacturers, because steady utilization can be expected from these machines. We decided that the best course in this environment was to focus our management resources on our core pachinko and pachislot machine business, and withdrew from peripheral equipment operations, which had remained unprofitable. Moreover, to maximize Group revenues and profits, we dissolved our business and capital tie-up with GINZA CORPORATION and increased the percentage of management resources allocated to the highly profitable Sammy brand.

Through these initiatives, we have made strong progress in bolstering our business constitution. Nonetheless, I believe that we still face many challenges in building a system that can support the Group and generate stable revenues and profits even in an environment marked by drastic change.

If we can generate results from titles in addition to *Pachinko CR Hokuto No Ken,* we can demonstrate the renewed strength of Sammy's pachinko machine business.

AWARENESS IS THE KEY TO REFORM

The key to management reform is the cultivation of a corporate culture in which each employee is keenly aware of problems, their efforts to implement reforms are precisely aligned, and problems are spontaneously identified and resolved. However, Sammy's employees have not yet completely broken away from the ways of doing things that were successful in the past. On a daily basis, I will remind employees of the importance of reform and work to rapidly improve their awareness of reform-related issues.

The transition to the new development system has been successful, and in addition to *Pachinko CR Hokuto No Ken*, other titles have also achieved better results than were recorded with previous models. However, these efforts alone are not enough to achieve ongoing growth in revenues and profits. To reach the point where we can steadily generate hit products through the complete adoption and effective utilization of a system that naturally cycles through a framework of repeated, market-oriented testing, I think that we need to further strengthen cooperation between development and marketing. Moreover, other important issues include reducing development costs and achieving rapid responses to changes in the market, shortening the development period, and ensuring thorough cost consciousness.

In production, meanwhile, we need to increase production efficiency and reduce waste parts by bolstering cooperation with marketing and development. In marketing, meanwhile, we must develop sales strategies that take into account the special features of each product. The sharing of information among marketing, development, and production will be an indispensable part of these initiatives. In other words, to build a truly strong organization, marketing, development, and production need to form an integrated, cohesive unit and work together to advance reforms.

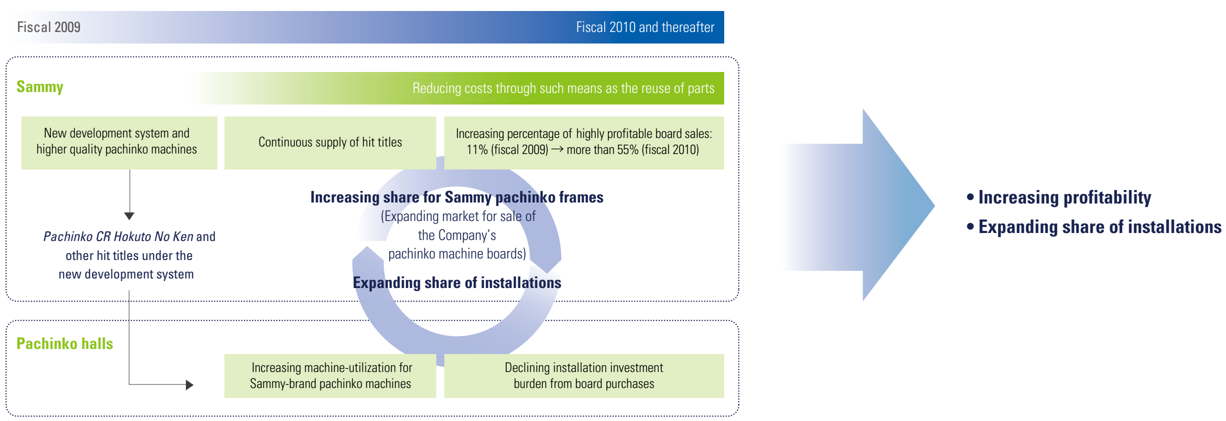
AIMING FOR FURTHER EXPANSION IN THE PACHINKO MACHINE BUSINESS

In fiscal 2010, we will work to further boost our presence in the pachinko machine market, which is expected to see continued strong market conditions, and will aim to recapture the top share of the pachislot machine market.

In the pachinko machine business, we plan to launch two machines in key title series during the fiscal year, and are targeting sales of 450,000 units, an increase of 58,000 units year-on-year. *Pachinko CR Hokuto No Ken* made a substantial contribution to our performance in fiscal 2009. Moving forward, if we can also generate substantial results using other IP assets and provide a stable supply of hit machines, we can demonstrate the renewed strength of Sammy's pachinko machine business. In order to ensure that our efforts have favorable effects over the long-term and to secure a position as a market leader, I want to expand our pachinko machine business further. In this business, we will pursue profitability side by side with increased unit sales. In the fiscal year under review, to establish our presence in the pachinko machine market we set strategic prices for our machines. Moving forward, however, we will revise our sales prices for competitive products while maintaining a focus on market trends and competitive conditions.

In addition, as *Pachinko CR Hokuto No Ken* became a hit, our pachinko frame installations increased. Consequently, in the future we will be able to increase the ratio of highly profitable board sales through the continued supply of hit titles. We plan to raise the ratio of board sales, which remained at about 11% in the fiscal year under review, to more than 55% in fiscal 2010. And we will work to improve our profit structure through a range of measures, such as using standard parts, reducing waste parts, and reducing part procurement prices.

Expansion in the Scale of Operations Accompanied by Increased Profitability in the Pachinko Machine Business



As it maintains a focus on the realization of the Group vision, Sammy will complete the reform of its operations, build an organization that can generate stable revenues and profits, and drive the Group's growth in revenues and profits.

In the pachislot machine business, we will not slacken our efforts as we work within the limits of current regulations to improve our own ability to create machines that will earn the support of pachinko halls and players, as well as help to reactivate the market. We have directly experienced the improvements in product quality and machine-utilization that have resulted from our accumulated efforts in development. In fiscal 2010, we aim to achieve unit sales of 180,000 machines, an increase of 56,000 machines from the fiscal year under review, due in part to the provision of multiple major titles.

Consequently, in fiscal 2010 we are forecasting sales of ¥186.0 billion in the Pachinko and Pachislot Machine Business segment, an increase of 15.0%, and operating income of ¥22.0 billion, a gain of 51.4%. We expect the operating margin to improve 2.8 percentage points, to 11.8%.

WORKING TOGETHER WITH GROUP COMPANIES TO ACHIEVE OUR MANAGEMENT VISION

At the time of its management integration, the SEGA SAMMY Group announced the following business strategy: "As a comprehensive entertainment company, while effectively utilizing each others management resources and creating business synergies, we will establish a presence in all business fields." In accordance with this strategy, Sammy must complete the reform of its operations, build an organization that can generate stable revenues and profits, and drive the Group's growth in revenues and profits. On that basis, from a medium-term viewpoint, we will deepen cooperation with SEGA and other Group companies and work to generate substantial gains in revenues and profits. And then, we will work together and strive to make progress toward the realization of our management vision – "By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture."

I would like to ask our shareholders and investors for their continued support of the SEGA SAMMY Group in the years ahead.

August 2009

Keishi Nakayama

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

Message from the COO of SEGA CORPORATION

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

We will build a solid foothold for SEGA's resurgence by discarding outdated approaches that hinder reforms and by shifting the focus from growth in operational scale to growth in quality. We will make full use of our strengths – the DNA that drives our creativity – to achieve the revival of SEGA as a global brand.

GIVING PRIORITY TO DISCARDING TRADITIONAL APPROACHES THAT ARE NO LONGER EFFECTIVE

In June 2008, when I took over the leadership of SEGA, we adopted the slogan *CHANGE 2011 – Revitalizing SEGA* as our in-house vision. Guided by this vision, we have formulated three management objectives – optimization of core operations, rapid achievement of profitability in new domains, and expansion of profits and stable generation of free cash flow – and through the realization of these objectives we will work to revitalize SEGA over the three-year period to fiscal 2011.

In fiscal 2009, the first year, we worked with firm resolve to achieve the numerical objectives that we announced at the beginning of the fiscal year. However, other than the Amusement Machine Sales Business segment, we failed to reach those targets. As in the previous fiscal year, the Amusement Center Operations segment and the Consumer Business segment recorded losses. Our efforts did not generate quantitative results. Rather, the major changes in the environment that we confronted in the fiscal year under review underscored the necessity of further accelerating our reforms.

SEGA is a company with a long history that extends back 58 years. Over that period, we have cultivated a strong tradition of innovation. On the other hand, we cannot deny that we have an entrenched corporate culture in which our experience with success in the past has hindered our own reform efforts. The inadequate speed of our reforms, which we confronted in the fiscal year under review, is attributable to this corporate culture.

We have cultivated an excellent tradition of innovation. On the other hand, we cannot deny that we have an entrenched corporate culture in which our experience with success in the past has hindered our own reform efforts.

In the domestic home video game business, for example, we launched 36 titles in the fiscal year under review, more than in the previous fiscal year. However, most of those titles did not achieve sales commensurate with their development expenses. The reason is that we have failed to abandon the full-lineup strategy that we used to follow when we also made game platforms, despite the fact that we have specialized in publishing since 2001. Also, in the Amusement Machine Sales Business segment, we took too long to change course and start to develop machines that raise the investment efficiency of amusement center operators. This delay was attributable to our pride as a top manufacturer of amusement arcade machines, which dulled our sensitivity to changes in the operating environment, and as a result we overlooked signs of a worsening management environment for amusement center operators.

Discarding these ineffective conventions is the biggest challenge that we face in revitalizing SEGA as a global brand. In the fiscal year under review, we implemented specific initiatives targeting that objective, and clarified our stance of investing only in businesses from which we can recover our investment of management resources with a high degree of precision. In the Amusement Machine Sales Business segment, we halted development of certain large-scale, high-priced machines that did not meet the needs of amusement center operators. In the domestic home video game software business, we streamlined titles and built a more-efficient development system that facilitates the concentration of our development resources.

AMUSEMENT MACHINE SALES BUSINESS SEGMENT – CONTRIBUTING TO THE REACTIVATION OF THE MARKET THROUGH THE INTRODUCTION OF A NEW BUSINESS MODEL

We still have substantial room for further reforms. Accordingly, in fiscal 2010 we will continue working to solidify our footing for the resurgence of SEGA.

In the Amusement Machine Sales Business segment, the management environment of amusement center operators is expected to remain challenging. Consequently, we will strive to contribute to the reactivation of the market by implementing a thoroughgoing customer focus and by providing services and products that contribute to increasing the investment efficiency of amusement center operators. Specifically, we will aggressively introduce the revenue-sharing model utilizing the *ALL.Net* network service for SEGA's own arcade game machines. The model is a framework under which the prices of machines are substantially reduced and the amusement center operators and SEGA share the revenues in accordance with the utilization of the machines. Accordingly, the center operators are able to reduce the capital investment needed to introduce machines. In fiscal 2010 and thereafter, we will strive to steadily raise the share of sales accounted for by the model. In addition, we will work to maintain high machine-utilization rates by standardizing cabinets and flexibly changing content. We will also reduce costs through the installation of *RINGEDGE and RINGWIDE*. In comparison with previous models, these next-generation computer graphics boards for arcade games realize cost reductions as well as improved performance.

In addition, we will advance new initiatives in the usage fee system. For example, we will introduce the system of charging by time or items, which has become standard in PC online games. Through these initiatives, we will strive to reactivate the market. (SEGA's initiatives to reactivate the amusement market are explained in more detail in the special feature – Implementing a Thorough Market Focus and Creating New Value – on pages 40 to 41.)

We will solidify our footing for the resurgence of SEGA by resolving challenges one by one, and at the same time we will introduce new concepts and proactively implement new initiatives.

We will strengthen development in overseas markets, centered on China and other Asian markets. It is difficult to be successful in these markets with product strategies that are based on the same concepts that are used in the domestic market. Accordingly, we will specifically tailor concepts to overseas markets from the planning and design stage, and rapidly build a cost-competitive product portfolio while working closely with local companies.

For the Amusement Machine Sales Business segment, we expect sales and profits in fiscal 2010 to decline in comparison with the fiscal year under review, when a number of major titles were launched. We are forecasting sales of ¥43.0 billion, down 30.6% from fiscal 2009, and operating income of ¥2.5 billion (¥2.0 billion under the previous accounting principles), a decline of 63.7%. The operating margin is expected to decline 5.3 percentage points, to 5.8% (4.7% under previous accounting principles). R&D expenditures are forecast at ¥8.9 billion (¥9.4 billion under previous accounting principles), compared with ¥11.4 billion in fiscal 2009. By region, we expect domestic sales to decline 32.5%, to ¥35.9 billion, and overseas sales to decrease 18.4%, to ¥7.1 billion.

AMUSEMENT CENTER OPERATIONS SEGMENT – STRENGTHENING OPERATIONS TO IMPROVE EXISTING-CENTER SALES AND DEVELOPING NEW BUSINESS FORMATS

In the Amusement Center Operations segment, we are working to improve our center portfolio by closing or selling centers with low profitability and potential. To achieve steady year-on-year gains in existing-center sales, the next step is to sufficiently leverage the latent capabilities of the Group's amusement machines to attract more customers.

With leisure activities diversifying, there are limits to how far we can take center development with existing formats. Accordingly, through the enhancement of amusement machines and attractions as well as collaboration with companies in various industries, we will develop new business formats that transcend the traditional concept of game centers, and develop these operations through center development in a wide range of locations.

In fiscal 2010, accompanying a decline in the number of centers, we expect the Amusement Center Operations segment to record sales of ¥52.0 billion, down 27.1% year-on-year. However, due to a reduction in personnel costs as a result of the voluntary early retirement implemented in fiscal 2009, lower capital expenditures, and a decrease in depreciation and amortization, we expect the operating loss to improve from ¥7.5 billion in fiscal 2009 to ¥1.0 billion in fiscal 2010.

We are forecasting capital investment of ¥8.7 billion, a decline of 41.6%, and depreciation and amortization of ¥7.8 billion, a decrease of 51.0%.

In fiscal 2010, we plan to open six amusement centers in Japan and close 82, for a total of 246 centers at the end of the year, down 76 from the end of fiscal 2009.

As we strive to capture opportunities in global markets, we will accelerate the optimal allocation of management resources, the implementation of development in the optimal region for each project, and the promotion of cooperative initiatives among regions.

HOME VIDEO GAME SOFTWARE BUSINESS – BUILDING A FRAMEWORK FOR THE CREATION OF MORE HIT PRODUCTS

In the home video game software business, we will reduce development expenses to a level that is balanced with revenues. At the same time, we will build a framework for the creation of more hit products. We plan to reduce the number of domestic game software titles in fiscal 2010 to 17, compared with 36 in fiscal 2009. On the other hand, we are confident about the strong titles that we plan to launch, led by *Mario & Sonic at the Olympic Games*™. In addition, other titles include *BAYONETTA*™, which was well received at a game show in North America in spring 2009. Moving forward, longer-term challenges will include creating titles that leverage SEGA's characters and titles that embody SEGA's approach to entertainment.

In addition, as we strive to capture opportunities in global markets, we will accelerate the optimal allocation of management resources, the implementation of development in the optimal region for each project, and the promotion of cooperative initiatives among regions. For example, with development studios that have substantial brand strengths in their markets and titles that have captured support from large numbers of fans, such as SPORTS INTERACTIVE Ltd., in Europe, we will take steps to further strengthen their development systems, while doing our utmost to turn titles from Japan into global hits. To that end, in May 2009 we established a stronger operating structure based on integrated production and sales functions by combining the Consumer Business segment's Domestic Business Division, Overseas Business Division, and Development Headquarters into a single unified organization. We also took steps to strengthen cooperative initiatives among Japan, the United States, and Europe.

In home video game software operations, in fiscal 2010 we are aiming to achieve a sales target of 29.70 million units, a year-on-year increase of 0.8%. By region, we expect sales in the United States to decline 6.9%, to 11.63 million units; sales in Europe to increase 13.9%, to 14.50 million units; and sales in Japan and other regions to decline 15.6%, to 3.57 million units.

FACILITATING CUSTOMER ENJOYMENT OF SEGA CONTENT IN A BROAD RANGE OF SETTINGS

Through advances in infrastructure and devices, the entertainment industry is seeing the diversification of "fun" and "methods of having fun," and as a result industry practices that have, until now, been widely accepted are changing. SEGA's competitors are no longer limited to game companies. In response to these types of changes in the environment, SEGA must also change. We consider "entertainment spaces" to be the points of contact where we deliver content to customers through a broad array of platforms, such as amusement arcade machines, amusement centers, game software, mobile phones, and PCs. In accordance with our motto – "Our creativity is our most important competitive advantage" – we will create strong entertainment content that utilizes new technologies and supply them to these "entertainment spaces."

We will strive to create an environment in which customers around the world, in any location, can not only access and enjoy SEGA content but also connect to each other through that content.

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

August 2009

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

OUR STRATEGIC DIRECTION FOR CREATING NEW VALUE

We will implement a market orientation in all of our activities, strive to create value that will meet market needs without any compromise, and provide that value to the market with consistent quality.

Implementing a Thorough Market Focus and Creating New Value

The SEGA SAMMY Group's Reform Project

Sammy – Building a Development System for the Creation of "Certain Hit Products"

"Always proactive, always pioneering." On the foundation of a corporate culture characterized by the spirit of taking on challenges without fear of failure accompanied by foresight and independence as exemplified by this corporate declaration, Sammy has created a large number of hit products, such as *Aladdin* and the *Hokuto No Ken* series.

On the other hand, because we were on the leading edge, we sometimes diverged from market needs. To create "certain hit products," from September 2007 Sammy transitioned to a system linking the development division and marketing division from the early development stage. This leading-edge development system, which is Sammy's strength, accurately reflects diverse market needs. At the same time, to increase cost competitiveness through progress in such areas as reducing disposals and inventories, standardizing cabinets and parts, and reusing components, we commenced full-scale initiatives to build a development system that unified marketing, development, and production divisions.

Sammy's New Development System

Reform 1

Reevaluating the Committee System

The development committees, which were centered on the development division under the previous development system, have shifted to Product Strategy Committees, centered on the newly established Product Strategy Department. The Product Strategy Committees comprise the principal members of marketing, development, and production divisions, and rigorous analysis and evaluation is conducted from a variety of viewpoints.

Reform 2

Establishing and Strictly Observing Rules

For each Gate*, we established strict standards, and implemented a rule that applications for approval would not be filed if a product failed to meet the standards. The rule is being strictly followed. At each Gate, there are repeated instructions for improvements, without compromising, until the standards are met.

* Stage at which development progress is confirmed. There are four Gates, numbered from one to four. In the event of a problem with quality, the Gate is completed again, or, in some cases, the project is returned to the previous Gate.

Reform 3

Framework for Incorporating Market Feedback into Development

Before machines are announced, we commission outside institutions to ensure that the opinions of typical players outside the Company are reflected in product development. Based on the opinions that we obtain in this way, we implement improvements so that the final products meet market needs with a high degree of precision.

Reform 4

Reducing the Risk of Failing to Gain Approval

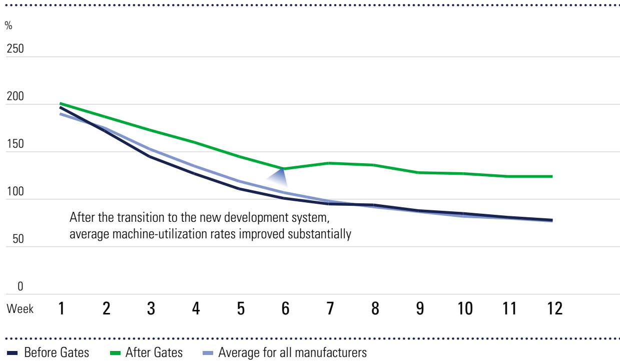
For machines with the innovative gameplay that is a Sammy's specialty, one potential problem is that a certain amount of time could be required until approval is received. Reducing the risk of failing to gain approval is indispensable from the viewpoint of precisely controlling business plans, and accordingly, Sammy has set a basic policy of acquiring approval by six months before the planned launch. In addition, for a single title, we apply simultaneously for multiple specifications for differing gambling element and gameplay characteristics.

Reform 5

Reducing Development Time

It is possible that longer development periods will generate inefficiencies, such as higher development costs and revised sales schedules. Accordingly, the Product Strategy Department plays the lead role in controlling the development schedule, with marketing, development, and production divisions working together, so that we can eliminate waste during the development process and increase efficiency in the development process. In this way, we are working to reduce development time and introduce products to market in a timely manner.

Average Machine-Utilization Rates*



* Percentage of operating hours during which a machine is being utilized

With gains in unit sales and average utilization rates, solid results have been recorded by the pachinko machines that we introduced after the transition to the new development system, led by *Pachinko CR Hokuto No Ken*, which has become a major hit. However, our initiatives to develop the framework for the steady generation of hit products into a source of competitiveness for Sammy are just beginning to take shape. Moving forward, we will make full use of the new system's enhanced effectiveness, and will strive to make continued improvements in the years ahead.

Implementing a Thorough Market Focus and Creating New Value

The SEGA SAMMY Group's Reform Project

SEGA – Targeting Reactivation of the Amusement Industry

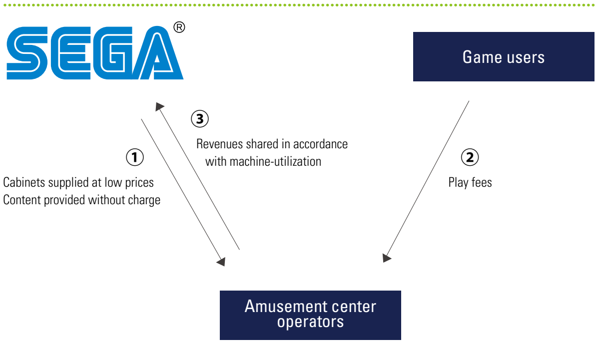
Currently, conditions in the amusement center operations market remain challenging due to sluggish consumer spending. To reactivate the market, there is a need for the development and supply of new game machines that support center operations in accordance with diversifying market needs. SEGA will respond to changes in the market by providing products and business models that secure increased investment efficiency for center operators and stable long-term earnings for the Group, as a manufacturer of amusement arcade machines.

Market Reactivation Initiative 1

Building Win-Win Relationships with Center Operators through the Uptake of *ALL.Net* Revenue-Sharing Model

The financial strength and fund-raising capabilities of center operators have come under pressure as a result of price rises accompanying the increased sizes and advanced capabilities of amusement arcade machines, as well as the global financial crisis. This has become a factor in the reduced frequency of new product introductions and, in turn, the lower attractiveness of amusement centers. As one means of fostering co-prosperity with center operators, SEGA is working to promote the uptake of the revenue-sharing model. Under this model, cabinets are sold to operators at low prices and content is provided without charge, while revenues from the use of the machines are shared by the center operators and SEGA. We will develop this model on the *ALL.Net* network service infrastructure, which links game machines over the Internet, makes possible networked gameplay, and activates player communities. This enables amusement center operators to introduce machines with a low initial investment and for SEGA to secure ongoing revenues through the replacement of content, without limiting revenues to the sale of the machines.

Revenue-Sharing Model Framework



Market Reactivation Initiative 2

Promoting the Use of Standardized Cabinets

At SEGA, we are working to promote standardized cabinets, which make it possible to introduce new products (content) simply by changing specialized software. These cabinets enable amusement center operators to implement cost-effective introductions of new products, which are linked to center reactivation and increased utilization rates. In addition, they offer low-cost means of recovering from misreadings of demand trends at the time the machine was initially introduced. For SEGA, meanwhile, these cabinets have the advantages of increasing revenue efficiency through utilization stability and of limiting cabinet development costs.

Market Reactivation Initiative 3

Bolstering Uptake of Next-Generation Multi-Purpose Computer Graphics Boards

In September 2009, SEGA began to supply *RINGEDGE* and *RINGWIDE* next-generation multi-purpose computer graphics boards for arcade games. *RINGEDGE* is a leading-edge computer graphics board for the development of content that meets the distinct preferences of frequent players. While raising performance, it offers a 30% reduction in costs in comparison with conventional products. On the other hand, *RINGWIDE* is a multi-purpose board for the development of a wide range of products, such as those used overseas, and offers economical pricing that will support its uptake through specification selection. Because boards can be selected in accordance with usage scenarios and regions, it is possible to develop amusement arcade machines with higher investment efficiency. Also, with both boards offering a low-cost Windows PC development environment that makes it easy to develop applications and stable supply through a five-year parts guarantee, we believe that these products will be attractive to a wide range of software licensees.

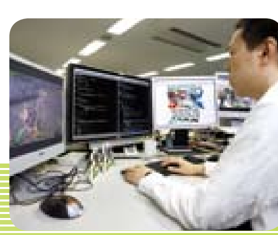
Market Reactivation Initiative 4

Expanding Operational Fields

Higher-end products that appeal to frequent players are too complicated for casual players and are not effective at drawing them to amusement centers. In addition, due to the increasingly wide range of player values and lifestyles, “fun” is diversifying. Amusement centers must respond to these changes. SEGA will work to reactivate the market by expanding the base of users through a broad product lineup that can meet these diversifying player needs. We will focus on the development of content that generates and cultivates new groups of players, in conjunction with increasingly advanced “fun” that satisfies frequent players, as well as on the development of products that use basic technologies, such as new devices.

In overseas markets, we will work to expand sales through development that entails the localization of products sold in Japan to prices and specifications that meet local market needs and through cooperative ventures with local subsidiaries that are well versed in local market needs. In China and other Asian markets, we will work to open up markets through the supply of products offered at strategic prices while maintaining SEGA’s traditional value.

Moving forward, SEGA will do its utmost to reactivate the amusement industry and bolster the earnings capacity of its own amusement-related operations by implementing new initiatives.



OUR STRATEGIC DIRECTION OVER THE MEDIUM TERM

Through the optimal allocation of its management resources, including human resources, intellectual property, technologies, and funds, the Group will generate synergies that drive its future growth.

SEGA SAMMY in Fiscal 2009

SEGA Concludes Operational Tie-Up with PlatinumGames Inc.

SEGA CORPORATION

SEGA has concluded an operational tie-up agreement with PlatinumGames Inc., a game development company that employs some of Japan's top game creators. The agreement covers development and sales of home video game software. This new venture involves four exciting new titles, including *BAYONETTA*™. These titles were developed by PlatinumGames and will be produced and sold by SEGA.

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

Launch of *Pachinko CR Hokuto No Ken*

Sammy Corporation

Pachinko CR Hokuto No Ken was launched as the first title created under the new development system. As of the end of March 2009, total unit sales, including the *Kenshiro* version, the *Rao* version, and the *Yuriah* version, surpassed 260,000 units, setting a new record for unit sales for a single Sammy pachinko machine.

Dissolution of Business and Capital Tie-Up with GINZA CORPORATION

Sammy Corporation

Aiming to maximize our revenues and profits by increasing the percentage of development resources and other management resources allocated to the highly profitable Sammy brand, we dissolved our business and capital tie-up with GINZA CORPORATION.

2008

04 05 06 07 08 09 10

GALILEO FACTORY
© SEGA

Installations of *GALILEO FACTORY* are Commenced

SEGA CORPORATION

GALILEO FACTORY, a large-scale medal game for amusement centers, has a number of special features designed to emphasize the appeal of medal games to a broad range of players. These include a ball coaster with multiple gimmicks, a newly developed handle-type medal receptacle, and an impressive performance when jackpots are paid out.

Launch of *Web Gurumi*, the First Web-Linked Toy for Girls in Japan

SEGA TOYS, LTD.

Web Gurumi uses the *Jewelpet* characters, which were developed jointly by SEGA TOYS and Sanrio Company, Ltd. By entering the included serial number into a special web site, customers can access a social networking service (SNS). This web-linked toy for girls is the first of its kind in Japan.

Web Gurumi and Jewel House
© '08,'09 SANRIO/SEGA TOYS
S•S/W•TVO•JLPC

777.net Wins Best Games Award at the WebMoney Award 2008

Sammy NetWorks Co., Ltd.

777.net, a pachinko and pachislot online game site, has 1.2 million members and is operated by Sammy NetWorks. The site won the Best Games Award at the WebMoney Award 2008, which recognizes the online game that received the most support during the year.

Decision to Withdraw from the Pachinko Peripheral Equipment Business through the Sale of Sammy Systems Corporation

Sammy Corporation

In order to maximize Group earnings, we decided to focus our pachinko and pachislot machine management resources on the core business – the machines. Accordingly, we decided to sell all of our shareholdings in Sammy Systems, which handles peripheral equipment, and to withdraw from the business.

Launch of *Sonic Unleashed*

SEGA CORPORATION

The latest title in the popular *Sonic the Hedgehog* series, SEGA's flagship game, is *Sonic Unleashed*, which offers new action as Sonic transforms at night.

Launch of Entirely New Entry in *Phantasy Star* Series for Nintendo DS®

SEGA CORPORATION

Phantasy Star ZERO, the latest entry in SEGA's leading network RPG, was launched for the Nintendo DS®. Through a new function – visual chat – friends can communicate through text or pictures that they draw with a touch pen. In this way, *Phantasy Star ZERO* has taken RPG into new territory.

Sonic Unleashed
© SEGA

Phantasy Star ZERO
© SEGA

The Official Video Game of the Vancouver 2010 Olympic Winter Games – SEGA Announces Publishing Agreement

SEGA CORPORATION

SEGA announced a worldwide agreement with International Sports Multimedia (ISM), exclusive licensee of the International Olympic Committee (IOC), to once again become the sole approved video game publisher of the 2010 Olympic Winter Games in Vancouver, Canada.

2009

11 12 01 02 03 04 05

BAKUGAN
© SEGA TOYS/SPIN MASTER

BAKUGAN Wins Toy of the Year Award in the United States

SEGA TOYS, LTD. / TMS ENTERTAINMENT, LTD.

Toys based on *BAKUGAN*, a character for boys developed jointly by SEGA TOYS, TMS ENTERTAINMENT, and SPIN MASTER Limited, a major toy maker in Canada, won the Toy of the Year Award in 2009, the highest honor in the U.S. toy industry.

SEGA Develops *RINGEDGE* and *RINGWIDE* Next-Generation Multi-Purpose Computer Graphics Boards for Arcade Game

SEGA CORPORATION

SEGA began to supply the *RINGEDGE* and *RINGWIDE* next-generation multi-purpose computer graphics boards for amusement arcade machines. *RINGEDGE* is an advanced board for the development of content to meet distinct preferences, while *RINGWIDE* is a highly multi-purpose board for the development of a wide range of products, such as those used overseas. Because boards can be selected in accordance with usage scenarios and regions, they make it possible to develop machines with high investment efficiency

Ryu-Ga-Gotoku 3
© SEGA

Domestic Sales of *Ryu-Ga-Gotoku 3* Surpass 500,000 Units within Three Weeks of Launch

SEGA CORPORATION

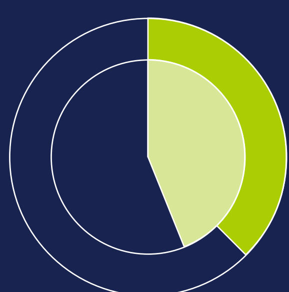
Ryu-Ga-Gotoku 3 was released for the PLAYSTATION® 3 in February 2009, and in just three weeks domestic sales surpassed 500,000 units. Cumulative worldwide sales of the *Ryu-Ga-Gotoku* series had reached 3.2 million units by the end of March 2009.

Overview by Business Segment

Pachinko and Pachislot Machine Business

Composition of Net Sales **37.7%***

Composition of Total Assets **44.1%***



* Before corporate expenses and eliminations

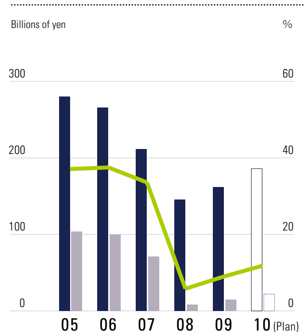
We will aim to lead the reactivation of the pachislot machine market and to further enhance our presence in the pachinko machine market. To that end, we will establish a strong operating structure by focusing our management resources on core businesses and will create innovative pachinko and pachislot machines by concentrating our development know-how and fully leveraging more-advanced technologies.

OVERVIEW

The pachinko and pachislot machine business, in which Sammy is the core operating company, is the driver of the Group's revenues and profits. Sammy entered the pachislot machine market in 1982 and has contributed to the market's development by continually providing machines with innovative gameplay. In this way, Sammy has built a solid position of leadership in the pachislot machine market and has remained one of the leading companies since 2001. Sammy made a full-scale entry into the pachinko machine market in 1995, and since the second half of 2007 the company has successfully implemented a major restructuring of its development system. In fiscal 2009, Sammy recorded a substantial gain in pachinko machine market share.

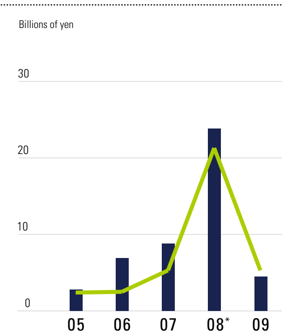
Pachislot Hard-Boiled
© Sammy

Net Sales/Operating Income/ Operating Margin



- Net sales (left)
- Operating income (left)
- Operating margin (right)

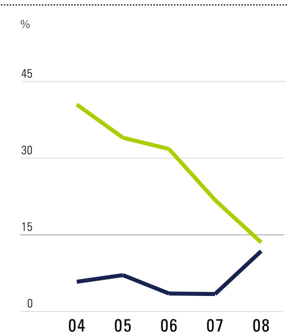
Capital Expenditures/ Depreciation and Amortization



- Capital expenditures
- Depreciation and amortization

* Including increase in rental assets stemming from introduction of rental plans

Market Share



- Pachinko machines
- Pachislot machines

Source: Yano Research Institute Ltd.
* Settlement dates from July to June

OVERVIEW OF FISCAL 2009

The pachinko machine market has been reactivated through the uptake of pachinko machines with diverse gameplay, and annual unit sales, number of installed machines, and market scale have all followed an increasing trend.

In the fiscal year under review, we launched *Pachinko CR Hokuto No Ken* under the Sammy brand, marking the first title created under the new development system we transitioned to from September 2007. This title has been well received in the market, and the series has achieved total sales of 260,000 units, a record for Sammy pachinko machines. In addition, other titles created under the new development system have also recorded strong unit sales. In fiscal 2009, overall unit sales of pachinko machines were up 283,000 units year-on-year, to 391,000 units, and pachinko machine sales rose 314.6% year-on-year, to ¥116.5 billion. Consequently, we substantially expanded our market share, from 3.4% in the previous fiscal year to 11.8% in fiscal 2009.

In the pachislot machine market, older machines have been replaced by newer machines with enhanced gameplay following the partial amendment of Standards for Interpretation of Technical Specifications in March 2008, but nonetheless the market has yet to undergo a full-fledged recovery, and number of installed units, unit sales, and market scale have all been sluggish. We launched Sammy-brand *Pachislot Hard-Boiled* and other machines, with enhanced gameplay that reflects the revision, and these machines have earned a certain degree of support in the market. Nonetheless, with the objective of further enhancing gameplay, we delayed the launch of major titles to fiscal 2010. In addition, in fiscal 2009 there was a rebound from the previous fiscal year, when old-format machines reached their regulatory limit and were simultaneously replaced by new-format machines. Consequently, unit sales in the fiscal year under review were down by 257,000 units, to 123,000 units. As a result, sales in the pachislot machine business declined 67.4%, to ¥33.8 billion. Our market share declined 8.3 percentage points, from 21.8% in the previous fiscal year to 13.5% in the fiscal year under review, but nonetheless we remained one of the leading manufacturers in the market.

Consequently, sales in the Pachinko and Pachislot Machine Business segment were up 11.1%, to ¥161.7 billion. In addition to the substantial gain in sales recorded in the pachinko machine business, we promoted the reuse of parts and terminated the pachislot machine rental program that we had offered through the previous fiscal year. As a result, the segment's operating income was up 72.1%, to ¥14.5 billion, and the operating margin rose 3.2 percentage points, to 9.0%. From the fiscal year under review, TAIYO ELEC, which was made a consolidated subsidiary in December 2007, was consolidated for the full fiscal year. To maximize Group earnings, in the fiscal year under review we withdrew from the peripheral equipment business, and focused our pachinko and pachislot machine management resources on the core business – the machines. In addition, we dissolved our business and capital tie-up with GINZA CORPORATION to focus our management resources on our highly profitable core brand.

Capital expenditures in the fiscal year under review were down 81.0% year-on-year, to ¥4.5 billion, due primarily to the termination of the pachislot machine rental program. Depreciation and amortization declined 75.2%, to ¥5.3 billion.

new release

Pachislot Psalms of Planets Eureka Seven

Launch of a Sammy Masterpiece –
Pachislot Psalms of Planets Eureka Seven

With absolutely no compromises – in specifications, staging, or any other elements – Sammy has pushed its capabilities to the absolute limit and created a pachislot machine that can truly be called a Sammy masterpiece. *Pachislot Psalms of Planets Eureka Seven*, a machine with ultra-next-generation specifications, transcends the conventional concept of No. 5 machines[1]. It has advanced Sammy's *monozukuri* spirit and has recreated the sense of anticipation and staging of the era of No. 4 machines[2]. The main concept is the "third bonus." In addition to functions specially selected from successive generations of Sammy machines, this machine has a variety of functions that make it possible for even beginners to play without worry. In addition, Sammy took steps to ensure that animation fans will also enjoy the game, such as incorporating the industry's first images based on collaboration between a TV animation series and theatrical releases.

1 Machines compliant with regulatory revision enforced in July 2004
2 Machines compliant with regulations prior to the regulatory revision enforced in July 2004

Overview by Business Segment

Amusement Machine Sales Business

Composition of Net Sales **14.4%***

Composition of Total Assets **8.5%***

* Before corporate expenses and eliminations

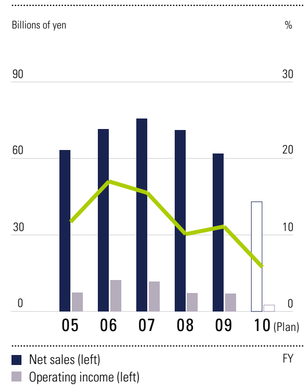
GALILEO FACTORY
© SEGA

With original creativity and advanced development capabilities, the Amusement Machine Sales Business segment has led progress in amusement machines. With our extensive product lineup, which is in the industry's top ranks, we meet the needs of a diverse range of players. At the same time, we are working to create new products and business models that will contribute to stable earnings for both amusement center operators and the SEGA SAMMY Group.

OVERVIEW

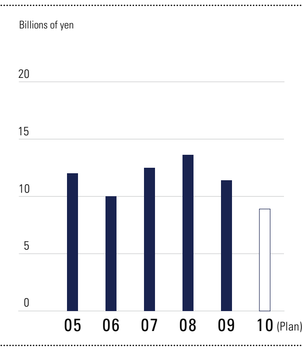
The amusement machines sales business has been a core operation for SEGA ever since the company was established. As the amusement arcade machine manufacturer with the longest history in the domestic market, SEGA has driven the development of the market through the creation of highly innovative new products. SEGA's industry-firsts include opening up the virtual game genre with *Hang On* and the 3D computer graphics fighting game genre with *Virtua Fighter*. Moreover, SEGA has also contributed to the expansion of the player

Net Sales/Operating Income*/Operating Margin*



* Fiscal 2010 operating income and operating margin are after the change in accounting principles. Before the change in accounting principles: operating income, ¥2.0 billion; operating margin, 4.7%.

R&D Expenditures*



* R&D expenditures in fiscal 2010 are after the application of a change in accounting principles. Before the change in accounting principles: ¥9.4 billion.

base with such machines as *UFO Catcher* and *Print Club*. The base for this creation of new value is derived from SEGA's advanced applied technology capabilities, which enable the company to incorporate leading-edge technologies into entertainment. Examples include the development of highly competitive multi-purpose 3D computer graphics boards for arcade machines and the development of *ALL.Net*, the technological infrastructure that links games and centers. On a foundation of these technologies, SEGA boasts superior competitiveness in high-value-added game machines that are clearly differentiated from home game platforms, such as the company's current competitive edge in networked trading card games. Moreover, SEGA also has strong recognition among children and families, and through cooperative initiatives with the Amusement Center Operations segment, we are working to meet the needs of a wide range of users.

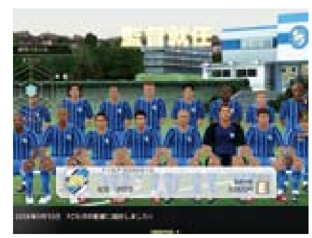
WORLD CLUB Champion Football Intercontinental Clubs 2006–2007

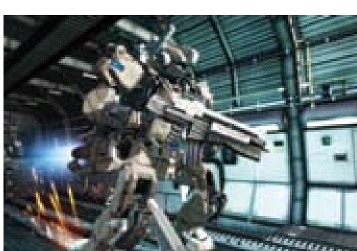
OVERVIEW OF FISCAL 2009

The amusement machine market has been characterized by poor conditions since fiscal 2008, when existing-center sales in the amusement center industry began to decline year-on-year. Since 2008, against a backdrop of sluggish consumer spending, conditions have worsened. Accordingly, as a machine manufacturer, SEGA is faced with the urgent challenge of improving the investment efficiency of center operators and securing stable revenues over the long-term.

The Amusement Machine Sales Business segment released major titles in fiscal 2009. In the domestic market, we released *WORLD CLUB Champion Football Intercontinental Clubs 2006–2007*, a trading card game, and *GALILEO FACTORY*, a large medal game, which recorded solid sales. However, in consideration of the challenging management conditions faced by amusement center operators, we decided to halt development of certain major titles that had been slated for launch in the second half. Consequently, domestic sales were down 12.4%, to ¥53.2 billion, and overseas sales, which were also affected by challenging conditions for center operators, declined 16.3%, to ¥8.7 billion.

As a result, in the Amusement Machine Sales Business segment, sales were down 12.9%, to ¥61.9 billion; operating income declined 3.6%, to ¥6.9 billion; and the operating margin rose 1.0 percentage point, to 11.1%. R&D expenditures in the fiscal year under review were down 16.2%, to ¥11.4 billion, due to such factors as the streamlining of development titles for the purpose of building a cost structure appropriate to the level of earnings.





BORDER BREAK
© SEGA

new release

Launch of *BORDER BREAK*, a Next-Generation Game Machine Using a New Computer Graphics Board

BORDER BREAK, a high-speed robot team battle game machine, will be launched in fall 2009. This game machine uses *RINGEDGE*, SEGA's next-generation computer graphics board for arcade machines. Moreover, through the utilization of *ALL.Net*, 20 people around the country can compete in teams of 10 versus 10 with a high degree of realism. *BORDER BREAK* uses the game point (GP) system, which enables anyone to play without worry for a specified period of time, and through the use of IC cards, it is possible to customize the robots and the characters before playing. In addition, with features such as communications capabilities that allow players to send messages to each other using a touch panel, *BORDER BREAK* offers operability and gameplay that enable players to truly "experience a game together," which has never before been available in arcade games.

Overview by Business Segment

Amusement Center Operations

Composition of Net Sales **16.6%***

Composition of Total Assets **16.9%***

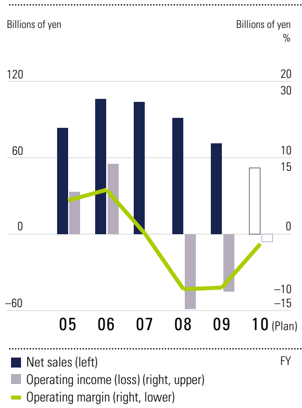
* Before corporate expenses and eliminations

By fundamentally reforming its profit structure through such measures as increases in the operational efficiency of its amusement centers, the Group will navigate through the difficult operating environment. At the same time, we will also take on the challenge of creating new business formats and business models that transcend the traditional boundaries of the amusement center business.

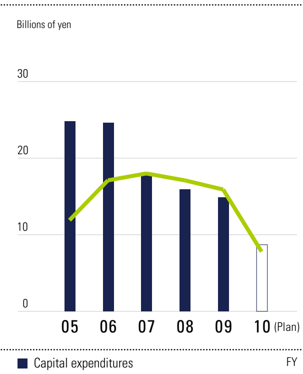
OVERVIEW

With SEGA as its core operating company, the Amusement Center Operations segment has continually proposed new entertainment venues, from the first days of the amusement center operations market to the present. The segment's ability to innovate rests on a foundation of keen insight into market needs and close cooperation with the Amusement Machine Sales Business segment. We leveraged those strengths to create *The King of Beetles "MUSHIKING"* and other kids' card games, which blazed a trail into the new market for young elementary school children.

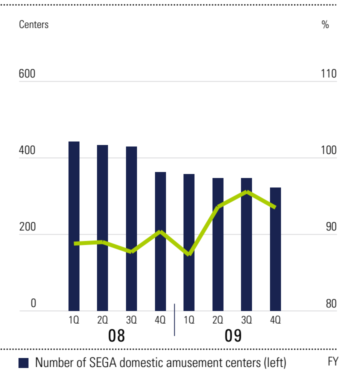
Net Sales/Operating Income (Loss)/Operating Margin



Capital Expenditures/Depreciation and Amortization



Number of SEGA Domestic Amusement Centers/YOY Changes in Existing-Center Sales



Currently, through closer ties with the Amusement Machine Sales Business segment, we are taking steps to draw a broad range of players to amusement centers, including the implementation of product lineups that appeal to diverse customers and the development of centers, such as *JOYPOLIS, SEGA WORLD*, and *CLUB SEGA*, in accordance with concepts that differ by such factors as regional and site characteristics. To improve profitability in this segment, we are implementing a range of measures, such as closing or selling unprofitable centers and bolstering center operations.

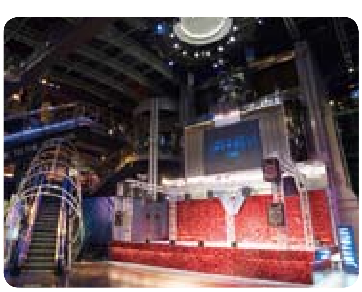
OVERVIEW OF FISCAL 2009

In recent years, the amusement center operations market has seen continued year-on-year declines in existing-center sales accompanying the diversification of entertainment and increased competition in the amusement center industry. Against a backdrop of sluggish consumer spending, the environment has become even more challenging. There is a need for the market to be reactivated by new game machines and business formats that meet the diversifying needs of customers, including families and casual players.

In fiscal 2009, SEGA closed or sold centers that had been determined to have low profitability and potential in the previous fiscal year, and the company also bolstered operations by product category. Nonetheless, the decline in the operating environment was worse than expected, including sluggish consumer spending under the influence of the global financial crisis, and consequently SEGA's existing-center sales were down 7.6% in the fiscal year under review. Accordingly, we decided to close or sell another 110 centers.

As a result, sales in the Amusement Center Operations segment were down 21.8% year-on-year, to ¥71.3 billion, due to the lower number of centers and to a decrease in existing-center sales. However, due to the closure or sale of unprofitable centers, the operating loss improved from ¥9.8 billion in the previous fiscal year to ¥7.5 billion in the fiscal year under review. With a decline in the number of centers and a restrained approach to center opening, capital expenditures were down 6.4%, to ¥14.9 billion, and depreciation and amortization decreased 7.3%, to ¥15.9 billion.

In Japan, we closed or sold 47 centers and opened six new centers, and as a result, we had 322 centers at year-end, a decline of 41 centers from the end of the previous fiscal year.



TOKYO JOYPOLIS

SEGA WORLD

new release

BATTLE RACER
© SEGA

Aiming to Reactivate the Market with Kids' Games Based on New Concepts

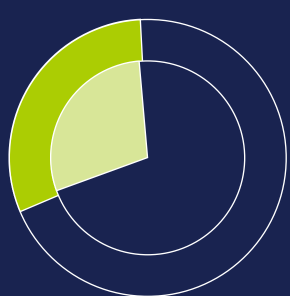
In fiscal 2010, SEGA will launch nine new kids' card game machines, principally in the second half of the fiscal year. Accompanying a lower birthrate, the kids' game market is contracting. However, SEGA will work to reactivate and expand the market overall by stepping up collaboration with other industries and generating synergies, such as the nurturing of strong characters, through initiatives leveraging strengths in a variety of specialized fields. In addition, by standardizing cabinets, we will work to increase utilization rates through flexible content replacement. Some of the titles that are scheduled for launch in fiscal 2010 feature double touch-screen cabinets. With touch panels employed on upper and lower screens, these titles have realized gameplay that offers direct action experience, enabling the proposal of an entirely new kind of entertainment.

Overview by Business Segment

Consumer Business

Composition of Net Sales **30.6%***

Composition of Total Assets **29.2%***



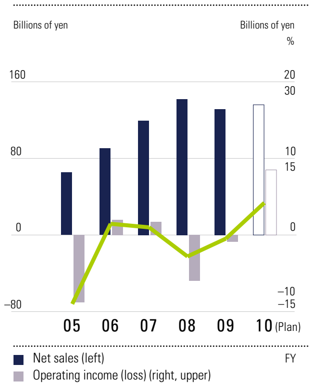
* Before corporate expenses and eliminations

In the home video game software business, which is the core business of the Consumer Business segment, we are building a strong operational system through the unification of production and marketing, and are bolstering cooperative initiatives among Japan, the United States, and Europe. At the same time, by focusing our development resources on competitive titles, we are aiming to achieve the resurgence of SEGA as a global brand.

OVERVIEW

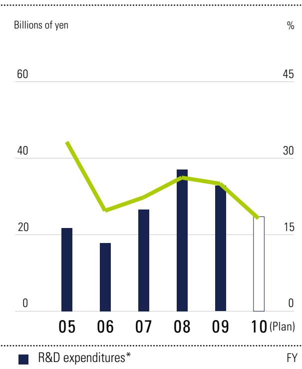
The home video game software business is the core business of the segment, accounting for more than 60% of the segment's sales. SEGA has established a unique position through the provision of highly innovative and original hardware and software. Since withdrawing from the hardware business in 2001, as a publisher, the company has followed a multi-platform strategy of providing software for a wide range of platforms. In particular, in overseas markets, backed by the popularity of strong content, such as *Sonic the Hedgehog*, SEGA boasts a high level of brand strength. In recent years, we have taken steps to establish and reinforce a development system for game software that meets local preferences, including bringing into the Group talented overseas development studios, such as SPORTS INTERACTIVE Ltd., which offers the *Football Manager* series. In this way, we are working to enhance our presence in overseas markets, which continue to record growth. On the other hand, in the domestic market, we are increasing operational efficiency through the selection and concentration of development resources.

Net Sales/Operating Income (Loss)*/ Operating Margin*



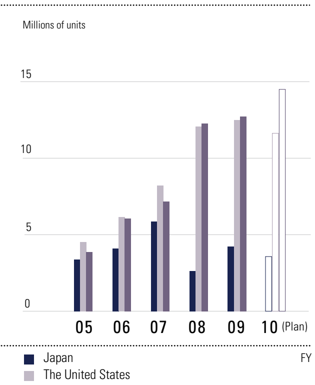
* Fiscal 2010 operating income and operating margin are after the change in accounting principles. Before the change in accounting principles: operating income, ¥4.0 billion; operating margin, 2.9%.

R&D Expenditures*/ R&D Expenditures to Net Sales



* Fiscal 2010 R&D expenditures and ratio of R&D expenditures to net sales are after the change in accounting principles. Before the change in accounting principles: R&D expenditures, ¥29.2 billion; ratio of R&D expenditures to net sales, 21.5%.

Unit Sales by Region



OVERVIEW OF FISCAL 2009

In fiscal 2009, the home video game software market saw a leveling off in demand growth in the domestic market due to the uptake of current-generation platforms, while in Europe and the United States, hardware and software both continued strong.

In Japan, SEGA recorded favorable sales of *Phantasy Star Portable* and *Ryu-Ga-Gotoku 3*, the latest entry in the popular *Ryu-Ga-Gotoku* series, but other titles recorded sluggish results. Overseas, favorable sales were achieved by *Sonic Unleashed* and *Football Manager 2009* in the high-demand year-end period, as well as by repeat sales of titles released in the previous fiscal year, such as *Mario & Sonic at the Olympic Games*™. In addition, in order to improve profitability in subsequent years, we also reduced R&D expenditures by streamlining development titles. Consequently, total unit sales of game software in the fiscal year under review were up 9.2% year-on-year, to 29.47 million units. By region, we sold 12.49 million units in the United States, 12.73 million units in Europe, and 4.23 million units in Japan and other markets.

SEGA TOYS, LTD., a subsidiary that handles toy sales operations, recorded sluggish sales in Japan, but overseas strong sales were recorded by *BAKUGAN*, which won the Toy of the Year Award in the United States in 2009. Moreover, in content for mobile phones and PCs, Sammy NetWorks Co., Ltd., achieved solid results, centered on game content distribution, such as for *Pachinko CR Hokuto No Ken*. In the animation operations handled by TMS ENTERTAINMENT, LTD., the network distribution business recorded favorable growth, but domestic program sales and video game sales declined.

Consequently, the Consumer Business segment's net sales declined 7.4%, to ¥131.4 billion. Net sales included video game software sales of ¥82.1 billion, a decrease of 13.4% year-on-year, and network games and other business sales of ¥49.2 billion, an increase of 4.9%. R&D expenditures were reduced 11.6% year-on-year, to ¥32.8 billion, and as a result, operating loss was ¥0.9 billion, compared with an operating loss of ¥6.0 billion in the previous fiscal year.

Sonic Unleashed
© SEGA

new release

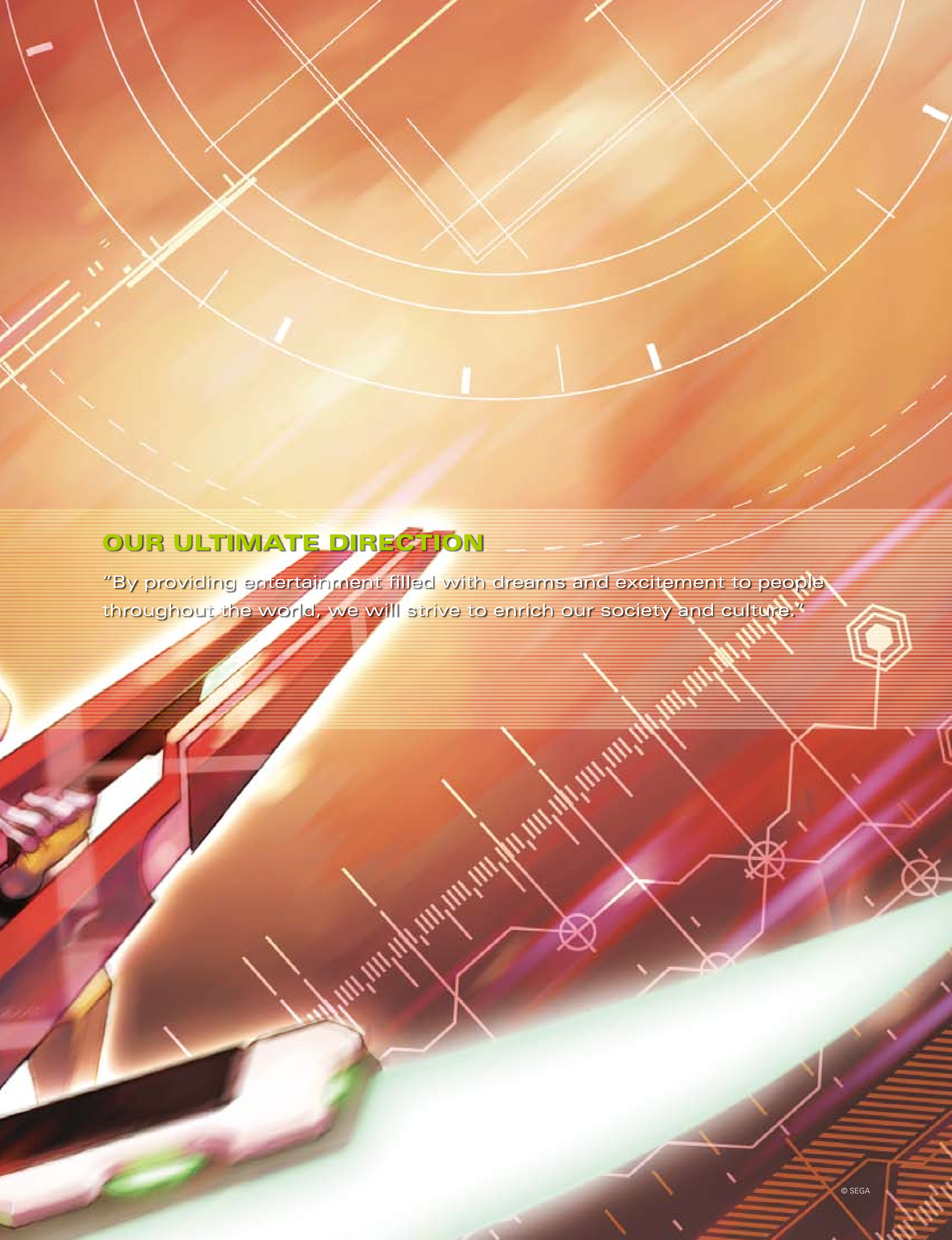
Launch of *BAYONETTA*™, the Third Product Resulting from Tie-Up with PlatinumGames

BAYONETTA™ is a cinematic, stylized action game from the famed creative mind of renowned game developer Hideki Kamiya. The game's protagonist is a graceful, gun-wielding witch with powers beyond the comprehension of mere mortals. Facing off against countless fantastic enemies in stylish yet action-packed combat, *Bayonetta* uses outlandish finishing moves to take the action genre to a new level of excellence.

BAYONETTA™
© SEGA

OUR ULTIMATE DIRECTION

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



Corporate Governance

The SEGA SAMMY Group regards corporate governance as the key foundation for its corporate activities, and is working to maximize its corporate value by strengthening and enhancing this area.

Basic Stance on Corporate Governance

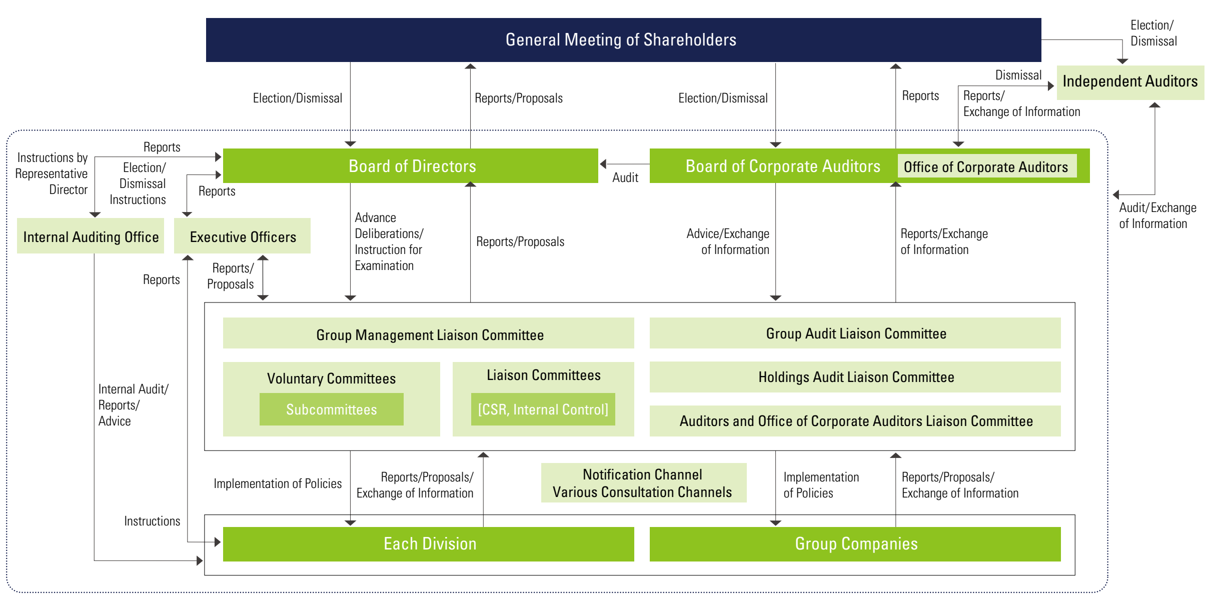
The SEGA SAMMY Group regards corporate governance as the key foundation for its corporate activities. The fundamental principles of the Group's corporate governance policy are to enhance efficiency, secure a sound corporate organization, and enhance transparency. This policy is the basis for addressing such important management issues as selecting candidates for directorships, deciding compensation for directors, implementing management oversight, and determining compensation for corporate auditors.

Enhancing Efficiency: The Group will strive to maximize corporate value by establishing expeditious, appropriate decision-making processes and by increasing the efficiency of corporate management. We will work to return the benefits of these efforts to our shareholders and other stakeholders.

Securing a Sound Corporate Organization: To maximize corporate value in volatile business conditions, the Group will identify and manage the range of risks that it faces. At the same time, we will secure a sound corporate organization through the reinforcement of compliance systems focused on strict adherence to social norms as well as laws and regulations.

Enhancing Transparency: In light of the growing importance of disclosure by companies, the Group will increase management transparency by fulfilling its responsibility to explain corporate actions to shareholders and other stakeholders and by realizing enhanced disclosure through proactive investor relations (IR) activities.

Corporate Governance System



Corporate Governance System

The SEGA SAMMY Group has adopted a corporate auditor system in consideration of its objective of enabling directors, who have abundant knowledge and experience of industry, market trends, products, merchandise, and services, to make quick and optimal management decisions in a rapidly changing management environment. 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.

Administrative Systems Related to Management Decision Making, Execution, and Supervision

INSTITUTIONAL RELATIONSHIPS AND ORGANIZATIONAL ADMINISTRATION

Directors: Two of the Company's six directors are outside directors. At the meetings of the Boards and committees that they attend, the outside directors work to provide guidance and advice in accordance with their abundant experience and specialized knowledge, thereby contributing to enhancing efficiency, securing a sound corporate organization, and enhancing transparency in the Company's management.

Corporate Auditors: Three of the Company's four corporate auditors are outside corporate auditors. At the various meetings that they attend, the outside corporate auditors provide guidance and advice based on their abundant experience and specialized knowledge, thereby contributing to enhancing efficiency, securing a sound corporate organization, and enhancing transparency in the Company's management. In addition, the Company has established the Office of Corporate Auditors, which reports directly to the Board of Corporate Auditors. The staff of the Office of Corporate Auditors assists the corporate auditors in their duties in accordance with guidance and instruction from the corporate auditors.

Functioning of Boards and Committees

With the objective of enhancing business execution, auditing, and oversight, the principal Boards and committees operated by the Company are as follows.

Board of Directors: Comprising six directors, the Board of Directors convenes once a month and additionally as required and implements responsive management. Further, the Board of Directors and other bodies of the Company undertake 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 additionally as required to conduct deliberations and thoroughly analyze specific issues.

Group Management Liaison Committee: Meeting once a month, the Group Management Liaison Committee comprises directors, corporate auditors, and corporate officers from the Company and directors from SEGA and Sammy. Its purpose is to form a consensus by the Group on various issues based on the sharing of information and thorough debate.

Holdings Audit Liaison Committee: The Holdings Audit Liaison Committee consists of standing corporate auditors from the Company, SEGA, and Sammy; responsible directors from accounting divisions; and representatives of the Company's independent auditors, KPMG AZSA & Co. 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 Office of Corporate Auditors Liaison Committee: The Auditors and Office of Corporate Auditors Liaison Committee consists of standing corporate auditors from the Company, SEGA, and Sammy as well as members of the Company's Office of Corporate Auditors. The committee meets every month with the purpose of ensuring the soundness of management by sharing information.

Voluntary Committees: Voluntary committees discuss and verify specific issues related to Group management that are referred to them by the Board of Directors, and the results are reported/presented to the Board of Directors. Moreover, each voluntary committee has subcommittees for the purposes of discussing and verifying specific issues.

Liaison Committees: Liaison committees are bodies that discuss and verify the Group's corporate governance policies. Currently, there are two committees – the Group Internal Control Liaison Committee and the Group CSR Liaison Committee. Each of these committees is composed of persons responsible for internal control and CSR at the Company, SEGA, and Sammy, and the committees meet quarterly.

Positioning and Roles of Individual Committees

The Group Management Liaison Committee acts as a detailed investigative arm in screening business proposals before they are submitted to the Board of Directors, which is the legally designated decision-making body. The Group Management Liaison Committee also contributes to collaboration by the Company, SEGA, and Sammy in business operations. The voluntary committees and the liaison committees discuss and verify specific issues related to Group management. The Holdings Audit Liaison, Group Audit Liaison, and Auditors and Office of Corporate Auditors Liaison committees also contribute to collaboration among Group companies. These three committees, each of which has a different membership composition, are information-sharing and opinion-exchanging bodies regarding management oversight.

The Company established the Office of Corporate Auditors as its internal audit department to ensure appropriate operations are carried out in accordance with laws, regulations, and the Articles of Incorporation. The Office of Corporate Auditors has eight employees and implements internal audits of all Group companies. In addition, the Company receives the advice of KPMG AZSA & Co., which has served as its independent auditor since the Company's establishment on October 1, 2004, not only on fiscal year-end audits but also on accounting treatment and other issues during the fiscal year.

Basic Policies for Strengthening Internal Control Systems

In accordance with the Corporate Law, the Company has formulated and is working to implement the following basic policies for strengthening its internal control systems.

(1) Systems to ensure that directors perform their duties in conformance with laws, regulations, and the Articles of Incorporation

To ensure a thorough understanding that compliance is a prerequisite to all corporate activities, we have formulated the Group CSR Charter and Group Code of Conduct, which are the foundation of our social responsibility policies for filling our role as a member of society, including the establishment of a compliance system. The President and Representative Director will repeatedly take steps to convey the spirit of these policies to all officers and employees. Furthermore, to ensure appropriate and sound execution of the Company's operations overall, the Board of Directors is striving to establish effective internal control systems and a system to ensure compliance by the Company with laws, regulations, and the Articles of Incorporation from the perspective of further strengthening corporate governance. In addition, the Board of Corporate Auditors is working to find and correct any problems at an early stage by auditing the effectiveness and functions of the internal control systems and verifying them periodically.

(2) Systems to store and control information on the performance of duties by directors

The President and Representative Director has appointed the Director in charge of the Administration Divisions as the person responsible for the storage and control of information on the performance of duties by directors. In accordance with internal rules, this information is recorded in documents or electronic media and stored and controlled in easily searchable formats that facilitate adequate, accurate inspection by the directors and corporate auditors.

(3) Rules and other systems concerning management of exposures to loss

With regard to risks related to the execution of business by the Company, each relevant division analyzes and identifies individual foreseeable risks and clarifies the risk management system. In addition, the internal audit department and the internal control department audits and monitors the status of risk management by each division and each department and periodically reports the results of audits to management decision-making, execution, and oversight bodies.

(4) Systems to ensure efficient performance of duties by directors

To ensure efficient performance of duties by directors, we employ a system of corporate auditors to enable internal officers familiar with the business of the Group to make decisions swiftly and properly. At the same time, in accordance with the regulations of the Board of Directors and other regulations, we have established a system to ensure appropriate and efficient performance of duties by directors through rules on authority and decision making.

(5) Systems to ensure that employees perform their duties in conformance with laws, regulations, and the Articles of Incorporation

1) The internal control department has been given overall responsibility for compliance for the Company and the Group. Group compliance policies are promoted to ensure that all employees act in compliance with laws, regulations, the Articles of Incorporation, and other internal rules as well as social norms.

2) We have established a system to enable employees to make reports if they become aware of any contravention of laws, regulations, the Articles of Incorporation, other internal rules, or social norms. In addition, we have established a system to ensure that responsible personnel report any important cases to the Board of Directors and the Board of Corporate Auditors without delay. Moreover, as a system to protect such whistle-blowers and to ensure appropriate handling while maintaining transparency, we have established reporting channels that include not only regular reporting channels but also an internal department in charge of compliance and outside attorneys.

(6) Systems to ensure proper execution of business by the corporate Group, including the Company and its parent company and subsidiaries

We have established the Group Management Liaison Committee, the Group Audit Liaison Committee, and other committees to discuss various problems involving the Group and matters involving significant risks that should be controlled. At the same time, the Office of Corporate Auditors conducts audits from the perspectives of the Groupwide interest, and we are doing our utmost to share information within the Group and ensure appropriate business execution.

(7) Matters concerning employees appointed by request of the corporate auditors to assist the corporate auditors in the performance of their duties

We have established the Office of Corporate Auditors under the direct control of the Board of Corporate Auditors. Employees assigned to the Office of Corporate Auditors assist the corporate auditors in the performance of their duties in compliance with their directions and orders.

(8) Matters concerning the independence from the directors of the employees described in item (7)

1) Employees assigned to assist the corporate auditors in the performance of their duties are supervised directly by the corporate auditors and are not subject to orders or supervision from the directors.

2) In regard to the employees described above, such matters as appointment, dismissal, transfer, evaluation, disciplinary disposition, and wage revision require prior consent from the Board of Corporate Auditors.

(9) Systems for ensuring directors and employees provide reports to corporate auditors and other systems for ensuring the provision of reports to corporate auditors

1) If directors or employees become aware of any material violation of laws, regulations, the Articles of Incorporation, or of any misconduct with regard to the performance of duties, or of any fact that may cause material damage to the Company, they must report the situation to the Board of Corporate Auditors without delay.

2) Directors and employees must report any decisions that could have a material effect on business or the organization and the results of any internal audits to the Board of Corporate Auditors without delay.

(10) Other systems to ensure effective audits by corporate auditors

1) The representative directors must meet with the corporate auditors periodically to exchange opinions on the administration of the Company, in addition to reports on operations, and must otherwise work to foster mutual communication.

2) The Board of Directors must ensure that corporate auditors attend business execution meetings as needed to ensure appropriate operations.

3) Whenever necessary, the Board of Corporate Auditors must be given opportunities to receive advice on their duties by independently engaging attorneys, certified public accountants, and other third-party advisors.

<Basic Stance on and Preparations for Dealing with Antisocial Forces>

The Company will take a firm approach to dealing with antisocial forces and organizations that threaten public order and safety. If any contact is received from antisocial groups, we will make appropriate contact with external institutions, including police and lawyers, and handle the matter systematically. The Group Code of Conduct states that we will resolutely handle any undue demands arising from antisocial forces, organizations, or individuals; and not only will we not offer any payoffs but we will also eliminate any relationships with such antisocial groups or individuals.

Progress with Business Information Disclosure (IR Activities)

The Group recognizes that fairness and timeliness are the most important factors in disclosing business information to shareholders and investors.

For analysts and institutional investors, in conjunction with announcements of fiscal year or second-quarter financial results, we hold meetings regarding account settlement and operational plans. In addition, this information is provided over the Internet. In these ways, we are working to ensure fairness in information disclosure. Furthermore, for first-quarter and third-quarter results, we conduct conference calls and participate in seminars and conferences in Japan and abroad, thereby aggressively seeking out direct contact with investors.

For overseas investors, we provide periodic results presentations at meetings sponsored by securities companies. For our individual shareholders and investors, we implement a variety of initiatives to encourage a deeper understanding of our corporate activities. These include Internet streaming of presentations, not only those given to analysts for fiscal year or second-quarter results but also of overviews by top management for first-quarter and third-quarter results. In addition, we have established an IR web site specifically designed for individual investors that offers a wide range of useful information.

Other Initiatives

BOLSTERING OF INTERNAL CONTROL SYSTEM

To enhance corporate governance, the Group established the Group Internal Control Project in fiscal 2006, the year ended March 31, 2006, and moved forward with the establishment of a framework for evaluating and reporting on internal control systems in response to the Financial Instruments and Exchange Law, commonly known as J-SOX, which stipulates a system for evaluation and auditing standards for internal control for financial reports. Consequently, initiatives targeting reliability in financial reporting have been established, and internal control for the Group's financial reports for fiscal 2009 has been judged to be effective.

In the future, the Group will continuously ensure the reliability of financial reporting and, at the same time, with consideration for efficiency and soundness, will work to maintain and develop its internal control systems.

Corporate Social Responsibility

We have established the following CSR Charter as we regard the fulfillment of corporate social responsibility (CSR) as one of our most important management objectives. As a responsible corporate citizen, we will comply with all relevant laws, regulations, and social norms and further deepen our relationships with stakeholders. Through these efforts, we believe we can provide sound management of our Group and fulfill our responsibilities to society. This CSR Charter provides guidelines for our business operations.

As a sports promotion initiative, the SEGA SAMMY BASEBALL CLUB offers clinics to young players.

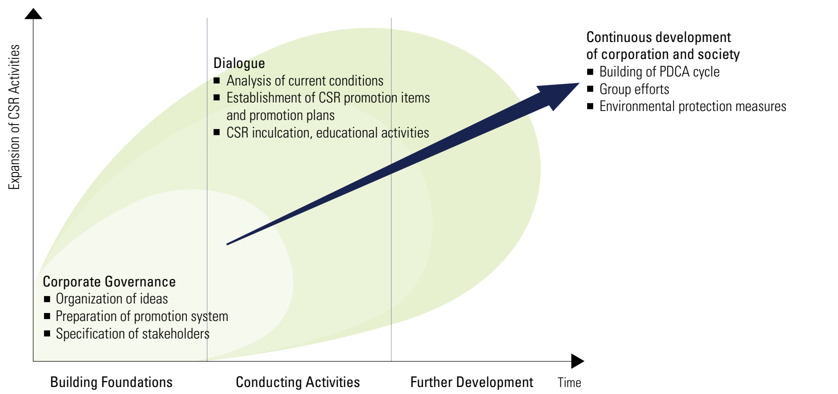
Sammy's pachinko and pachislot showroom was opened to senior citizens in a welfare facility.

Overview of the SEGA SAMMY Group's Approach to CSR

In accordance with our Group management philosophy – "By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture" – since 2005 we have moved forward in three phases, building foundations, conducting activities, and further development, in accordance with the following three ideas:

1. Sound management
2. Further deepening our relationships with stakeholders
3. Continuous development of corporation and society

The SEGA SAMMY Group will continue to move ahead with CSR activities based on these three ideas.



Implementation of CSR Activities to Date

In the phase of building foundations, aiming to incorporate the above three ideas into a management philosophy, policies, and specific activities, we formulated the Group Management Philosophy, the Group CSR Charter, and the Group Code of Conduct. After analyzing the status of the Company, SEGA, and Sammy, in fiscal 2007 we formulated CSR promotion items and promotion plans.

As a result of our initiatives over the past four years, we have currently moved out of the phase of building foundations and into the phase of conducting activities.

In the future, in accordance with the CSR promotion items and promotion plans, we will receive feedback from all stakeholders and implement CSR activities with the objective of achieving sustained growth for the Group in a manner that is linked to social progress.

CSR Promotion System

For promoting CSR activities, through July 2007 the CSR Management Committee decided on the policy and course for promoting the CSR of the Group as a whole; established specific measures for promoting CSR activities and gave instructions for carrying them out; checked the state of progress of CSR activities; and generally provided leadership for the entire Group in the area of CSR. Having completed the building foundations phase, we moved into the conducting activities phase of CSR, and accordingly have established a new organizational system.

In realizing sound management, which is the foundation for the promotion of CSR activities, to enhance corporate governance, compliance, and risk management, the Company established the Group CSR Liaison Committee. This committee coordinates the Group's CSR activities.

Moreover, for the smooth implementation of CSR activities, the Company established the CSR Promotion Office, which has been given overall responsibility for CSR activities and, working together with the executive offices of the CSR Committees at SEGA and Sammy, follows the plan–do–check–act (PDCA) cycle for initiatives related to specific CSR activities.

At SEGA and Sammy, the CSR committees, which are led by each company's president, provide guidance and approval for CSR implementation plans.

Relationships with Stakeholders

To build and strengthen better relationships with our five types of stakeholders – customers, business partners, shareholders and investors, employees, and society – we are working to establish a sound management system and to promote the sustained development of both the SEGA SAMMY Group and society.

WITH CUSTOMERS

We will bear in mind the current needs and interests of our customers in our effort to provide entertainment filled with dreams and excitement.

All of the people who enjoy the services sold and provided by the SEGA SAMMY Group are our customers. In response to their needs, we provide them with entertainment designed to enable them to enjoy themselves to their heart's content.

WITH BUSINESS PARTNERS

We will maintain fair and impartial relationships with our suppliers and work together as partners in providing entertainment filled with dreams and excitement.

To explain its basic thinking regarding business, the SEGA SAMMY Group has created the Group Code of Conduct that serves as a behavioral guideline for all Group employees and helps to ensure that these employees will raise more awareness about its basic thinking regarding business. So that the Group Code of Conduct can be revised as appropriate, all Group employees are alert to changes in social conditions, and to demands from stakeholders, that might necessitate such revisions.

WITH SHAREHOLDERS AND INVESTORS

We will view our business with a global perspective in our efforts to ensure sustained growth and to maximize enterprise value. Additionally, we will enhance management transparency and meet the expectations of our shareholders and society through fair and timely disclosure and appropriate returns in profits.

At the Company, we conduct explanatory meetings for shareholders and investors in Japan and overseas. We have also established an IR Information Center to answer the questions of shareholders and investors.

WITH EMPLOYEES

Our employees bring to us creativity and a spirit of challenge. They are our most cherished assets and the fuel to our growth. We will cultivate a corporate culture which allows them to fully exploit their talents and enables us to grow together with our employees.

We are striving to create workplace environments that enable employees to fully utilize their capabilities. The key themes in these endeavors are "career path," where we work to establish systems for fair appraisals, compensation, and training; "diversity," where we aim to achieve a work-life balance that supports both work and home and to employ a range of people without regard to gender or nationality; and "health and safety," where we take steps to create safe, healthy work environments.

WITH SOCIETY

As corporate citizens, we will contribute to society not only by prospering in business but also by proactively supporting both the development of cultural activities, including arts and sport, and the preservation of the global environment.

In addition to providing entertainment through its core operations, the SEGA SAMMY Group provides ongoing support for a wide range of activities, such as sports and the arts. In regard to the environment, we are aggressively advancing our own environmental measures through such initiatives as thorough observance of related laws and regulations and efficient utilization of energy and resources. Moreover, we are creating a corporate culture that enables all employees to enhance their awareness of social issues.

Green Power Certificates* (micro-hydro power, biomass, wind-generated power)

* Since 2005, SEGA has been annually purchasing 1-million kWh of Green Power Certificates. These certificates are based on the Green Power Certification System of Japan Natural Energy Company Limited, with which SEGA has concluded a contract for their purchase. By using this clean energy system, SEGA is reducing its environmental impact from energy use. Since April 2007, moreover, SEGA has been participating in the Yokohama City Wind-Power Electrical Generation Project as a project supporter (Y-Green Partner). In fiscal 2008, SEGA purchased a total of 89,722 kWh of Green Power Certificates.

In August 2009, the Company issued the SEGA SAMMY Group CSR Report 2009. For details of CSR activities, please see the CSR page on the Company's web site:
http://www.segasammy.co.jp/english/pr/corp/csr_report.html

Directors, Corporate Auditors, and Executive Officers

As of June 18, 2009

Directors

Hajime Satomi

Chairman, President and Representative Director (CEO)

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

Hisao Oguchi

Director and CCO (Chief Creative Officer)

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

Keishi Nakayama

Executive Vice President and Representative Director

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

Yuji Iwanaga

Director

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

Okitane Usui

Director

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

Takeshi Natsuno

Director

Jun.	2005	Senior Vice President, Managing Director, Multimedia Services Department of NTT DoCoMo, Inc.
Sep.	2007	Member of Chongqing Mayor's International Economics Advisory Council, China (to present)
May	2008	Guest Professor, Graduate School of Media and Governance of Keio University (to present)
Jun.	2008	Outside Director of the Company (to present)
Jun.	2008	Director of PIA CORPORATION (to present)
Jun.	2008	Outside Director of transcosmos inc. (to present)
Jun.	2008	Director of Liveware Inc. (to present)
Jun.	2008	Director of NTT Resonant Inc. (to present)
Jun.	2008	Director of SBI Holdings, Inc. (to present)
Dec.	2008	Director of DWANGO Co., Ltd. (to present)
Apr.	2009	Chairman of IT International Competitiveness Society (to present)
Jun.	2009	Director of DLE Inc. (to present)

Corporate Auditors

Tomio Kazashi
Standing Corporate Auditor

Jun.	1990	Director of Cosmo Securities Co., Ltd.
Mar.	1996	Managing Director of Cosmo Securities Co., Ltd.
Mar.	1997	Managing Director, General Manager of Product Department of Cosmo Securities Co., Ltd.
Jun.	1999	Managing Director of Cosmo investment management Co., Ltd.
Jun.	2005	Standing Corporate Auditor of Sammy NetWorks, Co., Ltd.
Jun.	2008	Substitute Corporate Auditor of the Company
Jun.	2009	Corporate Auditor of Sammy NetWorks Co., Ltd. (to present)
Jun.	2009	Corporate Auditor of SEGA TOYS, LTD. (to present)
Jun.	2009	Standing Corporate Auditor of the Company (to present)

Hisashi Miyazaki
Corporate Auditor

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

Toshio Hirakawa
Corporate Auditor

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

Mineo Enomoto
Corporate Auditor

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

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Executive Officers

Hideo Yoshizawa
Senior Executive Officer

Tetsushi Ikeda
Executive Officer

Koichi Fukazawa
Senior Executive Officer

Takatoshi Akiba
Executive Officer

FINANCIAL SECTION

Contents

Market Data

NUMBER OF PACHINKO HALLS

Number of halls

CY	2004	2005	2006	2007	2008
Number of pachinko halls with pachinko machines installed	13,844	13,163	12,588	12,039	11,800
Number of pachinko halls with pachislot machines installed	1,773	2,002	2,086	1,546	1,137
Total	15,617	15,165	14,674	13,585	12,937

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*		2004	2005	2006	2007	2008
Pachislot machines	Machine sales (units)	1,672,049	1,786,292	1,647,759	1,744,308	913,053
	Machines installed (units)	1,887,239	1,936,470	2,003,482	1,635,860	1,448,773
	Market scale (millions of yen)	522,582	536,539	490,959	500,998	242,331
Pachinko machines	Machine sales (units)	4,013,153	4,047,999	3,837,960	3,173,725	3,331,278
	Machines installed (units)	3,077,537	2,960,939	2,932,952	2,954,386	3,076,421
	Market scale (millions of yen)	786,535	869,940	898,646	856,400	900,558

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).

SHARE OF ANNUAL PACHISLOT MACHINE SALES

FY*	2004		2005		2006		2007		2008	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	**Sammy**	**40.5%**	**Sammy**	**34.0%**	**Sammy**	**31.8%**	**Sammy**	**21.8%**	Company Y	18.8%
2	Company O	16.4%	Company D	13.2%	Company D	12.1%	Company A	11.0%	Company S	14.6%
3	Company Y	9.0%	Company H•O	10.5%	Company H•O	10.9%	Company S	9.7%	**Sammy**	**13.5%**
4	Company D	7.9%	Company Y	8.4%	Company Y	10.5%	Company D	8.7%	Company H•O	7.5%
5	Company A	4.7%	Company S	6.3%	Company K	9.4%	Company Y	8.7%	Company K	6.5%

Source: Yano Research Institute Ltd.
* Settlement dates from July to June

SHARE OF ANNUAL PACHINKO MACHINE SALES

FY*	2004		2005		2006		2007		2008	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Company S	22.9%	Company S	24.7%	Company S	23.1%	Company S	25.8%	Company S	24.3%
2	Company S	21.2%	Company S	18.3%	Company K	21.0%	Company S	22.9%	Company S	13.6%
3	Company H	8.7%	Company K	9.6%	Company S	16.7%	Company K	16.1%	**Sammy**	**11.8%**
4	Company D	7.7%	Company N	7.9%	Company N	6.6%	Company N	6.4%	Company K	10.5%
5	Company N	6.9%	**Sammy**	**7.1%**	Company D	5.1%	Company D	5.3%	Company N	10.5%
	Sammy	**5.8%**			**Sammy**	**3.5%**	**Sammy**	**3.4%**		

Source: Yano Research Institute Ltd.
* Settlement dates from July to June

AMUSEMENT MACHINE AND AMUSEMENT CENTER OPERATIONS MARKETS

FY	2003	2004	2005	2006	2007
Net sales of amusement machines (millions of yen)	177,889	180,550	199,227	223,357	219,061
Net sales from amusement center operations (millions of yen)	637,744	649,223	682,458	702,857	678,099
Number of amusement centers	10,759	10,109	9,515	9,091	8,652
Year-on-year comparison of sales at existing amusement centers (%)	101.1	96.0	98.7	97.8	92.2

Source: JAMMA, AOU, and NSA, *Amusement Industry Survey 2008*. Sales figures for 2008 are not disclosed by the survey organizations.

HOME VIDEO GAME MARKET SCALE

Millions of yen

CY	2004	2005	2006	2007	2008
Hardware shipments	440,702	872,740	958,129	2,087,795	1,908,304
Software shipments	468,412	487,110	674,174	848,650	1,024,362

Source: *2009 CESA Games White Paper*

MOBILE PHONE CONTENT MARKET SCALE*

Billions of yen

CY	2004	2005	2006	2007	2008
Mobile phone content	279.8	346.4	409.4	494.2	580.5
Visual content	1.5	2.6	3.8	4.9	5.7
Music content	137.4	162.3	163.1	172.0	177.3
Game content	41.2	58.9	74.8	84.8	86.9
Text content	99.7	122.6	167.7	232.5	310.6

Source: Based on *Digital Content White Paper 2009*
* Estimated market data

DOMESTIC TOY MARKET SCALE (INCLUDING HOME VIDEO GAME CONSOLES AND SOFTWARE)

Billions of yen

FY*	2003	2004	2005	2006	2007
Domestic shipments	698.8	662.9	737.0	886.7	893.4
Domestic retail sales	941.7	920.8	1,005.5	1,189.3	1,199.1

Source: Yano Research Institute Ltd.
* Settlement dates from July to June

DOMESTIC VISUAL CONTENT MARKET SCALE

Billions of yen

CY	2004	2005	2006	2007	2008
Packaged visual content	494.8	606.7	604.2	642.0	615.1
Network visual content	17.3	29.2	36.8	44.4	51.3

Source: Based on *Digital Content White Paper 2009*
* Estimated market data

Management's Discussion and Analysis

Our Businesses

The SEGA SAMMY Group was formed through the management integration of SEGA and Sammy in October 2004. The Group has four business segments: the Pachinko and Pachislot Machine Business segment, which comprises the pachinko machine business and the pachislot machine business; the Amusement Machine Sales Business segment; the Amusement Center Operations segment; and the Consumer Business segment, which includes home video game software, toy sales, animation, and mobile content. The Group's management vision is to "establish a presence in all business fields and to become the world's No. 1 comprehensive entertainment company." To that end, the Group is working to increase its competitiveness in all of the fields served by its businesses and to generate synergies through the effective utilization and sharing of management resources among Group businesses. The Pachinko and Pachislot Machine Business segment is the main pillar of the Group's earnings, contributing 37.7% of net sales in fiscal 2009 and also accounting for a substantial share of operating income. In particular, the pachinko machine business has implemented measures to bolster its development system in recent years: those efforts have been successful, and our pachinko machine market share has grown substantially. The pachinko machine business has become the driver of the Group's earnings. On the other hand, the Amusement Center Operations segment and the Consumer Business segment continue to record weak results, and these segments are taking steps to improve their profit structures. The Group also conducts business in overseas markets, principally through the Consumer Business segment and the Amusement Machine Sales Business segment, and in fiscal 2009 the overseas sales ratio was 21.7%.

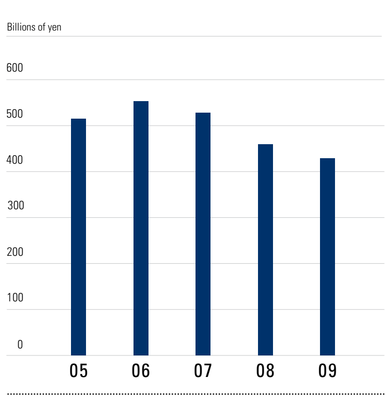
Market Trends

(For more information, please see pages 8 to 15.)

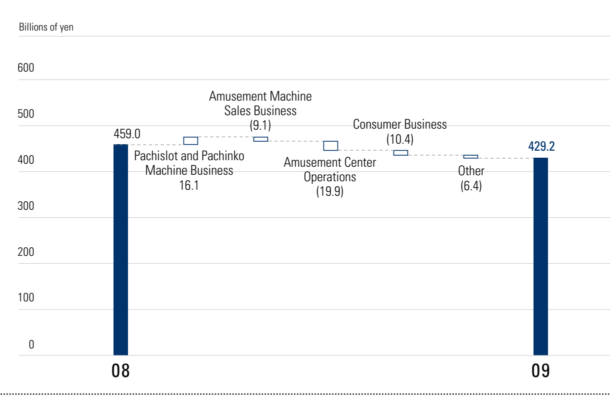
The Group implements business activities in a wide range of entertainment fields. Accordingly, the Group's business environment is affected by the earnings fluctuations of hit products, which are substantially dependent on the preferences of consumers, and in addition, each of the Group's segments is affected by factors specific to the segment's operational areas, as described below. The pachinko and pachislot machine business is substantially affected by laws and regulations. Under a revision of regulations pertaining to the Entertainment Establishments Control Law enforced in July 2004, major changes to machine gameplay were stipulated. As a result, the player population began to decline, principally in the pachislot market, and hall operators faced a capital investment burden accompanying the need to replace old-format machines with new-format machines, which had an adverse effect on the management conditions of the hall operators. Consequently, the pachislot machine market has followed a contracting trend. In this setting, following the partial amendment of Standards for Interpretation of Technical Specifications in March 2008, a slightly expanded degree of latitude in the development of pachislot machines was allowed. The launch of machines with new gameplay that reflects this revision are expected to reactivate the market. On the other hand, the pachinko market has remained strong due to the elimination of machine categories and to a greater degree of latitude in development.

The amusement machine sales business is significantly affected by the management environment of amusement center operators. Consequently, sales of high-priced cabinets and other products are sluggish due to such factors as the difficult management environment currently faced by amusement center operators, and there is a need for the industry to provide machines and business models that help center operators to realize improved investment efficiency.

Net Sales



Breakdown of Net Sales by Segment



In recent years, the trends in the amusement center operations market have been increasingly correlated with consumer spending due to such factors as accelerated center openings in large commercial facilities. From the second half of fiscal 2009, in addition to sluggish consumer spending, the financial environment of center operators worsened, and as a result they encountered fund-raising difficulties. In this setting, center operators took steps to improve their earnings, such as closing unprofitable centers.

A distinctive feature of the home video game software market is that it cycles through up and down periods triggered by transitions to new generations of game platforms. In recent years, the market has followed an expansion trend with support from the uptake of next-generation platforms, which were launched in 2005 and 2006. A notable aspect of the market in recent years has been the continuation of rapid growth in Europe and the United States, while growth in the domestic market has leveled off. Japan's game software companies are all taking urgent steps to bolster their operations, such as enhancing their distribution networks overseas and developing global titles.

Analysis of Operating Results in Fiscal 2009

Results of Operations

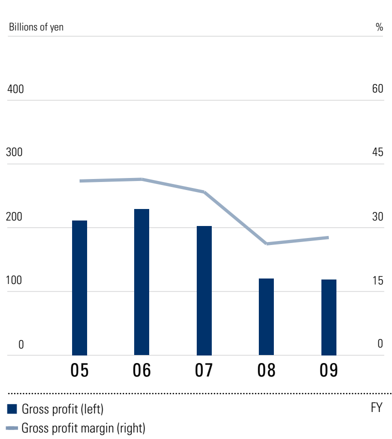
Net Sales In fiscal 2009, net sales declined 6.5%, to ¥429.2 billion. The Pachinko and Pachislot Machine Business segment's sales rose 11.1% due to substantial gains in unit sales of pachinko machines. However, year-on-year declines in sales were recorded in the Amusement Machine Sales Business segment, which halted development and sales of certain major titles, and in the Amusement Center Operations segment, which closed or sold unprofitable centers and recorded lower existing-center sales. As a result, overall net sales declined. From the year under review, TAIYO ELEC Co., Ltd., which was made a subsidiary in December 2007, was consolidated for the full fiscal year.

Cost of Sales, SG&A Expenses, and Operating Income/Loss Cost of sales was down 8.4%, to ¥310.1 billion. The cost of sales ratio improved 1.5 percentage points, to 72.3%. SG&A expenses declined 12.3%, to ¥110.7 billion, as a result of lower personnel expenses and progress in reducing other expenses, such as advertising expenses. The ratio of SG&A expenses to net sales improved 1.7 percentage points, to 25.8%.

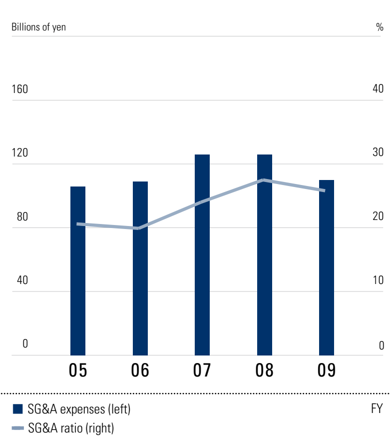
Operating income was ¥8.4 billion, compared with operating loss of ¥5.8 billion in the previous fiscal year. Contributions to this improved performance were made by substantial gains in operating income in the mainstay Pachinko and Pachislot Machine Business segment and by smaller operating losses in both the Amusement Center Operations segment and the Consumer Business segment. The operating margin was 1.9%.

Net Other Income (Expenses) Net other expense was ¥28.3 billion. Impairment losses related to the closure of amusement facilities were ¥6.5 billion; loss on revaluation of investment securities was ¥4.3 billion; amortization of goodwill, a lump-sum write-off of goodwill related to TAIYO ELEC, was ¥2.4 billion; premium allowance of retirement, related to a voluntary early retirement program at SEGA, was ¥4.4 billion; and loss on cancellation of game contents under development in the Consumer Business segment was ¥3.5 billion. Loss on closing of stores, in the Amusement Center Operations segment, was ¥3.0 billion; and loss on business withdrawal, in the Pachinko and Pachislot Machine Business segment, was ¥2.1 billion.

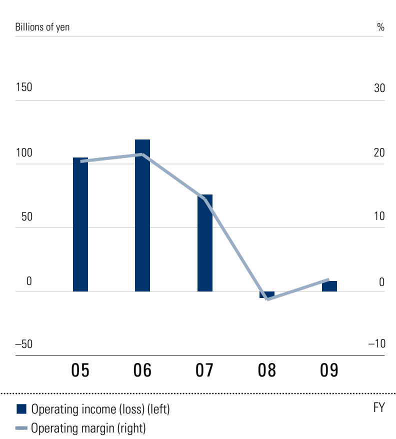
Gross Profit/Gross Profit Margin



SG&A Expenses/SG&A Ratio



Operating Income (Loss)/Operating Margin



Net Loss and Cash Dividends per Share Loss before income taxes and minority interests was ¥20.0 billion, compared with a loss of ¥40.1 billion in the previous fiscal year. Net loss was ¥22.9 billion, compared with net loss of ¥52.5 billion a year earlier. Cash dividends per share were ¥30.00, compared with ¥45.00 in the previous fiscal year.

Capital Expenditures and Depreciation and Amortization In the fiscal year under review, capital expenditures totaled ¥26.6 billion, a substantial decrease from the level of ¥50.4 billion in the previous fiscal year. Depreciation and amortization also declined substantially, from ¥45.6 billion in the previous fiscal year to ¥26.6 billion in the fiscal year under review. These decreases were primarily attributable to a decline in rental assets following the termination of pachislot machine rental sales in the Pachinko and Pachislot Machine Business segment and to lower capital expenditures in the Amusement Center Operations segment due to a decline in the number of centers on account of center closures and limited center openings.

R&D Expenditures R&D expenditures, which are included in SG&A expenses and production expenses, were down by 16.4% in the Amusement Machine Sales Business segment, which halted development of certain major titles in consideration of the difficult environment, and down by 11.5% in the Consumer Business segment, which streamlined development titles with the aim of improving earnings in fiscal 2010 and thereafter. Consequently, R&D expenditures were down 8.7% overall, to ¥59.7 billion.

* For an overview of the fiscal year under review by segment, please see the Overview by Business Segment section on pages 46 to 53.

Financial Position and Liquidity

Financial Position

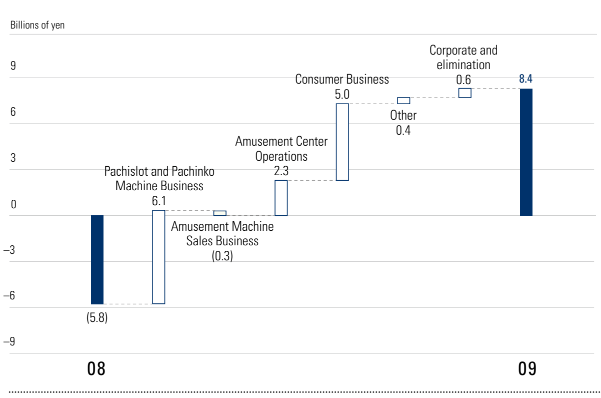
Total assets as of March 31, 2009 were ¥423.9 billion, a decrease of ¥45.7 billion from a year earlier. Cash and cash equivalents were up ¥23.4 billion, and current assets rose, while property, plant and equipment declined ¥38.9 billion due to the sale of land and to impairment loss on fixed assets, and investments and other assets were down ¥18.5 billion due to a lump-sum amortization of goodwill and to loss on revaluation of investment securities.

Current assets were up ¥11.7 billion, to ¥286.7 billion, due to such factors as an increase in cash and cash equivalents. Current liabilities were down ¥35.7 billion, to ¥97.2 billion. This decrease was primarily attributable to a decline in short-term bank loans and current portion of long-term debt.

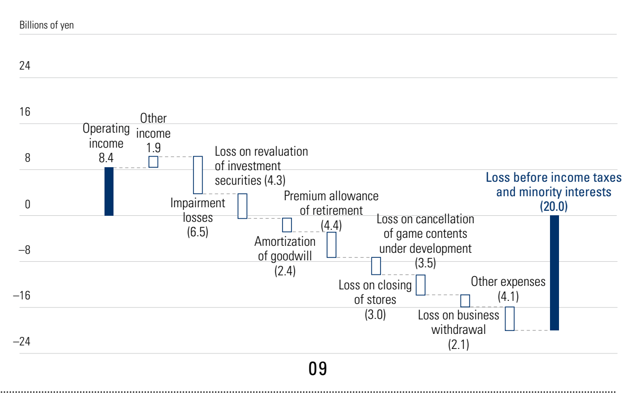
As a result, the current ratio stood at 2.95 times, compared with 2.07 times at the end of the previous fiscal year. Net property, plant and equipment was down ¥38.9 billion, to ¥65.1 billion, due primarily to declines in land and amusement machines and facilities. Total long-term liabilities were up ¥29.1 billion, to ¥84.2 billion, due in part to increases in long-term debt. Total net assets decreased ¥39.1 billion, to ¥242.5 billion. This decline was primarily attributable to the net loss of ¥22.9 billion, the payment of dividends, and a change in foreign currency translation adjustments due to exchange rate fluctuations. The total net assets ratio decreased 2.9 percentage points, to 52.4%. Net assets per share were ¥882.47.

Cash Flows Net cash provided by operating activities was ¥32.2 billion, compared with net cash used in operating activities of ¥25.9 billion a year earlier. This was primarily attributable to loss

Breakdown of Operating Income (Loss) by Segment



Breakdown of Other Income (Expenses)



before income taxes and minority interests, increase in notes and accounts payable-trade, and the payment and refund of income taxes.

Net cash provided by investing activities was ¥937 million, compared with net cash used in investing activities of ¥10.4 billion in the previous fiscal year. This was mainly attributable to decrease in payment for purchase of property, plant and increase in proceeds from sale of property, plant and equipment.

Net cash used in financing activities was ¥7.7 billion, compared with net cash used in financing activities of ¥7.6 billion in the previous fiscal year. Major items were proceeds from issuance of long-term debt, decrease in short-term bank loans, and cash dividends paid.

Consequently, cash and cash equivalents as of March 31, 2009 were ¥123.4 billion, an increase of ¥23.4 billion from the previous fiscal year-end.

Overdraft Facility and Commitment Line Contract As of March 31, 2009, the SEGA SAMMY Group had cash and cash equivalents of ¥123.4 billion. Together with the unused portion of an overdraft facility and commitment line contract that the Group has concluded with 16 banks, the Group had liquidity of more than ¥170.0 billion. The Group believes that it has sufficient liquidity to make steady investments in accordance with its business strategies while securing working capital in a stable manner.

Outlook for the Current Fiscal Year

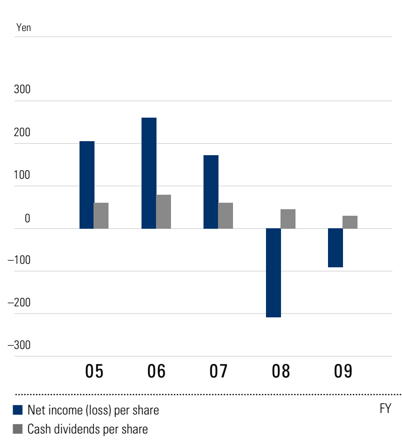
In fiscal 2010, the year ending March 31, 2010, we are forecasting consolidated net sales of ¥420.0 billion, a decline of 2.1%, operating income of ¥27.0 billion, an increase of 222.8%, and net income of ¥15.0 billion, compared with net loss of ¥22.9 billion in the fiscal year under review. In net sales, we are forecasting higher sales in the mainstay Pachinko and Pachislot Machine Business segment, but lower sales in the Amusement Machine Sales Business segment and Amusement Center Operations segment. In operating income, we are forecasting a decline in the Amusement Machine Sales Business segment, but we expect a gain in the Pachinko and Pachislot Machine Business segment, a return to profitability in the Consumer Business segment, and a smaller loss in the Amusement Center Operations segment. Due to such factors as a decline in the number of centers in the Amusement Center Operations segment, we plan on capital expenditures of ¥16.9 billion, down 36.5% year-on-year, and depreciation and amortization of ¥18.2 billion, a decline of 31.7%. We are forecasting a decline of 5.8%, to ¥51.2 billion, for R&D expenditures, which are included in SG&A expenses and production expenses (¥56.2 billion before the change in accounting principles*).

* In the past, in the Amusement Machine Sales Business segment and the Consumer Business segment, content production expenses that had been recognized as R&D expenditures were recorded as cost of sales at the time they were incurred. However, from fiscal 2010, goods recognized as products for commercialization will be posted under inventories as work in process, and they are treated as cost of sales at the time of sale. The reason for this change is to 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, operating income and net income will each increase by ¥5.0 billion. (¥22.0 billion in operating income and ¥10.0 billion in net income before the change in accounting principles).

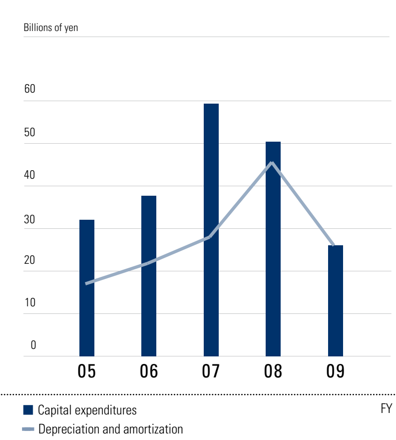
Results of Operations of Listed Subsidiaries

SEGA TOYS, LTD. Domestic sales declined substantially year on year due to sluggish consumer spending and a lack of hit products. Boys' character toy *BAKUGAN* won the Toy of the Year Award in the United States, and overseas sales recorded substantial growth. Domestic inventory disposal expenses declined, but as a result of the substantial decrease in highly profitable domestic sales, an operating loss was recorded. As a result, in the fiscal year under review SEGA TOYS recorded net sales of ¥18.9 billion, up 12.7%. Operating loss improved from

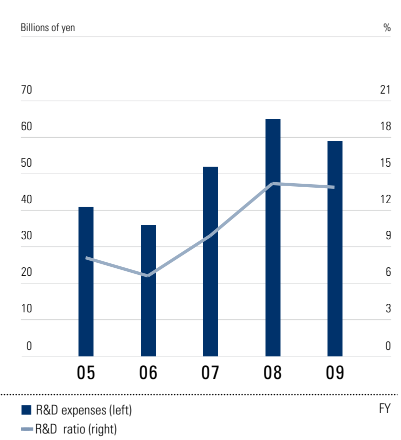
Net Income (Loss) per Share/
Cash Dividends per Share



Capital Expenditures/
Depreciation and Amortization



R&D Expenses/R&D Ratio



¥690 million a year earlier to ¥87 million, and net loss improved from ¥814 million a year earlier to ¥114 million.

TMS ENTERTAINMENT, LTD. In the mainstay animation operations, production revenues and sales revenues both declined by small margins. The profitability of production revenues improved, and revenues from distribution of movies increased, but revenues from video sales declined substantially, and profits in animation operations declined. In amusement operations, sales were sluggish due to the worsening business environment, and profits declined substantially. Consequently, TMS ENTERTAINMENT recorded a 5.3% decline in net sales, to ¥14.2 billion, a 66.8% decrease in operating income, to ¥291 million, and an 87.1% decline in net income, to ¥67 million.

Sammy NetWorks Co., Ltd. In its core content operations, the company worked to expand and maintain its existing services, such as pachinko and pachislot games for mobile phones and PCs. In addition, the company worked to enhance such games as Mahjong and Casino, and aggressively implemented a range of events and campaigns. Sales and memberships recorded favorable growth. In addition, the company worked to secure profits by reviewing the cost structure for all of its operations and by implementing administrative improvements. As a result, Sammy NetWorks recorded a 0.6% decline in net sales, to ¥11.1 billion, a 32.7% rise in operating income to, ¥2.2 billion, and a 375.0% increase in net income, to ¥1.7 billion.

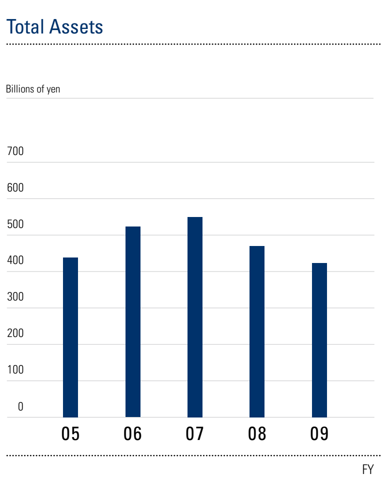
TAIYO ELEC Co., Ltd. In the fiscal year under review, launches of new machines in six pachinko machine series and three pachislot machine series were planned, but the launches of one series in each category were delayed to fiscal 2010. As a result, unit sales did not reach planned levels, and revenues and profits were adversely affected. In regard to profits, the company worked to limit advertising expenses and R&D expenditures, but this was not enough to offset the substantial decline in sales. Consequently, TAIYO ELEC recorded a 43.5% decline in net sales, to ¥14.3 billion, a 75.6% decrease in operating income, to ¥405 million, and a 71.1% decline in net income, to ¥410 million.

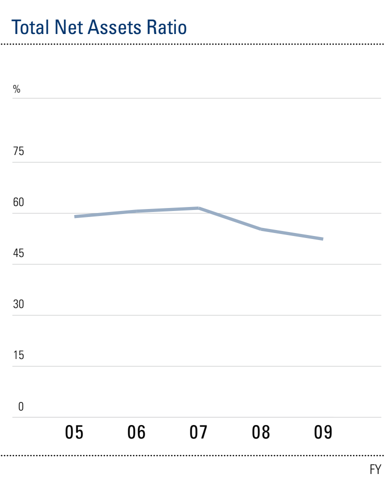
Operational Risks

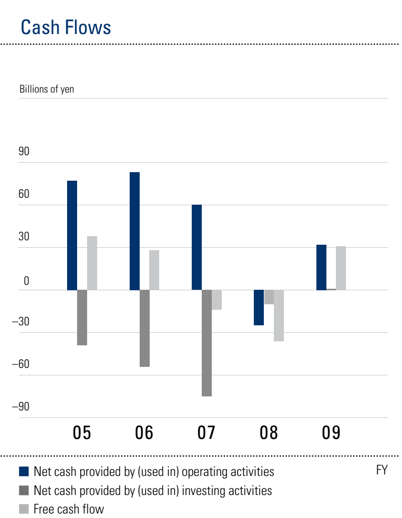
Risks that could affect the performance or operations of the SEGA SAMMY Group are given below. Further, these risks are not a comprehensive list of the operational risks faced by the Group. However, based on an awareness of the following risks, the Group implements measures to prevent the occurrence 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, 2009.

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 that include 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 Recording Operating Losses In regard to the operating results of the Group's SBUs, the Amusement Center Operations segment and the Consumer Business segment recorded operating losses for the second consecutive year. The Amusement Center Operations segment is taking steps to improve profitability, such as closing or selling centers with low profitability or potential and improving 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 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, including markets in North America, Europe, and Asia, including China. The Group plans to increase sales in overseas markets centered on the Amusement Machine Sales Business, Amusement Center Operations, 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 the fiscal year ended March 31, 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. In the fiscal year under review, due to write-downs of securities, a substantial loss on revaluation of investment securities was recorded. 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 reevaluation 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 of personal information or the misuse of such 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.

Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2009	2008	2009
Current assets:			
Cash and cash equivalents	¥ 123,386	¥ 99,975	$ 1,256,093
Time deposits (Note 3)	8,050	2,263	81,951
Trade receivables:			
Notes and accounts receivable (Note 3)	80,469	72,541	819,190
Allowance for doubtful accounts	(698)	(571)	(7,106)
Marketable securities (Note 10)	1,800	1,797	18,324
Merchandise and finished goods	7,656	13,728	77,940
Work in process	2,915	3,181	29,675
Raw materials and supplies	30,972	34,526	315,301
Income taxes refundable (Note 9)	7,014	9,562	71,404
Deferred income taxes (Note 9)	3,382	5,998	34,429
Other	21,795	32,038	221,877
Total current assets	286,741	275,038	2,919,078
Property, plant and equipment:			
Land (Notes 3 and 8)	22,592	48,811	229,991
Buildings and structures (Note 3)	54,398	57,716	553,782
Amusement machines and facilities	64,986	65,799	661,570
Construction in progress	494	1,026	5,029
Other	39,635	43,323	403,491
	182,105	216,675	1,853,863
Accumulated depreciation	(116,988)	(112,646)	(1,190,960)
Net property, plant and equipment	65,117	104,029	662,903
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	3,935	4,212	40,059
Investments in securities (Notes 10 and 11)	23,798	31,396	242,268
Goodwill (Note 21)	6,950	13,524	70,752
Lease deposits	18,721	21,971	190,583
Deferred income taxes (Note 9)	6,470	3,689	65,866
Other	16,568	23,214	168,666
Allowance for doubtful accounts	(4,361)	(7,430)	(44,396)
Total investments and other assets	72,081	90,576	733,798
	¥ 423,939	¥ 469,643	$ 4,315,779

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2009**	**2008**	**2009**
Current liabilities:			
Short-term bank loans and current portion of long-term debt (Note 3)	¥ 8,762	¥ 33,441	$ 89,199
Notes and accounts payable–trade (Note 3)	51,299	49,496	522,234
Income taxes payable (Note 9)	3,132	3,180	31,884
Accrued employees' bonuses	2,296	2,792	23,374
Accrued directors' and corporate auditors' bonuses	473	130	4,815
Allowance for game points earned by customers	137	130	1,395
Other (Notes 3 and 9)	31,096	43,694	316,563
Total current liabilities	97,195	132,863	989,464
Long-term liabilities:			
Long-term debt (Note 3)	59,575	33,200	606,485
Retirement benefits for employees (Note 5)	10,873	9,270	110,689
Retirement benefits for directors and corporate auditors	2,152	2,094	21,908
Deferred income taxes (Note 9)	1,195	1,396	12,165
Other (Note 3)	10,416	9,192	106,037
Total long-term liabilities	84,211	55,152	857,284
Commitments and contingent liabilities (Note 6)			
Net assets (Note 7):			
Shareholders' equity (Note 18):			
Common stock			
Authorized–800,000,000 shares			
Issued–283,229,476 shares	29,953	29,953	304,927
Capital surplus	171,083	171,093	1,741,657
Retained earnings	119,417	150,888	1,215,688
Treasury stock, at cost	(73,685)	(73,681)	(750,127)
Total shareholders' equity	246,768	278,253	2,512,145
Accumulated losses from revaluation and translation adjustments:			
Unrealized (losses) gains on securities, net of taxes	(1,620)	598	(16,492)
Unrealized losses on hedging derivatives, net of taxes	–	(2)	–
Land revaluation difference, net of taxes (Note 8)	(5,966)	(6,981)	(60,735)
Foreign currency translation adjustments	(16,865)	(12,348)	(171,690)
Total accumulated losses from revaluation and translation adjustments	(24,451)	(18,733)	(248,917)
Share subscription rights (Note 4)	1,222	1,070	12,440
Minority interests	18,994	21,038	193,363
Total net assets	242,533	281,628	2,469,031
	¥423,939	¥469,643	$4,315,779

Consolidated Statements of Operations

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years Ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Net sales	¥429,195	¥458,977	¥528,238	$4,369,286
Cost of sales	310,102	338,574	325,159	3,156,897
Gross profit	119,093	120,403	203,079	1,212,389
Selling, general and administrative expenses (Note 12)	110,729	126,232	126,549	1,127,242
Operating income (loss)	8,364	(5,829)	76,530	85,147
Other income (expenses):				
Interest and dividend income	908	1,132	1,407	9,244
Interest expenses	(900)	(627)	(625)	(9,162)
Equity in (losses) earnings of affiliated companies	(191)	(293)	12	(1,944)
Gain on investments in partnership–net	487	16	4,160	4,958
Gain (loss) on sale of property, plant and equipment–net	539	(84)	98	5,487
Loss on disposal of property, plant and equipment	(783)	(1,471)	(861)	(7,971)
Loss on revaluation of investment securities	(4,305)	(12,356)	(1,052)	(43,826)
Gain on change in equity of consolidated subsidiaries	3	14	5	31
Impairment losses (Note 13)	(6,465)	(9,218)	(1,706)	(65,816)
Liquidation dividend from investment	–	–	3,206	–
Amortization of goodwill	(2,434)	(929)	(2,335)	(24,779)
Loss on cancellation of amusement center under development	–	(5,581)	–	–
Premium allowance of retirement	(4,424)	(2,762)	–	(45,037)
Cost of product recall	–	(2,246)	–	–
Gain on sale of investment securities (Note 10)	3	4,441	119	31
Loss on closing of stores (Note 14)	(2,994)	–	–	(30,479)
Loss on cancellation of game contents under development	(3,466)	–	–	(35,285)
Loss on business withdrawal (Note 15)	(2,067)	–	–	(21,042)
Other–net	(2,251)	(4,348)	(1,541)	(22,917)
	(28,340)	(34,312)	887	(288,507)
Income (loss) before income taxes and minority interests	(19,976)	(40,141)	77,417	(203,360)
Income taxes (Note 9):				
Current	2,904	9,904	33,702	29,563
Deferred	(187)	2,640	(1,149)	(1,904)
Refund of income tax	(867)	(1)	(4)	(8,826)
	1,850	12,543	32,549	18,833
Income (loss) before minority interests	(21,826)	(52,684)	44,868	(222,193)
Minority interests	1,056	(213)	1,412	10,750
Net income (loss)	¥ (22,882)	¥ (52,471)	¥ 43,456	$ (232,943)

	Yen			U.S. dollars (Note 1)
Per share of common stock (Note 22):				
Net income (loss)	¥(90.83)	¥(208.26)	¥172.47	$(0.92)
Diluted net income	–	–	172.35	–
Cash dividends applicable to the year	30.00	45.00	60.00	0.31

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries

Years Ended March 31, 2009, 2008 and 2007

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized losses on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Share subscription rights	Minority interests	Total net assets
Net assets at March 31, 2008	¥29,953	¥171,093	¥150,888	¥(73,681)	¥ 598	¥(2)	¥(6,981)	¥(12,348)	¥1,070	¥21,038	¥281,628
Net income (loss)			(22,882)								(22,882)
Cash dividends paid			(7,558)								(7,558)
Acquisition of treasury stock				(21)							(21)
Sale of treasury stock		(10)		17							7
Effect from changes of consolidated subsidiaries and affiliates accounted for under the equity method and others			(16)								(16)
Unrealized losses on hedging derivatives, net of taxes						2					2
Changes in unrealized losses on securities, net of taxes					(2,218)						(2,218)
Changes in revaluation reserve for land, net of taxes			(1,015)				1,015				–
Changes in foreign currency translation adjustments								(4,517)			(4,517)
Changes in share subscription rights									152		152
Changes in minority interests										(2,044)	(2,044)
Balance at March 31, 2009	¥29,953	¥171,083	¥119,417	¥(73,685)	¥(1,620)	¥ –	¥(5,966)	¥(16,865)	¥1,222	¥18,994	¥242,533

Thousands of U.S. dollars (Note1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized losses on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Share subscription rights	Minority interests	Total net assets
Net assets at March 31, 2008	$304,927	$1,741,759	$1,536,069	$(750,087)	$ 6,088	$(20)	$(71,068)	$(125,706)	$10,893	$214,171	$2,867,026
Net income (loss)			(232,943)								(232,943)
Cash dividends paid			(76,942)								(76,942)
Acquisition of treasury stock				(214)							(214)
Sale of treasury stock		(102)		174							72
Effect from changes of consolidated subsidiaries and affiliates accounted for under the equity method and others			(163)								(163)
Unrealized losses on hedging derivatives, net of taxes						20					20
Changes in unrealized losses on securities, net of taxes					(22,580)						(22,580)
Changes in revaluation reserve for land, net of taxes			(10,333)				10,333				–
Changes in foreign currency translation adjustments								(45,984)			(45,984)
Changes in share subscription rights									1,547		1,547
Changes in minority interests										(20,808)	(20,808)
Balance at March 31, 2009	$304,927	$1,741,657	$1,215,688	$(750,127)	$(16,492)	$ –	$(60,735)	$(171,690)	$12,440	$193,363	$2,469,031

See accompanying notes.

	Millions of yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Share subscription rights	Minority interests	Total net assets
Net assets at March 31, 2007	¥29,953	¥171,097	¥221,172	¥(73,656)	¥ 4,779	¥(18)	¥(7,505)	¥ (7,753)	¥ 455	¥20,334	¥358,858
Net income (loss)			(52,471)								(52,471)
Cash dividends paid			(15,117)								(15,117)
Effect from change of accounting policies of foreign subsidiaries			(862)								(862)
Acquisition of treasury stock				(38)							(38)
Sale of treasury stock		(4)		13							9
Effect from changes of consolidated subsidiaries and affiliates accounted for under the equity method and others			(1,310)								(1,310)
Unrealized losses on hedging derivatives, net of taxes						16					16
Changes in unrealized gains on securities, net of taxes					(4,181)						(4,181)
Changes in revaluation reserve for land, net of taxes			(524)				524				–
Changes in foreign currency translation adjustments								(4,595)			(4,595)
Changes in share subscription rights									615		615
Changes in minority interests										704	704
Balance at March 31, 2008	¥29,953	¥171,093	¥150,888	¥(73,681)	¥ 598	¥ (2)	¥(6,981)	¥(12,348)	¥1,070	¥21,038	¥281,628

	Millions of yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Share subscription rights	Minority interests	Total net assets
Net assets at April 1, 2006	¥29,953	¥171,071	¥193,721	¥(73,549)	¥11,757	¥ –	¥(7,506)	¥(8,767)	¥ –	¥19,312	¥335,992
Net income			43,456								43,456
Cash dividends paid			(15,118)								(15,118)
Bonuses to directors and corporate auditors			(646)								(646)
Acquisition of treasury stock				(107)							(107)
Sale of treasury stock		26		0							26
Effect from changes of consolidated subsidiaries and affiliates accounted for under the equity method and others			(241)								(241)
Unrealized losses on hedging derivatives, net of taxes						(18)					(18)
Changes in unrealized gains on securities, net of taxes					(6,978)						(6,978)
Changes in revaluation reserve for land, net of taxes							1				1
Changes in foreign currency translation adjustments								1,014			1,014
Changes in share subscription rights									455		455
Changes in minority interests										1,022	1,022
Balance at March 31, 2007	¥29,953	¥171,097	¥221,172	¥(73,656)	¥ 4,779	¥(18)	¥(7,505)	¥(7,753)	¥455	¥20,334	¥358,858

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years Ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Cash flows from operating activities:				
Loss (income) before income taxes and minority interests	¥ (19,976)	¥ (40,141)	¥ 77,417	$ (203,360)
Adjustments to reconcile loss (income) before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	26,645	45,611	28,048	271,251
Interest and dividend income	(908)	(1,132)	(1,407)	(9,244)
Amortization of goodwill	4,144	3,785	4,831	42,187
Interest expenses	900	627	625	9,162
Loss on disposal and sale of property, plant and equipment–net	245	1,554	763	2,494
(Gain) loss on change in equity of subsidiaries–net	(3)	27	36	(31)
Impairment losses	6,465	9,218	1,706	65,815
Loss on sale and revaluation of investment securities–net	4,301	7,936	933	43,785
Gain on investments in partnership–net	(487)	(16)	(4,160)	(4,958)
Liquidation dividend from investment	–	–	(3,206)	–
Equity in losses (earnings) of affiliates	191	293	(12)	1,944
(Decrease) increase in allowance for doubtful accounts	(2,671)	551	(1,647)	(27,191)
(Decrease) increase in accrued employees' bonuses	(198)	1,170	(142)	(2,016)
Increase (decrease) in accrued directors' and corporate auditors' bonuses	383	(350)	490	3,899
Increase in retirement benefits for employees	1,660	819	935	16,899
Increase in retirement benefits for directors and corporate auditors	89	112	17	906
(Decrease) increase in allowance for sales return	–	(180)	225	–
Increase in allowance for game points earned by customers	7	10	8	72
(Increase) decrease in notes and accounts receivable	(13,642)	5,731	14,321	(138,878)
Decrease (increase) in inventories	9,087	(9,837)	(7,538)	92,507
Increase (decrease) in notes and accounts payable–trade	13,279	(22,011)	8,779	135,183
Amount of transfer of equipment by Amusement Center Operations business	(6,146)	(8,623)	(8,096)	(62,567)
Amount of transfer of equipment by Pachislot and Pachinko rental business	(59)	(16,319)	(2,275)	(601)
Other–net	8,713	16,675	(10,123)	88,701
Sub total	32,019	(4,490)	100,528	325,959
Receipts of interest and dividend income	1,008	1,235	1,236	10,262
Payment of interest expenses	(917)	(514)	(309)	(9,335)
Payment of income taxes	(13,147)	(28,421)	(56,614)	(133,839)
Refund of income taxes	13,236	6,311	15,782	134,745
Net cash provided by (used in) operating activities	32,199	(25,879)	60,623	327,792
Cash flows from investing activities:				
Payment for purchase of property, plant and equipment	(14,441)	(22,041)	(49,345)	(147,012)
Proceeds from sale of property, plant and equipment	21,498	196	1,543	218,854
Payment for purchase of securities	(1,100)	(1,794)	–	(11,198)
Payment for purchase of investment securities	(2,258)	(623)	(33,180)	(22,987)
Proceeds from sale of investment securities	52	5,872	4,343	529
Payment for investment in partnerships	(800)	(2,967)	(9,803)	(8,144)
Proceeds from distribution of investment in partnerships	1,201	6,359	24,624	12,226
Proceeds from liquidation dividend from investment	–	–	3,431	–
(Payment for) proceeds from acquisition of consolidated subsidiaries and affiliated companaies–net	(801)	5,883	(13,889)	(8,154)
(Payment for) proceeds from sale of consolidated subsidiaries–net	(4,192)	(1,025)	300	(42,675)
Decrease (increase) in loan receivables–net	339	(978)	(1,565)	3,451
Proceeds from (payment for) acquisition of operations	–	203	(1,051)	–
(Increase) decrease in time deposits–net	(2,677)	860	(1,549)	(27,252)
Other–net	4,116	(344)	746	41,901
Net cash provided by (used in) investing activities	937	(10,399)	(75,395)	9,539
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	1,050	7,185	200	10,689
Repayment of long-term debt	(613)	(5,333)	(5,821)	(6,240)
(Decrease) increase in short-term bank loans	(21,579)	(1,245)	21,371	(219,678)
Proceeds from issuance of bonds	30,462	15,434	–	310,109
Payment for redemption of bonds	(6,216)	(7,925)	(2,001)	(63,280)
Cash dividends paid	(7,579)	(15,074)	(15,094)	(77,156)
Payment for purchase of treasury stock	(21)	(38)	(107)	(214)
Other–net	(3,157)	(584)	(261)	(32,139)
Net cash used in financing activities	(7,653)	(7,580)	(1,713)	(77,909)
Effect of exchange rate changes on cash and cash equivalents	(2,082)	(1,777)	755	(21,195)
Net change in cash and cash equivalents	23,401	(45,635)	(15,730)	238,227
Cash and cash equivalents at beginning of year	99,975	144,869	160,094	1,017,764
Net increase in cash and cash equivalents due to consolidation scope change	10	741	505	102
Cash and cash equivalents at end of year	¥123,386	¥ 99,975	¥144,869	$1,256,093

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years Ended March 31, 2009, 2008 and 2007

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 foreign subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, as described in Note 2 (v), necessary adjustments are made upon consolidation for 2009 and 2008. 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 2008 and 2007 consolidated financial statements to conform to the classifications used in 2009. 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 included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98.23 to U.S. $1. These 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

(a) Business combinations

Effective from April 1, 2006, the Company and its domestic subsidiaries have adopted the new accounting standards for business combinations ("Accounting Standards for Business Combinations" issued by the Business Accounting Deliberation Council on October 31, 2003 and "Accounting Standards for Business Divestitures Statement No. 7" issued by the Accounting Standards Board of Japan (ASBJ) on December 27, 2005) and the implementation guidance for the accounting standards for business combinations ("Guide on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures Guidance No. 10" issued by the ASBJ on December 22, 2006). The adoption of these accounting standards had no effect on the consolidated statements of operations.

(b) 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 was 68, 77 and 87 in 2009, 2008 and 2007, respectively.

(c) 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 using the equity method. The number of companies accounted for under the equity method was 10, 9 and 9 in 2009, 2008 and 2007, respectively.

(d) 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.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at an amount sufficient to cover probable losses on collection. It consists of an estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual percentage of the Company's collection losses.

(f) Investment securities

The Company and its consolidated subsidiaries examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost.

Available-for-sale securities with available fair market values are stated at fair market value at the end of each fiscal year. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Available-for-sale securities with no available fair market values are stated at moving-average cost. Realized gains and losses on sale of such securities are computed using moving-average cost. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under Article 2-2 of the Financial 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.

The Company and its consolidated subsidiaries did not have trading securities in the years ended March 31, 2009 and 2008.

(g) Inventories

Prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries are stated at cost determined by the gross-average method.

Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted a new accounting standard for measurement of inventories, "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued on July 5, 2006), and stated the inventories at the lower of gross-average cost or net realizable value at March 31, 2009.

The adoption had minor impact on the consolidated statement of operations for the year ended March 31, 2009.

The book value devaluation of inventories held for normal sales purpose based on a decline in profitability for the year ended March 31, 2009.

Cost of sales ¥2,887 million ($29,390 thousand)

(h) Property, plant and equipment and depreciation (excluding lease assets)

Buildings acquired from April 1, 1998 through March 31, 2007 are depreciated using the former straight-line method. Buildings acquired after March 31, 2007 are depreciated using the revised straight-line method. Other property, plant and equipment acquired on or before March 31, 2007 are depreciated primarily using the former declining-balance method and those acquired on or after April 1, 2007 are depreciated primarily using the revised declining-balance method.

Following the amendments of the Corporation Tax Law of Japan (Act on Partial Revision, etc. of the Income Tax Act, etc., March 30, 2007, No. 6, and Decree Law on Partial Revision, etc. of the Corporate Tax Code Enforcement Ordinance, March 30, 2007, No. 83), effective April 1, 2007, the method of depreciation applied to the property, plant and equipment acquired on or after April 1, 2007 has been changed. For the year ended March 31, 2008, due to this change, gross profit decreased by ¥2,553 million and the operating loss and loss before income taxes and minority interests increased by ¥2,681 million and ¥2,686 million, respectively, compared with the amounts that would have been reported if the depreciation method prior to the change had been applied.

Also, due to the amendment of the Corporation Tax Law of Japan, effective April 1, 2007, when property, plant and equipment acquired on or before March 31, 2007 are depreciated to their allowable depreciation limits, amounts of such depreciation limits are recognized as depreciation expense equally over five years commencing from the year immediately after the year in which the allowable depreciation limits have been reached.

The impact of this change was minor.

(Additional information)

Revision of useful life of some machinery and equipment was made following the revision of the useful life defined under the revised Corporation Tax Law of Japan.

The adoption had minor impact on the consolidated statement of operations for the year ended March 31, 2009.

(i) Amortization (excluding lease assets)

Intangible assets are amortized using the straight-line method, and software used by the Company and its consolidated subsidiaries is amortized using the straight-line method over the estimated useful life (within five years).

(j) Goodwill

The Company and its consolidated subsidiaries classified the cost in excess of fair market value of net assets of companies acquired in purchase transactions as goodwill. The Company and its consolidated subsidiaries compute amortization of goodwill by the straight-line method at rates based on the estimated useful lives, except for goodwill that is amortized over five years because its useful life is uncertain. Insignificant amounts of such intangible assets are charged to income when incurred.

The Company regularly reviews the carrying amount of goodwill for re-evaluation whenever events or circumstances indicate that the carrying amounts may not be recoverable.

Goodwill on the balance sheet of certain foreign subsidiaries had not been amortized, and impairment loss had been recognized if necessary to comply with generally accepted accounting standards of the United States before the year ended March 31, 2007.

(k) Accounting for certain lease transactions

The Company and its consolidated domestic subsidiaries account for finance leases commencing prior to April 1, 2008 which do not transfer the ownership of the leased property to the lessee as operating leases with disclosures of certain "as if capitalized" information. The Company and its consolidated domestic subsidiaries adopted a new accounting standard, "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, originally issued by the First Subcommittee of the Business Accounting Council on June 17, 1993 and lastly revised on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, originally issued by the Law and Regulation Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and lastly revised on March 30, 2007), and capitalized finance leases which commenced after March 31, 2008, except for certain immaterial or short-term finance leases, which are accounted for as operating leases.

The adoption had minor impact on the consolidated statement of operations for the year ended March 31, 2009.

(l) Allowance for employees' bonuses

The Company and its consolidated subsidiaries provide allowance for employees' bonuses based on estimated amounts to be paid in the subsequent period.

(m) Allowance for directors' and auditors' bonuses

The Company and its domestic subsidiaries provide allowance for directors' and corporate auditors' bonuses based on estimated amounts to be paid in the subsequent period.

Effective April 1, 2006, the Company and its domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Directors' Bonuses" (ASBJ Statement No. 4, issued on November 29, 2005). As a result, operating income and income before income taxes and minority interest for the year ended March 31, 2007 each decreased by ¥490 million.

(n) Allowance for sales return

In order to prepare for losses associated with future returns, an estimated loss amount in conjunction with future returns is provided.

(o) Allowance for game points earned by customers

In order to prepare for expenses associated with the redemption of game points earned by customers, an estimated amount related to future redemption has been provided.

(p) Retirement benefits for employees

The Company and its consolidated subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company and its consolidated subsidiaries provide allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plans' assets.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are charged to income in the succeeding period except for SEGA CORPORATION and three other subsidiaries which recognize actual gains and losses as expense using the straight-line method over 10 years commencing from the succeeding period.

Prior service cost is charged to income when incurred except for SEGA CORPORATION and three other subsidiaries which recognize prior service cost as expenses using the straight-line method over 10 years.

(q) Retirement benefits for directors and corporate auditors

Retirement benefits for directors and corporate auditors are provided based on an accrual basis in accordance with the internal rules of the Company and its subsidiaries.

(r) Income taxes

Income taxes comprise corporation, enterprise and inhabitants taxes.

The Company and its consolidated subsidiaries recognize deferred taxes for tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

(s) Derivative financial instruments

Derivative financial instruments are stated at fair value and changes in their fair values are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

For derivative financial instruments that are used as hedges and meet certain hedging criteria, recognition of gains or losses resulting from changes in the fair value of derivative financial instruments is deferred until the related losses or gains on the hedged items are recognized in earnings.

Also, if interest rate swap contracts are used for hedging purposes and meet certain hedging criteria, 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.

For certain consolidated subsidiaries, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

(t) Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (ASBJ Statement No.6, issued on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9, issued by the ASBJ on December 27, 2005).

(u) Stock option

Effective from the year ended March 31, 2007, the Company and its subsidiaries adopted the new accounting standard, "Accounting Standard for Share-based Payment" (ASBJ Statement No. 8, issued on December 27, 2005) and the implementation guidance for the accounting standard for share-based payment (Financial Accounting Standard Implementation Guidance No. 11 issued by the ASBJ on May 31, 2006). As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2007 each decreased by ¥454 million.

(v) Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements

From the year ended March 31, 2008, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18, issued by the ASBJ on May 17, 2006).

The company makes necessary adjustments upon consolidation to unify accounting standards for foreign subsidiaries in principle for 2009 and 2008.

As a result of this change, operating loss and loss before income taxes and minority interests each increased by ¥643 million.

Retained earnings at April 1, 2007 decreased by ¥862 million, and accordingly retained earnings decreased by the same amount at March 31, 2008.

(w) 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.

Cash dividends per share represent actual amounts applicable to the year.

(x) Foreign currency transactions

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end exchange rate.

NOTE 3

Short-Term Bank Loans, Current Portion of Long-Term Debt and Long-Term Debt

Short-term bank loans outstanding are generally represented, with interest at rates ranging from 1.37% to 3.16% and 1.06% to 2.38% as of March 31, 2009 and 2008, respectively.

Long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Bonds:			
0.61%–1.24% debenture due in FY2009	¥ –	¥ 5,716	$ –
0.92%–1.30% debenture due in FY2010	–	301	–
0.78%–1.36% debenture due in FY2010	3,295	–	33,544
0.41%–1.47% debenture due in FY2011	–	10,378	–
0.41%–1.47% debenture due in FY2011	17,036	–	173,430
1.21%–1.36% debenture due in FY2012	8,328	–	84,781
1.22%–1.34% debenture due in FY2013	–	15,000	–
1.21%–1.36% debenture due in FY2013	23,327	–	237,473
1.21%–1.36% debenture due in FY2014	4,144	–	42,187
Long-term loans, principally due from banks with interest at 1.15% to 1.98% and 1.80% to 7.29% as of March 31, 2009 and 2008:			
Secured	2,700	2,992	27,487
Unsecured	5,047	4,412	51,378
Others	2,139	802	21,775
	66,016	39,601	672,055
Less: current portion	(4,740)	(6,401)	(48,254)
	¥61,276	¥33,200	$623,801

The aggregate annual maturities of long-term debt at March 31, 2009 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2011	¥18,568	$189,026
2012	11,209	114,110
2013	26,533	270,111
2014	4,271	43,479
2015 and thereafter	695	7,075

A summary of assets pledged as collateral for short-term loans, long-term debt, accounts payable–trade, accrued expenses and other current liabilities at March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Time deposits	¥ 25	¥ 25	$ 255
Notes receivable	342	389	3,482
Land	2,434	2,426	24,779
Buildings and structures	1,401	1,526	14,261
	¥4,202	¥4,366	$42,777

NOTE 4

Stock Option Plan

The following tables summarize contents of stock options as of March 31, 2009.

Company name	Date of the annual shareholders' meeting	Position and number of grantees	Class and number of stock	Date of issue	Condition of settlement of rights	Period grantees provide service in return for stock options	Period subscription rights are to be exercised
The Company	June 24, 2005	The Company's employees and subsidiaries' employees: 944	Common stock 2,534,000	July 29, 2005	Continue to work from July 29, 2005 to July 30, 2007	From July 29, 2005 to July 30, 2007	From July 31, 2007 to July 30, 2009
The Company	June 20, 2006	The Company's directors: 4	Common stock 43,000	August 14, 2006	Continue to work from August 14, 2006 to August 14, 2008	From August 14, 2006 to August 14, 2008	From August 15, 2008 to July 30, 2010
The Company	June 20, 2006	The Company's employees, executive officers and subsidiaries' directors, executive officers and employees: 1,086	Common stock 2,701,500	August 14, 2006	Continue to work from August 14, 2006 to August 14, 2008	From August 14, 2006 to August 14, 2008	From August 15, 2008 to August 13, 2010
Sammy Networks Co., Ltd.	June 22, 2005	Sammy Networks Co., Ltd.'s employees: 18	Common stock 18	August 30, 2005	Continue to work through exercise of right	From August 30, 2005 to July 30, 2007	From July 31, 2007 to July 30, 2012
Sammy Networks Co., Ltd.	June 22, 2005	Sammy Networks Co., Ltd.'s directors: 5 Sammy Networks Co., Ltd.'s corporate auditors: 1 Sammy Networks Co., Ltd.'s employees: 77	Common stock 353	April 28, 2006	Continue to work through exercise of right	From April 28, 2006 to July 30, 2007	From July 31, 2007 to July 30, 2012
Media-Trust Co., Ltd.	December 12, 2005	Media-Trust Co., Ltd.'s directors: 5 Media-Trust Co., Ltd.'s corporate auditors: 3 Media-Trust Co., Ltd.'s employees: 44	Common stock 3,050	December 12, 2005	Listed company Continue to work through exercise of right	From December 12, 2005 to December 12, 2007	From December 13, 2007 to December 12, 2015
SEGA TOYS CO., LTD.	June 26, 2002	SEGA TOYS CO., LTD.'s directors: 3 SEGA TOYS CO., LTD.'s corporate auditors: 2 SEGA TOYS CO., LTD.'s employees: 32	Common stock 456,000	July 1, 2002	Continue to work through exercise of right	From July 1, 2002 to June 30, 2004	From July 1, 2004 to June 30, 2008
SEGA TOYS CO., LTD.	June 29, 2004	SEGA TOYS CO., LTD.'s directors: 8 SEGA TOYS CO., LTD.'s corporate auditors: 3 SEGA TOYS CO., LTD.'s employees: 105	Common stock 894,600	August 9, 2004	Continue to work through exercise of right	From August 9, 2004 to June 30, 2005	From July 1, 2005 to June 30, 2008
SEGA TOYS CO., LTD.	June 16, 2008	SEGA TOYS CO., LTD.'s employees: 127 SEGA TOYS CO., LTD.'s subsidiaries' directors: 4 SEGA TOYS CO., LTD.'s subsidiaries' employees: 36	Common stock 751,500	September 5, 2008	Continue to work through exercise of right	From September 5, 2008 to June 30, 2010	From July 1, 2010 to June 30, 2013
TMS ENTERTAINMENT, LTD.	June 27, 2003	TMS ENTERTAINMENT, LTD.'s directors: 12 TMS ENTERTAINMENT, LTD.'s employees and subsidiaries' directors: 118	Common stock 458,000	August 1, 2003	Continue to work from August 1, 2003 to June 30, 2005	From August 1, 2003 to June 30, 2005	From July 1 , 2005 to June 30, 2008
TMS ENTERTAINMENT, LTD.	June 28, 2006	TMS ENTERTAINMENT, LTD.'s directors: 6 TMS ENTERTAINMENT, LTD.'s subsidiaries' directors and employees: 93	Common stock 598,000	August 21, 2006	Continue to work from August 21, 2006 to June 30, 2008	From August 21, 2006 to June 30, 2008	From July 1 , 2008 to June 30, 2011
TMS ENTERTAINMENT, LTD.	June 28, 2006	TMS ENTERTAINMENT, LTD.'s directors: 5	Common stock 240,000	August 28, 2008	Continue to work from August 28, 2008 to August 31, 2011	From August 28, 2008 to August 31, 2011	From September 1, 2011 to August 31, 2016

The following tables summarize scale and movement of stock as of March 31, 2009.

Company name	The Company	The Company	The Company	Sammy Networks Co., Ltd.	Sammy Networks Co., Ltd.	Media-Trust Co., Ltd.
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006	June 22, 2005	June 22, 2005	December 12, 2005
Not exercisable stock options						
Stock options outstanding at April 1, 2008	–	43,000	2,395,300	–	–	2,500
Stock options granted	–	–	–	–	–	–
Forfeitures	–	–	71,700	–	–	250
Conversion to exercisable stock options	–	43,000	2,323,600	–	–	–
Stock options outstanding at March 31, 2009	–	–	–	–	–	2,250
Exercisable stock options						
Stock options outstanding at April 1, 2008	2,234,200	–	–	10	300	–
Stock options granted	–	43,000	2,323,600	–	–	–
Conversion to exercisable stock options	–	–	–	–	–	–
Forfeitures	187,800	–	151,600	–	27	–
Stock options outstanding at March 31, 2009	2,046,400	43,000	2,172,000	10	273	–

Company name	SEGA TOYS CO., LTD.	SEGA TOYS CO., LTD.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 26, 2002	June 29, 2004	June 16, 2008	June 27, 2003	June 28, 2006	June 28, 2006
Not exercisable stock options						
Stock options outstanding at April 1, 2008	–	–	–	–	566,000	–
Stock options granted	–	–	751,500	–	–	240,000
Forfeitures	–	–	13,400	–	3,000	–
Conversion to exercisable stock options	–	–	–	–	563,000	–
Stock options outstanding at March 31, 2009	–	–	738,100	–	–	240,000
Exercisable stock options						
Stock options outstanding at April 1, 2008	69,000	273,000	–	136,000	–	–
Stock options granted	–	–	–	–	563,000	–
Conversion to exercisable stock options	45,000	–	–	–	–	–
Forfeitures	24,000	273,000	–	136,000	–	–
Stock options outstanding at March 31, 2009	–	–	–	–	563,000	–

The following tables summarize price information of stock options as of March 31, 2009.

Yen

Company name	The Company	The Company	The Company	Sammy Networks Co., Ltd.	Sammy Networks Co., Ltd.	Media-Trust Co., Ltd.	SEGA TOYS CO., LTD.
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006	June 22, 2005	June 22, 2005	December 12, 2005	June 26, 2002
Exercise price	¥3,470	¥4,235	¥4,235	¥1,700,000	¥1,053,914	¥50,000	¥255
Average market price of the stock at the time of exercise	–	–	–	–	–	–	290
Fair value of the stock option at the date of issue	–	510	509	–	–	–	–

Yen

Company name	SEGA TOYS CO., LTD.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 29, 2004	June 16, 2008	June 27, 2003	June 28, 2006	June 28, 2006
Exercise price	¥288	¥280	¥413	¥472	¥268
Average market price of the stock at the time of exercise	–	–	–	–	–
Fair value of the stock option at the date of issue	–	90	–	126	62

Company name	The Company	The Company	The Company	Sammy Networks Co., Ltd.	Sammy Networks Co., Ltd.	Media-Trust Co., Ltd.	SEGA TOYS CO., LTD.
							U.S. dollars (Note 1)
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006	June 22, 2005	June 22, 2005	December 12, 2005	June 26, 2002
Exercise price	$35	$43	$43	$17,306	$10,729	$509	$3
Average market price of the stock at the time of exercise	–	–	–	–	–	–	3
Fair value of the stock option at the date of issue	–	5	5	–	–	–	–

Company name	SEGA TOYS CO., LTD.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
					U.S. dollars (Note 1)
Date of the annual shareholders' meeting	June 29, 2004	June 16, 2008	June 27, 2003	June 28, 2006	June 28, 2006
Exercise price	$3	$3	$4	$5	$3
Average market price of the stock at the time of exercise	–	–	–	–	–
Fair value of the stock option at the date of issue	–	1	–	1	1

NOTE 5

Retirement Benefits for Employees

The liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Projected benefit obligation	¥ 24,925	¥ 24,831	$ 253,741
Unrecognized actuarial differences	(3,934)	(3,403)	(40,049)
Unrecognized prior service cost	128	273	1,303
Prepaid pension cost	11	–	112
Less: fair value of pension assets	(10,257)	(12,431)	(104,418)
Liability for severance and retirement benefits	¥ 10,873	¥ 9,270	$ 110,689

Included in the consolidated statements of operations for the years ended March 31, 2009, 2008 and 2007, severance and retirement benefit expenses comprised the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Service costs – benefits earned during the year	¥2,251	¥2,452	¥2,203	$22,916
Interest cost on projected benefit obligation	429	454	393	4,367
Expected return on plan assets	(280)	(312)	(255)	(2,850)
Amortization of actuarial difference	1,616	415	407	16,451
Amortization of prior service cost	(144)	(91)	(91)	(1,466)
Additional interim benefit	4,801	2,773	149	48,875
Other	344	357	359	3,502
Severance and retirement benefit expenses	¥9,017	¥6,048	¥3,165	$91,795

	2009	2008	2007
Discount rate	1.5 – 2.5%	2.0 – 2.5%	2.0 – 2.5%
Rate of expected return on plan assets	1.0 – 2.5%	1.0 – 2.5%	1.0 – 2.5%

NOTE 6

Contingent Liabilities

The subsidiaries of the Company have contingent liabilities as of March 31, 2009 and 2008 as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
	Description	2009	2008	2009
Dimps Corporation	Guarantee due to bank loan	¥ 133	¥400	$ 1,354
Orix Premium Ltd.	Lease obligation	100	182	1,018
Electronic Approval System Council.	Lease obligation	1	33	10
GINZA CORPORATION	Guarantee due to accounts receivable	2,286	–	23,272
Sega Shanghai & Co., Ltd.	Joint and several guarantees due to bank loan	72	43	733
FIELDS CORPORATION	Joint and several guarantees due to joining a union	–	10	–

NOTE 7

Net Assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, additional paid-in capital and legal earnings reserve can be used to eliminate or reduce a deficit, and also can be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Board of Directors' meeting held on May 15, 2009, the directors approved cash dividends amounting to ¥3,779 million ($38,471 thousand). Such cash dividends have not been accrued in the consolidated financial statements as of March 31, 2009. Such cash dividends are recognized in the period in which they are approved by the Board of Directors.

NOTE 8

Revaluation Reserve for Land

SEGA CORPORATION, which is a consolidated subsidiary of the Company, revalued land for its business in accordance with the Land Revaluation Law. The Company recorded the entire difference between the carrying amount and revalued amount as revaluation reserve for land as 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 9

Income Taxes

The Company and its subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.7% for the years ended March 31, 2009, 2008 and 2007.

The difference between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2009, 2008 and 2007 is not shown because net loss is recorded in 2009 and 2008, and because it was not significant in 2007.

The Company's and its subsidiaries' significant components of deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Deferred tax assets:			
Allowance for doubtful accounts	¥ 6,559	¥ 8,861	$ 66,772
Loss on devaluation of inventories	2,244	2,815	22,844
Accrued employees' bonuses	1,260	1,761	12,827
Retirement benefits for employees	4,422	3,760	45,017
Depreciation expense	22,433	20,831	228,372
Loss on devaluation of investments	9,408	8,980	95,775
Impairment losses	2,065	2,464	21,022
Loss on cancellation of amusement center under development	–	2,271	–
Tax loss carry forward	48,688	32,190	495,653
Others	18,309	19,606	186,389
Total	115,388	103,539	1,174,671
Valuation allowance	(105,085)	(93,825)	(1,069,785)
Net deferred tax assets	10,303	9,714	104,886
Deferred tax liabilities:			
Net unrealized holding gains on securities	(336)	(587)	(3,421)
Others	(1,318)	(836)	(13,417)
Total	(1,654)	(1,423)	(16,838)
Recorded deferred tax assets	¥ 8,649	¥ 8,291	$ 88,048

NOTE 10

Market Value Information of Securities

Balance sheet amount, fair value and valuation losses of held-to-maturity debt securities with available fair values as of March 31, 2009 were as follows:

	Millions of yen		
	Balance sheet amount	Fair value	Valuation losses
Securities whose market value is equal to or lower than the balance sheet amount:			
Bonds	¥1,900	¥1,728	¥(172)

	Thousands of U.S. dollars (Note 1)		
	Balance sheet amount	Fair value	Valuation losses
Securities whose market value is equal to or lower than the balance sheet amount:			
Bonds	$19,342	$17,591	$(1,751)

Acquisition costs, balance sheet amounts and valuation gains or losses of available-for-sale securities with available fair values as of March 31, 2009 were as follows:

	Millions of yen		
	Acquisition cost	Balance sheet amount	Valuation gains (losses)
Securities whose market value exceeds the balance sheet amount:			
Stocks	¥ 590	¥ 998	¥ 408
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	11,839	10,262	(1,577)
Bonds and debenture	3,000	2,563	(437)

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Balance sheet amount	Valuation gains (losses)
Securities whose market value exceeds the balance sheet amount:			
Stocks	$ 6,006	$ 10,160	$ 4,154
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	120,523	104,469	(16,054)
Bonds and debenture	30,541	26,092	(4,449)

Available-for-sale securities sold in the year ended March 31, 2009 amounted to ¥52 million ($529 thousand) and the related gains amounted to ¥3 million ($31 thousand).

Balance sheet amount, fair value and valuation gains of held-to-maturity debt securities with available fair values as of March 31, 2008 were as follows:

	Millions of yen		
	Balance sheet amount	Fair value	Valuation gains
Securities whose market value exceeds the balance sheet amount:			
Bonds	¥1,195	¥1,195	¥0

Acquisition costs, balance sheet amounts and valuation gains or losses of available-for-sale securities with available fair values as of March 31, 2008 were as follows:

	Millions of yen		
	Acquisition cost	Balance sheet amount	Valuation gains (losses)
Securities whose market value exceeds the balance sheet amount:			
Stocks	¥ 576	¥ 1,487	¥ 911
Bonds and debenture	2,001	2,004	3
Others	506	506	0
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	11,783	11,648	(135)
Bonds and debenture	3,501	3,045	(456)

Available-for-sale securities sold in the year ended March 31, 2008 amounted to ¥5,872 million and the related gains amounted to ¥4,441 million, and the related losses amounted to ¥21 million.

Available-for-sale securities sold in the year ended March 31, 2007 amounted to ¥4,343 million and the related gains amounted to ¥122 million.

NOTE 11

Loan Receivable in Securities

Loan receivable in securities of ¥172 million ($1,751 thousand) and ¥249 million were included in investment securities as of March 31, 2009 and 2008, respectively.

NOTE 12

Research and Development Expenses

Expenses relating to research and development activities have been charged to income as incurred and amounted to ¥59,676 million ($607,513 thousand), ¥65,385 million, and ¥52,107 million for the years ended March 31, 2009, 2008 and 2007, respectively.

NOTE 13

Impairment Losses

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 have 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 financial statements.

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

Impairment losses for the year ended March 31, 2009 consisted of the following:

Use	Location	Impairment loss		
		Type	Millions of yen	Thousands of U.S. dollars (Note 1)
Amusement facilities	Shibuya-ku, Tokyo	Buildings and structures	¥ 203	$ 2,067
		Amusement game machines	49	499
		Other property, plant and equipment	3	31
	Kawagoe-shi, Saitama	Buildings and structures	166	1,690
		Amusement game machines	63	641
		Other property, plant and equipment	2	20
	Chuo-ku, Saitama	Buildings and structures	86	875
		Amusement game machines	51	519
		Other property, plant and equipment	5	51
	Higashi Osaka-shi, Osaka	Buildings and structures	94	957
		Amusement game machines	41	417
		Other property, plant and equipment	2	20
	Tsuzuki-ku, Yokohama	Buildings and structures	94	957
		Amusement game machines	32	326
		Other property, plant and equipment	4	41
	Kokurakita-ku, Kitakyusyu	Buildings and structures	115	1,171
		Other property, plant and equipment	9	92
	Hachioji-shi, Tokyo	Buildings and structures	83	845
		Amusement game machines	37	377
		Other property, plant and equipment	2	20
	Izumi-shi, Osaka	Buildings and structures	76	774
		Amusement game machines	39	397
		Other property, plant and equipment	1	10
	U.S.	Buildings and structures	205	2,087
		Amusement game machines	54	550
		Other property, plant and equipment	25	256
		Other intangible assets	2	20
	Ogaki-shi, Gifu, and 82 other locations	Buildings and structures	1,023	10,414
		Amusement game machines	2,471	25,155
		Other property, plant and equipment	24	244
Assets for business, etc.	Midori-ku, Chiba, and 15 other locations	Buildings and structures	443	4,510
		Land	233	2,372
		Other property, plant and equipment	183	1,863
		Other intangible assets	545	5,548
Total			¥6,465	$65,816

Impairment losses for the year ended March 31, 2008 consisted of the following:

Use	Location	Impairment loss	
		Type	Millions of yen
Amusement facilities	Chuo-ku, Chiba	Buildings and structures	¥1,414
		Other property, plant and equipment	47
		Other intangible assets	0
	Minato-ku, Tokyo	Buildings and structures	253
		Other property, plant and equipment	518
		Other intangible assets	1
	Higashi-ku, Sapporo	Buildings and structures	333
		Other property, plant and equipment	79
		Other intangible assets	1
	Motosu-shi, Gifu	Buildings and structures	273
		Other property, plant and equipment	20
		Other intangible assets	3
	Chuo-ku, Osaka	Buildings and structures	132
		Other property, plant and equipment	1
		Other intangible assets	0
	China	Buildings and structures	468
		Amusement game machines	771
		Other property, plant and equipment	100
	U.S.	Goodwill	468
		Other intangible assets	491
	Okayama-shi, Okayama, and 26 other locations	Buildings and structures	756
		Amusement game machines	18
		Other property, plant and equipment	255
		Other intangible assets	1
Pachislot and Pachinko business	Hiroshima-shi, Hiroshima, etc.	Buildings and structures	100
		Goodwill	511
		Other property, plant and equipment	164
		Other intangible assets	302
		Lease assets	133
Consumer business	China	Goodwill	1,078
		Other intangible assets	28
		Other investment and other assets	0
Assets for business	Ota-ku, Tokyo, and 4 other locations	Buildings and structures	182
		Amusement game machines	7
		Other property, plant and equipment	263
		Other intangible assets	32
		Lease assets	15
Total			¥9,218

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values have 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 financial statements.

Recoverable values for amusement centers in China and the U.S. are determined based on the value in use and calculated by discounting 15% (China) or 17% (U.S.) of future cash flows.

Impairment losses for the year ended March 31, 2007 consisted of the following:

Use	Location	Impairment loss	
		Type	Millions of yen
Amusement facilities	Tarumi-ku, Kobe	Buildings and structures	¥ 167
		Other property, plant and equipment	5
	Akashi-shi, Hyogo	Buildings and structures	134
		Other property, plant and equipment	21
		Other intangible assets	1
	Funabashi-shi, Chiba	Buildings and structures	116
		Other property, plant and equipment	13
		Other intangible assets	0
	Kita-ku, Osaka	Buildings and structures	112
		Other property, plant and equipment	2
	Tokushima-shi, Tokushima	Buildings and structures	94
		Land	11
	Nishi-ku, Hiroshima, and 7 other locations	Buildings and structures	132
		Other property, plant and equipment	82
Assets for business	Ota-ku, Tokyo, and 5 other locations	Buildings and structures	27
		Other property, plant and equipment	202
		Other intangible assets	486
		Investment and other assets	29
		Lease assets	72
Total			¥1,706

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 have 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 financial statements.

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

NOTE 14

Loss on Closing of Stores

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

NOTE 15

Loss on Business Withdrawal

Loss on business withdrawal is the expenses such as retirement benefits due to withdrawal from pachislot and pachinko peripherals business and devaluation loss on inventories.

NOTE 16

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, 2009 and 2008 with respect to the finance leases accounted for in the same manner as operating leases was as follows:

	Millions of yen			
March 31, 2009:	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book Value
Structures	¥ 255	¥ 145	¥ –	¥ 110
Amusement machines	1,176	901	–	275
Tools, furniture and fixtures	1,427	921	61	445
Machinery and equipment	175	103	–	72
Software	466	294	7	165
Total	¥3,499	¥2,364	¥68	¥1,067

March 31, 2009:	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book Value
	Thousands of U.S. dollars (Note 1)			
Structures	$ 2,596	$ 1,476	$ –	$ 1,120
Amusement machines	11,972	9,172	–	2,800
Tools, furniture and fixtures	14,526	9,376	621	4,529
Machinery and equipment	1,782	1,049	–	733
Software	4,744	2,993	71	1,680
Total	$35,620	$24,066	$692	$10,862

March 31, 2008:	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book Value
	Millions of yen			
Structures	¥ 280	¥ 128	¥ –	¥ 152
Amusement machines	1,820	995	–	825
Tools, furniture and fixtures	2,204	1,189	69	946
Machinery and equipment	555	340	–	215
Software	505	210	6	289
Total	¥5,364	¥2,862	¥75	¥2,427

Finance lease transaction:

Lease assets mainly consist of followings: 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 and consumer business.

The method 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 depreciated using the method to calculate depreciation expenses for such assets, which is the same as 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 depreciated using the method to calculate depreciation for such assets, which is the 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 were accounted for in the same manner as operating leases as of March 31, 2009 and 2008 as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Due within one year	¥ 686	¥1,306	$ 6,984
Due after one year	421	1,300	4,286
Total	¥1,107	¥2,606	$11,270
Liability of impairment loss for lease assets	¥ 21	¥ 75	$ 214

There was other liability of impairment loss for lease assets recorded but not required to disclose due to its immateriality for the years ended March 31, 2009 and 2008.

A summary of assumed amounts of lease payments, assumed depreciation, impairment losses and interest expense for the years ended March 31, 2009, 2008 and 2007 with respect to the finance leases accounted for in the same manner as operating leases were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Lease payments	¥1,184	¥1,765	¥1,970	$12,053
Reversal of liability of impairment loss for lease assets	53	72	–	540
Depreciation	1,120	1,669	1,882	11,402
Impairment losses	–	75	72	–
Interest expense	50	88	99	509

There were other impairment losses recorded but not required to disclose due to its immateriality for the year ended March 31, 2008.

NOTE 17

Derivative Transactions

To avoid adverse effects of fluctuation of the market risk associated with financial activities and fluctuation in exchange rate, the Company and its consolidated subsidiaries use interest rate swap contracts and foreign exchange contracts. The Company and its subsidiaries use derivative financial instruments only for hedging purpose and do not use them for speculative trading purpose. The interest rate swap contracts and foreign exchange contracts are executed with creditworthy financial institutions, and the Company and its subsidiaries believes the risk of default by counterparties is currently low.

Based on the regulation approved by the Board of Directors' meeting, the accounting and finance department manages derivative transactions after internal authorizations.

Market values of derivative transactions as of March 31, 2007 were as follows (except the derivative transaction hedged):

	Millions of yen		
	Contract value	Fair value	Unrealized gains
Forward exchange contracts:			
Buying			
U.S. dollars	¥23	¥24	¥1

NOTE 18

Shareholders' Equity

Changes in number of shares issued and outstanding during the years ended March 31, 2009 and 2008 are as follows:

Common stock outstanding:

	2009	2008
Balance at beginning of the year	283,229,476	283,229,476
Increase due to exercise of convertible bonds with stock acquisition rights	–	–
Increase due to stock split	–	–
Balance at end of the year	283,229,476	283,229,476

Treasury stock outstanding:

	2009	2008
Balance at beginning of the year	31,292,007	31,276,992
Increase due to purchase from subsidiaries	–	–
Increase due to stock split	–	–
Increase due to purchase of odd stock	20,892	20,735
Decrease due to sale of odd stock	7,166	5,720
Balance at end of the year	31,305,733	31,292,007

NOTE 19

Segment Information

A. Industry segment information

Industry segment information for the year ended March 31, 2009 is as follows:

	Millions of yen							
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and elimination	Consolidated
Net sales:								
(1) Outside customers	¥161,691	¥61,927	¥71,311	¥131,362	¥2,904	¥429,195	¥ –	¥429,195
(2) Inter-segment	799	3,504	19	303	1,056	5,681	(5,681)	–
Total	162,490	65,431	71,330	131,665	3,960	434,876	(5,681)	429,195
Cost of sales and operating expense	147,962	58,540	78,851	132,606	3,606	421,565	(734)	420,831
Operating income (loss)	¥ 14,528	¥ 6,891	¥ (7,521)	¥ (941)	¥ 354	¥ 13,311	¥ (4,947)	¥ 8,364
Total assets	¥133,900	¥25,896	¥51,320	¥ 88,885	¥3,894	¥303,895	¥120,044	¥423,939
Depreciation and amortization	¥ 5,302	¥ 2,081	¥15,909	¥ 3,476	¥ 178	¥ 26,946	¥ (301)	¥ 26,645
Impairment losses	¥ 286	¥ 80	¥ 5,221	¥ 878	¥ –	¥ 6,465	¥ –	¥ 6,465
Capital expenditures	¥ 4,517	¥ 1,100	¥14,893	¥ 4,823	¥ 98	¥ 25,431	¥ 1,179	¥ 26,610

	Thousands of U.S. dollars (Note 1)							
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and elimination	Consolidated
Net sales:								
(1) Outside customers	$1,646,045	$630,428	$725,960	$1,337,290	$29,563	$4,369,286	$ –	$4,369,286
(2) Inter-segment	8,134	35,672	193	3,085	10,750	57,834	(57,834)	–
Total	1,654,179	666,100	726,153	1,340,375	40,313	4,427,120	(57,834)	4,369,286
Cost of sales and operating expense	1,506,281	595,949	802,718	1,349,954	36,710	4,291,612	(7,473)	4,284,139
Operating income (loss)	$ 147,898	$ 70,151	$ (76,565)	$ (9,579)	$ 3,603	$ 135,508	$ (50,361)	$ 85,147
Total assets	$1,363,128	$263,626	$522,447	$ 904,866	$39,642	$3,093,709	$1,222,070	$4,315,779
Depreciation and amortization	$ 53,975	$ 21,185	$161,957	$ 35,386	$ 1,812	$ 274,315	$ (3,064)	$ 271,251
Impairment losses	$ 2,912	$ 815	$ 53,151	$ 8,938	$ –	$ 65,816	$ –	$ 65,816
Capital expenditures	$ 45,984	$ 11,198	$151,613	$ 49,099	$ 998	$ 258,892	$ 12,003	$ 270,895

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 Pachinko	Development, manufacture and sale of pachinko and pachislot machines, pachinko and pachislot machine's peripherals and design of parlors
(2) Amusement Machine Sales	Development, manufacture and sale of game machines used in amusement arcades
(3) Amusement Center Operations	Development, operation, rent and maintenance of amusement centers
(4) Consumer Business	Development and sale of home video game software, development, manufacture and sale of toys, planning and production of entertainment contents for cellular phones, etc, planning, production and sale of animated movies
(5) Others	Information provider services, etc.

3. General corporate expenses of ¥4,749 million ($48,346 thousand), which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination."
4. Corporate assets of ¥119,365 million ($1,215,158 thousand), which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and elimination."

Industry segment information for the year ended March 31, 2008 is as follows:

	Millions of yen							
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and elimination	Consolidated
Net sales:								
(1) Outside customers	¥145,583	¥71,062	¥ 91,227	¥141,791	¥ 9,314	¥458,977	¥ –	¥458,977
(2) Inter-segment	884	4,340	7	475	1,483	7,189	(7,189)	–
Total	146,467	75,402	91,234	142,266	10,797	466,166	(7,189)	458,977
Cost of sales and operating expense	138,023	68,250	101,041	148,255	10,872	466,441	(1,635)	464,806
Operating income (loss)	¥ 8,444	¥ 7,152	¥ (9,807)	¥ (5,989)	¥ (75)	¥ (275)	¥ (5,554)	¥ (5,829)
Total assets	¥128,028	¥42,904	¥ 85,845	¥114,742	¥ 3,301	¥374,820	¥94,823	¥469,643
Depreciation and amortization	¥ 21,341	¥ 3,062	¥ 17,161	¥ 4,477	¥ 296	¥ 46,337	¥ (726)	¥ 45,611
Impairment losses	¥ 1,210	¥ 122	¥ 6,404	¥ 1,462	¥ 20	¥ 9,218	–	¥ 9,218
Capital expenditures	¥ 23,829	¥ 2,257	¥ 15,910	¥ 4,391	¥ 3,414	¥ 49,801	¥ 621	¥ 50,422

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 Pachinko	Development, manufacture and sale of pachinko and pachislot machines, pachinko and pachislot machine's peripherals and design of parlors
(2) Amusement Machine Sales	Development, manufacture and sale of game machines used in amusement arcades
(3) Amusement Center Operations	Development, operation, rent and maintenance of amusement centers
(4) Consumer Business	Development and sale of home video game software, development, manufacture and sale of toys, planning and production of entertainment contents for cellular phones, etc, planning, production and sale of animated movies
(5) Others	Planning, design, management and construction of commercial establishments, etc.

3. General corporate expenses of ¥5,760 million, which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination."
4. Corporate assets of ¥94,945 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 elimination."
5. Following the amendments of the Corporation Tax Law of Japan (Act on Partial Revision, etc. of the Income Tax Act, etc., March 30, 2007, No. 6, and Decree Law on Partial Revision, etc. of the Corporate Tax Code Enforcement Ordinance, March 30, 2007, No. 83), effective April 1, 2007, the method of depreciation applied to the property, plant and equipment acquired on or after April 1, 2007 has been changed. Due to this change, operating income decreased by ¥425 million for Pachislot and Pachinko business, ¥213 million for Amusement machine sales, and operating losses increased by ¥1,706 million for Amusement center operations, ¥310 million for Consumer business, and ¥27 million for Others, respectively.
6. From the year ended March 31, 2008, the Company early adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18, issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006). In principle, the Company unified accounting standards for foreign subsidiaries and makes necessary adjustments upon consolidation.
As a result of this change, operating expenses increased by ¥260 million for Amusement center operations, and ¥383 million for Consumer business, and accordingly operating losses increased by the same amounts, respectively.

Industry segment information for the year ended March 31, 2007 is as follows:

	Millions of yen							
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and elimination	Consolidated
Net sales:								
(1) Outside customers	¥211,540	¥75,455	¥103,850	¥119,593	¥17,800	¥528,238	¥ –	¥528,238
(2) Inter-segment	2,170	4,165	9	240	1,834	8,418	(8,418)	–
Total	213,710	79,620	103,859	119,833	19,634	536,656	(8,418)	528,238
Cost of sales and operating expense	142,608	67,937	103,727	118,084	20,979	453,335	(1,627)	451,708
Operating income (loss)	¥ 71,102	¥11,683	¥ 132	¥ 1,749	¥ (1,345)	¥ 83,321	¥ (6,791)	¥ 76,530
Total assets	¥118,581	¥46,524	¥106,318	¥111,752	¥11,593	¥394,768	¥155,172	¥549,940
Depreciation and amortization	¥ 5,332	¥ 2,403	¥ 18,052	¥ 3,216	¥ 362	¥ 29,365	¥ (1,317)	¥ 28,048
Impairment losses	–	–	¥ 890	¥ 494	¥ 322	¥ 1,706	–	¥ 1,706
Capital expenditures	¥ 8,790	¥ 3,333	¥ 40,754	¥ 5,676	¥ 346	¥ 58,899	¥ 373	¥ 59,272

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 Pachinko	Development, manufacture and sale of pachinko and pachislot machines, pachinko and pachislot machine's peripherals and design of parlors
(2) Amusement Machine Sales	Development, manufacture and sale of game machines used in amusement arcades
(3) Amusement Center Operations	Development, operation, rent and maintenance of amusement centers
(4) Consumer Business	Development and sale of home video game software, development, manufacture and sale of toys, planning and production of entertainment contents for cellular phones, etc, planning, production and sale of animated movies
(5) Others	Planning, design, management and construction of commercial establishments, etc.

3. General corporate expenses of ¥7,014 million, which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination."

4. Corporate assets of ¥157,478 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 elimination."

B. Geographical segment information

Geographical segment information for the year ended March 31, 2009 is as follows:

	Millions of yen						
	Japan	North America	Europe	Others	Total	Corporate and elimination	Consolidated
Net sales:							
(1) Outside customers	¥357,236	¥35,316	¥32,858	¥3,785	¥429,195	¥ –	¥429,195
(2) Inter-segment	20,616	3,965	3,366	838	28,785	(28,785)	–
Total	377,852	39,281	36,224	4,623	457,980	(28,785)	429,195
Cost and expenses	369,493	38,897	34,903	4,504	447,797	(26,966)	420,831
Operating income (loss)	¥ 8,359	¥ 384	¥ 1,321	¥ 119	¥ 10,183	¥ (1,819)	¥ 8,364
Total Assets	¥312,910	¥21,410	¥14,717	¥1,512	¥350,549	¥ 73,390	¥423,939

	Thousands of U.S. dollars (Note 1)						
	Japan	North America	Europe	Others	Total	Corporate and elimination	Consolidated
Net sales:							
(1) Outside customers	$3,636,730	$359,524	$334,500	$38,532	$4,369,286	$ –	$4,369,286
(2) Inter-segment	209,875	40,364	34,267	8,531	293,037	(293,037)	–
Total	3,846,605	399,888	368,767	47,063	4,662,323	(293,037)	4,369,286
Cost and expenses	3,761,509	395,979	355,319	45,851	4,558,658	(274,519)	4,284,139
Operating income (loss)	$ 85,096	$ 3,909	$ 13,448	$ 1,212	$ 103,665	$ (18,518)	$ 85,147
Total Assets	$3,185,483	$217,958	$149,822	$15,392	$3,568,655	$ 747,124	$4,315,779

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 ¥4,749 million ($48,346 thousand), which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination."

4. Corporate assets of ¥119,365 million ($1,215,158 thousand), which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and elimination."

Geographical segment information for the year ended March 31, 2008 is as follows:

	Millions of yen						
	Japan	North America	Europe	Others	Total	Corporate and elimination	Consolidated
Net sales:							
(1) Outside customers	¥366,169	¥45,030	¥43,153	¥4,625	¥458,977	¥ –	¥458,977
(2) Inter-segment	26,738	6,007	4,220	794	37,759	(37,759)	–
Total	392,907	51,037	47,373	5,419	496,736	(37,759)	458,977
Cost and expenses	407,438	47,720	40,956	4,692	500,806	(36,000)	464,806
Operating income (loss)	¥ (14,531)	¥ 3,317	¥ 6,417	¥ 727	¥ (4,070)	¥ (1,759)	¥ (5,829)
Total Assets	¥457,636	¥23,842	¥27,449	¥3,271	¥512,198	¥(42,555)	¥469,643

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, Taiwan, Singapore, etc.
3. General corporate expenses of ¥5,760 million, which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination".
4. Corporate assets of ¥94,945 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 elimination."

Geographical segment information is not presented as the sales and assets of consolidated domestic subsidiaries for the year ended March 31, 2007 exceeded 90% of consolidated net sales and assets.

C. Overseas sales

Overseas sales for the year ended March 31, 2009 were as follows:

	Millions of yen			
	North America	Europe	Other	Total
Total overseas sales	¥46,295	¥35,114	¥11,598	¥ 93,007
Consolidated net sales				¥429,195
Percentage of overseas sales to consolidated net sales	10.8%	8.2%	2.7%	21.7%

	Thousands of U.S. dollars (Note 1)			
	North America	Europe	Other	Total
Total overseas sales	$471,292	$357,467	$118,070	$ 946,829
Consolidated net sales				$4,369,286
Percentage of overseas sales to consolidated net sales	10.8%	8.2%	2.7%	21.7%

Overseas sales for the year ended March 31, 2008 were as follows:

	Millions of yen			
	North America	Europe	Other	Total
Total overseas sales	¥50,017	¥47,668	¥10,249	¥107,934
Consolidated net sales				¥458,977
Percentage of overseas sales to consolidated net sales	10.9%	10.4%	2.2%	23.5%

Overseas sales for the year ended March 31, 2007 were as follows:

	Millions of yen			
	North America	Europe	Other	Total
Total overseas sales	¥37,035	¥24,781	¥7,561	¥ 69,377
Consolidated net sales				¥528,238
Percentage of overseas sales to consolidated net sales	7.0%	4.7%	1.4%	13.1%

NOTE 20

Related-Party Transactions

Material transactions of the Company with related individuals or companies for the year ended March 31, 2009 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	2009	Account	2009
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 and outsourcing fee	20	Prepaid expense	4

		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	2009	Account	2009
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	$2,443	–	$ –
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance and outsourcing fee	204	Prepaid expense	41

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds directly 53% of FSC Co., Ltd.'s shares.
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, 2009 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	2009	Account	2009
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Provision of loan	¥2,500	–	¥ –
		Collection of loan	2,500	–	–
		Receipt of interest	32	–	–
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance and welfare expenses	38	Prepaid expense Long term pre-paid expense	23 5

		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	2009	Account	2009
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Provision of loan	$25,450	–	$ –
		Collection of loan	25,450	–	–
		Receipt of interest	326	–	–
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance and welfare expenses	387	Prepaid expense Long term pre-paid expense	234 51

Notes 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds directly 53% of FSC Co., Ltd.'s shares.
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.

(Additional information)

ASBJ Statement No. 11, "Accounting Standard for Related Party Disclosures," and ASBJ Guidance No. 13, "Guidance on Accounting Standard for Related Party Disclosures," issued by the ASBJ on October 17, 2006, require certain additional related party disclosures effective for years beginning on or after April 1, 2008. Pursuant to the new accounting standards, information on material transactions of the Company's consolidated subsidiaries with related individuals or companies is disclosed for the year ended March 31, 2009.

Material transactions of the Company with related individuals or company for the year ended March 31, 2008 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	2008	Account	2008
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	¥302	–	¥ –
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance and outsourcing fee	26	Prepaid expense Accrued expense	5 0

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds directly 53% of FSC Co., Ltd.'s shares.
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 company for the year ended March 31, 2007 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	2007	Account	2007
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	¥250	–	¥ –
FSC Co., Ltd.	Non-life insurance agent	Payment of insurance and outsourcing fee	26	Prepaid expense Accrued expense	7 0

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds directly 53% of FSC Co., Ltd.'s shares.
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 Combinations

Material transaction of business combinations for the year ended March 31, 2007 are as follows:

1. Sports Interactive Ltd.

(1) Summary of business combination, including name of combining company, description of business, purpose of business combination, date of business combination, legal framework of business combination, and percentage of voting rights acquired

(i) Trade name and main business:
Sports Interactive Ltd. Development of consumer games

(ii) Purpose of business combination:
To reinforce the competitiveness of the Company's consumer business in the European market, Sega Holdings Europe Ltd. acquired all issued shares of Sports Interactive Ltd.

(iii) Date of business combination: April 3, 2006

(iv) Legal framework of business combination: Acquisition of stock

(v) Percentage of voting rights acquired: 100%

(2) Period for which the performance of the new subsidiary is reflected in the consolidated financial statements:
From April 4, 2006 to March 31, 2007

(3) Cost of acquisition of business and its details

	Millions of yen
Cost of acquisition:	
Shares of Sports Interactive Ltd.	¥7,567
Direct cost for acquisition:	
Cost of calculating stock price	105
Cost of acquisition of business	¥7,672

(4) Amount of goodwill, reason and amortization method and period

(i) Amount of goodwill: ¥7,671 million

(ii) Reason: The fair value of net assets at the time of the business combination fell below the acquisition cost.

(iii) Amortization method and period: Straight-line method over 15 years

(5) Amounts of acquired assets and liabilities recognized at the date of the business combination

	Millions of yen
Amount of assets	
Current assets	¥145
Fixed assets	5
Total	¥150
Amount of liabilities	
Current liabilities	¥149
Total	¥149

(6) Descriptions of the conditional acquisition costs under the contract of the business combination and accounting methods implemented after the current fiscal year

(i) Details of the conditional acquisition cost under the contract of the business combination

Under the contract of the business combination, the Company pays additional costs based on expected profits and expected sales amounts for 10 years after the business combination. This additional payment is measured as part of the initial cost of the business combination as present discount value.

(ii) Accounting methods implemented after the current fiscal year

When actual payments exceed the additional payments, the excess of the cost is amortized over the remaining period of goodwill.

(7) Effects on the consolidated statement of operations if the business combination had completed on April 1, 2006.

No material effect on the consolidated statement of income.

2. Secret Level, Inc.

(1) Summary of business combination, including name of combining company, description of business, purpose of business combination, date of business combination, legal framework of business combination and percentage of voting rights acquired

(i) Trade name and main business:

Secret Level, Inc. Development of consumer games and game engines

(ii) Purpose of business combination:

To reinforce the competitiveness of the Company's consumer business in the North American market, Sega Holdings U.S.A., Inc. acquired all issued shares of Secret Level, Inc.

(iii) Date of business combination: April 3, 2006

(iv) Legal framework of business combination: Acquisition of stock

(v) Percentage of voting rights acquired: 100%

(2) Period for which the performance of the new subsidiary is reflected in the consolidated financial statements

From April 4, 2006 to March 31, 2007

(3) Cost of acquisition of business and its details

	Millions of yen
Cost of acquisition:	
Shares of Secret Level, Inc.	¥1,772
Direct cost for acquisition:	
Cost of calculating of stock price	24
Cost of acquisition of business	¥1,796

(4) Amount of goodwill, reason and amortization method and period

(i) Amount of goodwill: ¥1,243 million

(ii) Reason: The fair value of net assets at the time of the business combination fell below the acquisition cost

(iii) Amortization method and period: Not amortized but is tested for impairment annually and when there are any indications of impairment

(5) Amounts of acquired assets and liabilities recognized at the date of the business combination

	Millions of yen
Amount of assets	
Current assets	¥265
Fixed assets	692
Total	¥957
Amount of liabilities	
Current liabilities	¥349
Long-term liabilities	55
Total	¥404

(6) Effects on the consolidated statement of operations if the business combination had completed on April 1, 2006.

No material effect on the consolidated statement of income.

3. Sega Amusement Works, LLC

(1) Summary of business combination, including name of combining company, description of business, purpose of business combination, date of business combination, legal framework of business combination and name of company after business combination

(i) Trade name and main business:

Sunshine Entertainment Holdings, LLC Management of amusement machines

(ii) Purpose of business combination:

To extend the sales opportunities of the Company's amusement business in the American market

(iii) Date of business combination: December 1, 2006

(iv) Legal framework of business combination: Transfer of business

(v) Name of company after business combination: Sega Amusement Works, LLC

(2) Period for which the performance of the new subsidiary is reflected in the consolidated financial statements:

From December 1, 2006 to March 31, 2007

(3) Cost of acquisition of business and its details

	Millions of yen
Cost of acquisition:	
Shares of Sega Amusement Works, LLC	¥1,417
Direct cost for acquisition:	
Cost of calculating stock price	–
Cost of acquisition of business	¥1,417

(4) Amount of goodwill, reason and amortization method and period

(i) Amount of goodwill: ¥537 million

(ii) Reason: The fair value at the time of the business combination fell below the acquisition cost

(iii) Amortization method and period: Not amortized but is tested for impairment annually and when there are any indications of impairment

(5) Amounts of acquired assets and liabilities recognized at the date of the business combination

	Millions of yen
Amount of assets	
Current assets	¥ 418
Fixed assets	988
Total	¥1,406
Amount of liabilities	
Current liabilities	¥ 253
Long-term liabilities	31
Total	¥ 284

(6) Estimated amounts of effects on the consolidated statement of operations if the business combination had completed on April 1, 2006.

	Millions of yen
Sales	¥2,016
Operating income	46
Net income	21

The estimated amount is calculated based on monthly average amount including income statement.

NOTE 22

Per Share Data

Per share data is as follows:

	Yen			U.S. dollars (Note 1)
	2009	2008	2007	2009
Per share data				
Net assets per share	¥882.47	¥1,030.09	¥1,341.80	$ 8.98
Net income (loss) per share	(90.83)	(208.26)	172.47	(0.92)
Net income per share (diluted)	–	–	172.35	–

Diluted net income per share is not disclosed for the years ended March 31, 2009 and 2008, because net loss is recorded.

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, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, 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 financial position of SEGA SAMMY HOLDINGS INC. and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2006, SEGA SAMMY HOLDINGS INC. and consolidated domestic subsidiaries adopted new accounting standards for the presentation of net assets in the balance sheet.

(2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2007, SEGA SAMMY HOLDINGS INC. and consolidated domestic subsidiaries changed its method of recording depreciation for tangible fixed assets acquired on or after April 1, 2007 in accordance with revisions of the Corporate Tax law.

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 + Co.

(KPMG AZSA & Co.)
Tokyo, Japan
June 18, 2009

WWW.SEGASAMMY.CO.JP

SEGA


SEGA 1000

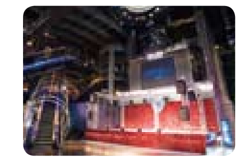

Hang On


UFO Catcher


Mega Drive


Sonic the Hedgehog


Print Club


TOKYO JOYPOLIS


Dreamcast


The King of Beetles "MUSHIKING"

1951 • Founded
1960 • Incorporated (Company name: Nihon Goraku Bussan Co., Ltd.)
• Developed *SEGA 1000*, first domestically produced jukebox.
1964 • Implemented absorption merger with Nihon Kikai Seizo Co., Ltd.
• Started production of amusement arcade machines.
1965 • Implemented absorption merger with Rosen Enterprises, Inc.
• Started operation of amusement centers.
• Changed company name to SEGA ENTERPRISES LTD.
1966 • *Periscope* became a worldwide hit.
1969 • Acquired by U.S. conglomerate Gulf & Western Industries Inc.
1983 • Launched *SG-1000* 8-bit home video game platform.
1984 • Became a member of the CSK Group following capital participation by the CSK Group.
• Established Sega Europe Ltd. as a marketing base for amusement arcade machines in Europe.
1985 • Established Sega Enterprises Inc. (U.S.A.) as a sales base for amusement arcade machines in the United States.
• Launched *Hang On*, the world's first force feedback game.
• Launched *UFO Catcher.*
1986 • SEGA of America, Inc., established as sales base for home video game platforms in the United States.
• Registered stock on over-the-counter (OTC) market.
1988 • Listed stock on the second section of Tokyo Stock Exchange.
• Launched *Mega Drive* 16-bit home video game platform.
1990 • Listed stock on the first section of Tokyo Stock Exchange.
• Launched *R-360*, the world's first amusement arcade machine that could rotate 360 degrees in all directions.
1991 • Launched first title in the *Sonic the Hedgehog* series.
1992 • Launched *Virtua Racing*, a full polygon amusement arcade machine.
1993 • Launched *Virtua Fighter*, the world's first amusement arcade 3D computer graphics fighting game.
1994 • Launched *SEGA Saturn* 32-bit home video game platform.
1995 • Launched *Print Club* with ATLUS Co., Ltd.
• Split off logistics services division form SEGA to establish Sega Logistics Service Co., Ltd.
1996 • Opened *TOKYO JOYPOLIS* rooftop theme park in Tokyo's Odaiba area.
• Launched first title in *Sakura Taisen* series of home video games.
1998 • Launched *Dreamcast* home video game platform.
1999 • Launched first title in *DERBY OWNERS CLUB* series of amusement arcade game machines.
2000 • Changed company name to SEGA CORPORATION.
• Launched *Fantasy Star Online*, the first networked role-playing game (RPG) for home video game platform.
2002 • Opened first location for darts bar *Bee SHIBUYA*.
2003 • Launched *The King of Beetles "MUSHIKING"*, the world's first kids' card game.

1950 1960 1970 1980 1990 2000

Sammy


Aladdin pachislot machine


Aladdin II pachislot machine

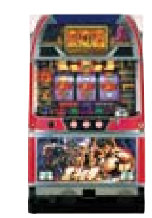

Aladdin Master pachislot machine


Ultra Man Club pachislot machine
© TSUBURAYA PRO
© BANPRESTO


GeGeGe No Kitaro SP pachislot machine
© Mizuki Pro
© SOFTGARAGE Inc.


Mojuoh pachislot machine


Juoh pachislot machine


Hokuto No Ken pachislot machine
© Buronson & Tetsuo Hara
© Sammy


CR Mojuoh pachinko machine

1975 • Split off manufacturing and marketing divisions for amusement arcade machines from Satomi Corporation (established in 1947) and established Sammy Industry Co., Ltd.
1978 • Opened factory in Itabashi-ku, Tokyo.
• Began full-scale game machine development in response to growing popularity of *Invader* games.
1981 • Joined Nichidenkyo, a pachislot industry association.
• Established sales subsidiary Sammy Sales and Marketing Co., Ltd., in Osaka.
1982 • Began sales and marketing of pachislot machines.
• Launched *Empire* pachislot machine.
1989 • Moved factory to Sayama, Saitama Prefecture.
• Began sales of *Aladdin* single-bonus hitter pachislot machine.
1990 • Began development and sales of game software.
1991 • Implemented absorption merger with Sammy Marketing Co., Ltd.
• Moved head office to Toshima-ku, Tokyo.
1995 • Began sales of pachinko machines.
• Launched *CR Gold Rush* pachinko machine.
1997 • Opened directly managed amusement center, *Sammy's Street 156*, in Sagamihara, Kanagawa Prefecture.
• Changed company name to Sammy Corporation.
• Launched *Ultra Seven*, the first pachinko machine to utilize characters.
1998 • To reinforce sales and distribution, moved Sapporo Branch to newly completed corporate-owned building in Sapporo, Hokkaido Prefecture, which is also a logistics center.
• Opened directly managed amusement center, *Sammy's Street 118*, in Oji Kita-ku, Tokyo.
• Launched *Ultra Man Club 3* pachislot machine with CT functions.
1999 • Registered stock on OTC market.
• Launched *GeGeGe No Kitaro*, the first pachislot machine equipped with an LCD.
2000 • Opened nine sales offices across the country to bolster sales and marketing of pachinko and pachislot machines.
• Entered business alliance with K. K. Aristocrat Technologies for the manufacture of pachislot machines.
• Made RODEO Co., Ltd. (formerly Barcrest Co., Ltd.), a subsidiary.
• Made Dimps Corp., a digital content developer, a subsidiary.
• Launched *GeGeGe No Kitaro SP* pachislot machine.
2001 • Began OEM supply to K. K. Aristocrat Technologies.
• Listed stock on the first section of Tokyo Stock Exchange.
• Participated in the establishment of JOYCO SYSTEMS CORPORATION, for the development of pre-paid systems equipment for pachinko and pachislot machines.
• Completed Kawagoe Factory.
• Established Sammy Design Co., Ltd., as a subsidiary of Shuko Electronics Co., Ltd.
• Began operation of the official i-mode site, *Sammy 777 Town*.
• Launched *Juoh* pachislot machine with AT functions.
2002 • Established American Depositary Receipt (ADR) program.
2003 • Launched *King Camel* pachislot machine with dream reel offering diverse reel action.
• Launched *Hokuto No Ken* pachislot machine, which set a new record for unit sales.
2004 • Launched *CR Mojuoh* pachinko machine, with selection system.

SEGA SAMMY HOLDINGS

2004	• Establishment of SEGA SAMMY HOLDINGS INC.
	• Launched *All.Net* network services (SEGA).
	• Launched *LOVE AND BERRY Dress up and Dance!* girls' card game machine (SEGA).
2005	• Launched *CR Hokuto No Ken* pachinko 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).
	• Made SECRET LEVEL, Inc., a wholly owned subsidiary (SEGA).
	• Launched *Pachislot Hokuto No Ken SE* pachislot machine (Sammy).
	• Launched *Hakushon Daimaoh*, the Company's first new-format pachislot machine (Sammy).
	• Entered strategic business alliance with Sanrio Company, Ltd. (SEGA SAMMY HOLDINGS).
2007	• Launched *Hokuto no Ken 2 Ransei Haō Den Tenha no Shō* pachislot machine (Sammy).
	• Made TAIYO ELEC Co., Ltd., a subsidiary (Sammy).
	• Launched *Mario & Sonic at the Olympic Games*™, home video game (SEGA).
2008	• Reached agreement with Sanrio Company, Ltd., to jointly develop new character (SEGA SAMMY HOLDINGS).
	• Launched *Pachinko CR Hokuto No Ken* series of pachinko machines, which set a new record for sales of Sammy pachinko machines (Sammy).

MILESTONES

SEGA SAMMY HOLDINGS

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