

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS
6 Months Ended September 30, 2005

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <http://www.segasammy.co.jp>)
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Date of the Board of Directors meeting for the 6 months period closing November 21, 2005

1.Consolidated Operating Results for 6 Months Ended September 30, 2005

(1) RESULTS OF CONSOLIDATED OPERATIONS

	Net Sales		Operating income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For 6 months ended September 30, 2005	248,563	—	49,894	—	24,954	—
For 6 months ended September 30, 2004	—	—	—	—	—	—
For Year ended March 31, 2005	515,668	—	105,089	—	50,574	—

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 6 months ended September 30, 2005	199.34	198.76
For 6 months ended September 30, 2004	—	—
For Year ended March 31, 2005	410.53	400.95

Millions of Yen

- (Note) ① Equity in net loss of affiliates for 6 months ended September 30, 2005 (212)
 Equity in net earnings of affiliates for 6 months ended September 30, 2004 —
 Equity in net earnings of affiliates for the fiscal year 2004 25
- ② Weighted average number of shares outstanding Number of shares
 For 6 months ended September 30, 2005 125,184,776
 For 6 months ended September 30, 2004 —
 For the fiscal year 2004 122,335,930
- ③ There was no significant change in the accounting policy between the years presented.

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Millions of Yen	Millions of Yen	%	Yen
September 30, 2005	461,746	275,718	59.7	2,195.77
September 30, 2004	—	—	—	—
March 31, 2005	438,991	258,954	59.0	2,067.91

- (Note) The total numbers of shares outstanding Number of shares
 As of September 30, 2005 125,567,691
 As of September 30, 2004 —
 As of March 30, 2005 124,968,006

(3) CONSOLIDATED CASH FLOWS

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents as of period -end
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
For 6 months ended September 30,2005	22,117	(26,780)	(9,778)	137,871
For 6 months ended September 30,2004	—	—	—	—
For Year ended March 31, 2005	77,762	(39,617)	(25,702)	151,253

- (4) Scope of consolidation and equity method application
The Company consolidated 67 subsidiaries, and accounted for 8 affiliated companies using the equity method.
- (5) Starting from this fiscal year, 11 of the companies were newly consolidated as subsidiaries and 5 companies as consolidated subsidiary were excluded. 2 affiliated companies were newly accounted for by using the equity method.

2. Projection for Consolidated Results for Fiscal Year 2005(April 1,2005 – March 31,2006)

	Net sales	Operating income	Net income
	Millions of Yen	Millions of Yen	Millions of Yen
Entire – year	567,000	100,000	56,000

(Reference) Projected net income per share for the entire-year is ¥220.88 Yen.

At a meeting of the Board of Directors held on August 31, 2005, SEGA SAMMY HOLDINGS resolved to conduct a stock split on November 18, 2005. Pursuant to this resolution, the number of shares held by shareholders whose names appear on the register of shareholders and register of beneficial shareholders as of the close of business on September 30, 2005 will be split at a ratio of two shares for every one share.

Projected net income per share for the fiscal year ending March 31, 2006 (full year) has been calculated assuming the stock split was conducted at the beginning of the fiscal year.

(Note)

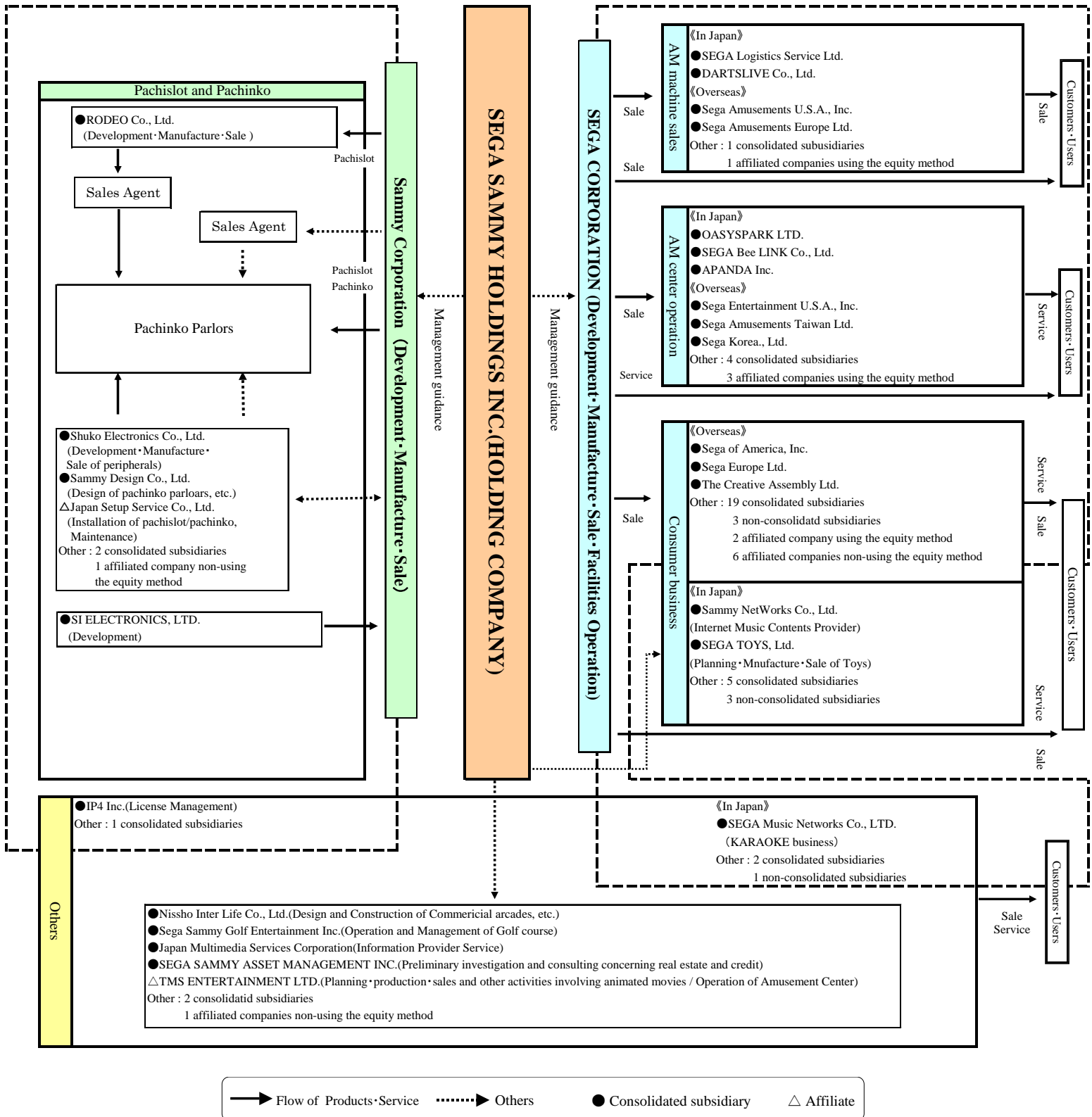
The management of the Company is required to disclose the information about Projection of results for fiscal year 2005 in accordance with the regulation of Tokyo Stock Exchange.

Above projection is made based on the information available at the date of announcement of this flash report and there may be a case that above projection would differ from actual amount due to various reasons.

1. Overview of the SEGA SAMMY Group

The SEGA SAMMY Group consists of SEGA SAMMY HOLDINGS INC., 75 subsidiaries and 16 affiliates. Group operations center primarily on the development, manufacture and sale of pachislot and pachinko machines and related peripherals, but also encompass game machines for amusement centers, game software, and toys and accessories. The development and management of amusement facilities is another vital Group business.

Refer to the following chart for an overview of Group operations.



(Note 1) In addition to the companies listed above, the SEGA SAMMY Group includes OS Capital U.S.A. Inc., (bearing with marketable securities investment funds), Sega Holdings U.S.A. Inc., (a holding company of subsidiaries in U.S.), SEGA R&D Holdings Ltd., (the holding company for R&D studios.), SEGA SAMMY INVESTMENT INC., and other company as consolidated subsidiaries.

(Note 2) See Consolidated companies listed in stock market
SEGA TOYS, Ltd. (JASDAQ)
Sammy Networks Co., Ltd. (The Mothers market of the Tokyo Stock Exchange)
Nissho Inter Life Co., Ltd. (JASDAQ)
TMS ENTERTAINMENT LTD. (Second Section of the Nagoya Stock Exchange)

2. Management Policies

(1) Basic management policies

SEGA CORPORATION and Sammy Corporation on October 1, 2004 integrated their operations for the purpose of building an even more powerful base as a comprehensive global entertainment organization. Combining the resources of the two companies, a holding company called SEGA SAMMY HOLDINGS was established with the aim of maximizing corporate value. The fiscal year ending March 31, 2006 is the second year since the two companies made a new start as the SEGA SAMMY Group.

The core business domain of the SEGA SAMMY Group is the comprehensive entertainment business, comprising pachislot and pachinko machines, amusement machine sales, amusement center operations, and the consumer business.

Within this sphere, the Group targets markets worldwide in the quest to maximize and cross-fertilize its entertainment content and resources, ultimately aiming to promote business operations that target every age group. Moreover, the SEGA SAMMY Group is enhancing its presence in every applicable business field in a drive to become the world's leading name in comprehensive entertainment. To this end, the Group is committed to winning the trust and meeting the expectations of its stakeholders.

(2) Basic policy concerning distribution of earnings

SEGA SAMMY HOLDINGS gives priority to returning earnings to shareholders. The Company's basic policy is to pay an appropriate dividend that is commensurate with earnings.

The Company had previously forecast annual dividends of ¥80 per share for the fiscal year ending March 31, 2006 (2nd Business Term), including an interim dividend of ¥40 per share. This dividend forecast was announced on May 24, 2005 with earnings forecasts for the fiscal year ending March 31, 2006. However, in light of steady growth in operating results, on June 16, 2005 SEGA SAMMY HOLDINGS announced that it would increase its dividend forecast for the fiscal year ending March 31, 2006 to ¥100 per share, including an interim dividend of ¥50 per share.

More recently, on August 31, 2005, the Company announced its decision to increase the year-end dividend to ¥30 per share, following a two-for-one stock split to be conducted on September 30, 2005 as the date of record. This move was aimed at more actively returning earnings to shareholders. Based on the number of issued shares prior to the stock split, this represents an increase in the dividend of ¥10 per share. Compared with the initial dividend forecast, this is equivalent to an increase of ¥30 per share. There is no change to the interim dividend of ¥50 per share for the fiscal year ending March 31, 2006, announced on June 16, 2005.

SEGA SAMMY HOLDINGS' policy is to effectively use retained earnings to boost its financial position and operating base as well as for investments in line with business expansion, the establishment of new subsidiaries, and M&As.

(3) Approach, Policies and Other Issues Concerning Reduction in the Trading Unit

SEGA SAMMY HOLDINGS believes that reducing the trading unit of its shares is an effective means of widening the individual shareholder base and enhancing the liquidity of its shares. With the integration of SEGA and Sammy in October 2004, both companies were delisted prior to the establishment and listing of their parent company, SEGA SAMMY HOLDINGS. The trading unit was subsequently decided as 100 shares. The Company also conducted a two-for-one stock split on September 30, 2005 as the date of record. These and other actions have created conditions that make it easier for individuals to invest in SEGA SAMMY HOLDINGS.

The Company will continue to regularly examine further reductions in the trading unit, fully taking into account factors such as costs and benefits, while carefully monitoring trends in operating results and market developments.

(4) Medium- to Long-term Strategies and Other Issues

The SEGA SAMMY Group is engaged in a diverse array of entertainment businesses, ranging from pachislot and pachinko machines to commercial amusement machines, amusement center management, and home video game software, as well as online games and services for mobile handsets. Operations also extend to toys and animation. Positioning these fields as core businesses, the Company's medium- to long-term strategies are focused on ensuring that it remains competitive in all these businesses in markets worldwide, while further expanding into fields peripheral to core businesses independently or through M&As and other means. The ultimate goal of these strategies is to make the SEGA SAMMY Group a powerful entertainment company.

(5) Issues to be Addressed

In the pachislot and pachinko machine business, the SEGA SAMMY Group will effectively launch products that earn high marks from the market for their unparalleled appeal. The success of "Hokuto No Ken" in the previous fiscal year, the biggest hit ever in the pachislot industry, is clear proof of this capability. Furthermore, by leveraging the video enhancement technologies and prime game content developed by SEGA, the SEGA SAMMY Group will exert its competitive advantages in the market for machines based on new standards following regulatory revisions, and cement its position as a leading company.

In the pachinko machine business, regulatory revisions have enabled the Group to develop models in new genres. Viewing the new regulations as an opportunity to capture further market share, the SEGA SAMMY Group will reinforce its product development capabilities, while actively introducing new products incorporating groundbreaking concepts. The goal is to capture one of the top market shares in the pachinko machine industry as quickly as possible.

In addition, the SEGA SAMMY Group will work to provide a "total pachinko parlor production service." This will be accomplished by drawing on the Group's collective strengths to continue to diversify into new businesses that support pachinko parlor operators. These businesses extend beyond the supply of pachislot and pachinko machines to include peripheral equipment, such as pachinko ball and token dispensing machines, pachinko parlor computers and prize-related POS systems, as well as the provision of pachinko parlor design services, such as the planning, design and construction of pachinko parlors, and prize-related businesses.

In the amusement machine sales business in Japan, the SEGA SAMMY Group will work to increase installations while enhancing profitability. This will be attained by taking steps to attract customers in wider age segments by offering a product lineup ranging from network-enabled high-value-added products to family-oriented machines. For overseas markets, the goal is to improve the ratio of overseas sales to total sales by incorporating customer needs that differ by nation and region into product development.

In the amusement center operations business in Japan, the SEGA SAMMY Group is taking a scrap-and-build approach to enhancing the profitability of existing amusement centers. Strategic priorities will be to continue efforts to further develop the business model SEGA SAMMY has established for children's card games through the success of "MUSHIKING: The King of Beetles," in addition to opening up new markets. In terms of entering overseas markets, besides taking the lead in opening up and nurturing markets in each region, the SEGA SAMMY Group will closely coordinate the activities of its amusement center operation and amusement machine sales businesses so that it accurately understands and shares information internally on local needs to capture synergies and achieve growth. This is an important strategic priority for both businesses.

In the consumer business, the home videogame software market will see the emergence of next-generation game consoles trigger a shakeout of game developers without sufficient development expertise and financing capabilities, as well as other developments, drawing a sharp line between winners and losers in this market. Against this backdrop, in Japan's maturing home videogame software market, the SEGA SAMMY Group will take actions that emphasize profitability based on a stronger organizational structure and profit base. In overseas markets, local product development will be essential to accurately responding to needs specific to each market. Meanwhile, industry realignment is expected to proceed further. Viewing this as an opportunity, the Group will continue to put in place a robust product development structure.

In the online game market, the SEGA SAMMY Group will make inroads into China and other new growth markets, with the aim of converting these regions into key pillars of operations over the medium and long terms. Plans call for making initial investments to develop businesses in these markets, with the initial focus on establishing local

operating bases. Efforts will be made to further strengthen content for mobile phones, toys, video and other businesses, mainly at publicly listed subsidiaries.

<TOKYO JOYPOLIS Accident>

Following a fatal accident in which a customer fell from an attraction on April 18, 2005 at its TOKYO JOYPOLIS amusement center, SEGA CORPORATION, a Group company, has been conducting comprehensive safety inspections involving external experts, while taking actions to prevent any recurrence and implementing additional safety measures. Following these steps, operations were resumed at TOKYO JOYPOLIS on August 10, 2005.

The SEGA SAMMY Group wishes to once again express its deepest condolences and sympathies to the family of the deceased. As operations resume at TOKYO JOYPOLIS, the Group wishes to use this opportunity to express its gratitude to customers and business partners for their understanding and cooperation.

Looking ahead, every effort will be made to create amusement centers that customers can enjoy with peace of mind.

(6) Basic Approach to Corporate Governance and Progress on Related Measures

(Basic approach to corporate governance)

The SEGA SAMMY Group regards the fortification of corporate governance as one of its highest management priorities with respect to raising corporate value. Guided by the following basic policies of enhancing efficiency, securing a sound corporate organization, and enhancing transparency, the Group will ensure compliance with all laws and regulations and tackle various management issues.

Enhancing efficiency

The SEGA SAMMY Group will maximize corporate value and Group performance by establishing fast, appropriate decision-making processes and by increasing the efficiency of corporate actions. The Group intends to return the benefits gained from those efforts to shareholders and other stakeholders.

Securing a sound corporate organization

Amid volatile business conditions, the Group will facilitate the maximization of corporate value by undertaking risk management based on a full awareness of the range of risks that the Group faces. At the same time, the Group intends to ensure the soundness of its corporate organization through the reinforcement of compliance systems focused on adherence to ethical and social norms, as well as laws and statutory regulations.

Enhancing transparency

In light of the growing importance of disclosure among corporations, the Group will increase management transparency by fulfilling its responsibility to explain corporate actions to shareholders and other stakeholders and by improving disclosure through an active IR program.

(Progress on measures related to corporate governance)

The Company has adopted and upgraded its executive officer system, alongside its Board of Directors and Board of Corporate Auditors, to invigorate and speed up management. To take the fullest advantage of that system, we are building the following management implementation system:

① Management organization related to management decision-making, business execution, and monitoring and other corporate governance systems

(a) Adoption of a committee system or an auditor system and the appointment of outside directors and auditors

The Company has adopted an auditor system. The Company's four corporate auditors are all outside corporate auditors and none of them have a vested interest in the Company. The Company has not appointed any outside directors.

(b) Overview of corporate bodies

(i) Board of Directors

The Board of Directors, consisting of seven members as of September 30, 2005, holds regularly monthly meetings and extraordinary sessions as necessary to manage the Company responsively. The Company's Board of Directors and other bodies undertake decision-making and reporting on certain significant management issues facing Group companies.

(ii) Board of Corporate Auditors

Comprising four corporate auditors as of September 30, 2005, the Board of Corporate Auditors holds regular monthly meetings and extraordinary sessions as necessary. The body deliberates various Company issues and thoroughly analyzes specific issues.

(iii) Group Officer Liaison Committee

Effective from the second fiscal half, this committee has been established to build a Groupwide consensus on issues submitted by the Board of Directors through rigorous debate and to increase the efficiency of the former Group Management Council's activities. This council had convened monthly until the first fiscal half to conduct prior deliberations on issues submitted by the Board of Directors and to promote in-house information sharing. The Group Officer Liaison Committee consists of all directors of the Company with positions of vice president or below, corporate auditors, executive officers, as well as the directors of SEGA and Sammy. The committee meets monthly in conjunction with regular meetings of the Board of Directors, and holds extraordinary sessions as required by corresponding sessions of the Board of Directors. In line with this change, the Corporate Officer Liaison Committee (meeting twice monthly) was abolished effective from the second fiscal half.

(iv) Advisory Committee

The advisory committee was established on June 20, 2005 to strengthen corporate governance functions related to management at the Group level. Comprising five external experts, the committee meets once a month.

(v) Group Audit Committee

Chaired by the Company's Chairman and CEO, the Group Audit Committee comprises directors, auditors, and executive officers responsible for corporate operations from the Company, SEGA and Sammy. The committee convenes approximately once every three months and receives reports on the progress and results of the Audit Office's audits of management divisions.

(vi) SEGA SAMMY HOLDINGS Audit Liaison Committee

This committee mainly consists of the independent auditors, corporate auditors, and directors responsible for Group companies from the Company, SEGA and Sammy. At monthly meetings, those members exchange opinions from their respective standpoints and seek to enhance accounting compliance.

(vii) Group Audit Liaison Committee

This committee, consisting of standing corporate auditors from Group companies, was formed to facilitate communication between corporate auditors at Group companies, exchange information, and foster a shared understanding of various issues. Meetings are held approximately once or twice a year to discuss a variety of current themes.

(viii) Auditor and Audit Office Liaison Committee

Standing corporate auditors from the Company, SEGA, and Sammy and members of the Company's Audit Office meet every month.

(c) Management Implementation and Oversight Systems

The Company has put in place an executive officer system to expedite management processes, as well as clarify authority and responsibility. An Audit Office, comprising ten members, has been established as an internal audit division to implement internal audits of all Group companies.

(d) Implementation of Internal Control System

The Company believes that the following elements are essential to an appropriate internal control system: a sound internal control environment, seamless internal communication, as well as separate control and monitoring functions within operating divisions and monitoring functions independent of operating divisions.

The Company has been taking a number of steps to enhance corporate governance, including the establishment of an Advisory Committee. At the same time, the CSR Promotion Department is taking the lead in formulating a Group Management Philosophy, Group CSR Charter, and Group Code of Conduct and other guidelines that will become key elements of compliance and internal control systems.

(e) Implementation of Risk Management System

The Company and the SEGA SAMMY Group broadly define risk as “uncertainty inherent in events” and risk management as “the process of properly managing internal and external business-related risks so that companies can sustain and increase corporate value.” The risks affecting corporate business activities can be classified into risks associated with business opportunities and those associated with business execution. From the period before their integration, the SEGA Group and Sammy Group have both been implementing risk management in these two categories and have revised their risk management systems as necessary. Looking ahead, the SEGA SAMMY Group will continue to examine risk management, including the feasibility of integrating risk management systems that conform to existing management system standards. However, the immediate priority from the second half of the current fiscal year (2nd Business Term) will be to examine ways to design and construct risk management and internal control systems in response to the enforcement of the new Japanese Corporation Law and Japanese-version of the U.S. Sarbanes-Oxley Act, and to implement these systems Groupwide.

(f) Lawyers, Independent Auditors and Other Third Parties

Since its establishment on October 1, 2004, SEGA SAMMY HOLDINGS has retained an independent auditor pursuant to Japan’s Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-Gaisha (Joint-stock corporations) and the Securities Exchange Law. The Company’s independent auditor is KPMG AZSA & Co. There are no conflicts of interest between the Company and its independent auditor or its engagement partners. None of the independent auditor’s engagement partners have audited the Company for more than seven years.

The names of the certified public accountants (CPAs) who performed the independent audit in the first fiscal half and the number of assistants involved in audit operations during the same period were as follows:

Names of CPAs who performed the independent audit:		
Designated partners	Engagement partners	Yuichi Yamada Eiji Mizutani
Number of assistants involved in audit operations:		
CPAs: 6	Junior CPAs: 6	Others: 2

In addition to the above, the Company obtains advice from outside experts, including lawyers, on matters related to corporate management and daily operations, as necessary.

② Conflicts of interest (personal, financial, or business, etc.) between the Company and its outside directors and corporate auditors

The Company currently has no outside directors. There are no transactions or conflicts of interest between with the Company or the Group and its four outside corporate auditors, including transactions or conflicts of interest pertaining to relatives of the corporate auditors or companies with whom they are affiliated.

③ Progress on Measures to Enhance Corporate Governance During the Most Recent Year

Following its establishment on October 1, 2004, the Company has sought to enhance the existing internal control functions of wholly owned subsidiaries SEGA and Sammy, including implementing the following measures in the first half of the fiscal year under review.

(a) Convened meetings of various organizations

Consisting of seven directors as of September 30, 2005, the Board of Directors met 15 times in the first fiscal half. These individuals also serve as the directors of SEGA and Sammy and other Group companies, performing mutual supervision and checking, sharing information and working to maximize synergies.

In the first fiscal half, meetings were convened with the following frequencies: the Board of Corporate Auditors, seven times; the former Group Management Council, seven times; the former Corporate Officer Liaison Committee, 12 times, the Advisory Committee, four times; the Group Audit Committee, twice; the SEGA SAMMY HOLDINGS Audit Liaison Committee, six times; and the Auditor and Audit Office Liaison Committee, six times.

(b) Enhanced strength and efficiency of internal audit functions

In order to rapidly establish a Group internal auditing system, and to ensure the effective implementation of audits, the Group concentrated the audit functions of the Company, SEGA and Sammy at the Company.

The Company maintains strong three-way cooperation among the corporate auditors, Audit Office, and independent auditor to implement appropriate, efficient audits.

(c) Implemented measures for protecting personal information

Group companies undertook organizational, personnel-related, infrastructural, and technical initiatives to further protect personal information. Group companies with business activities or markets that are particularly sensitive to privacy issues are applying for privacy marks.

(d) Examined the creation of organizations to promote corporate governance systems

In line with efforts to maximize corporate value, the Company examined the feasibility of creating a specialized department to analyze and investigate issues that could potentially impact or conflict with the interests of its broad base of stakeholders. This led to the establishment of the CSR Promotion Department at SEGA SAMMY HOLDINGS on April 1, 2005.

Furthermore, a project was initiated to reinforce the internal control system. The Company also established an Advisory Committee on June 20, 2005.

(7) Parent Companies Issues

There is no matter that should be described to this item because our company doesn't have the parent company.

(8) Other Key Management Issues

The following lawsuits have been filed against subsidiary Sammy Corporation in relation to the manufacture and sale of pachislot machines, claiming infringement of third-party patents and other rights.

In each case, Sammy believed that none of the cases under litigation constitute an infringement of any patent rights and has defended its position in court. As of October 26, 2005, final verdicts for all patent infringement lawsuits had been reached.

① Claim for damages of ¥10,066 million by Aruze Corp.

On March 19, 2002, the Tokyo District Court ordered Sammy Corporation to pay ¥7,416 million to Aruze. In response, Sammy filed an appeal on the same day. On October 12, 2005, the Intellectual Property High Court invalidated the previous verdict against Sammy and dismissed Aruze's claim. Subsequently, the Intellectual Property High Court's verdict became final after the appeal period expired on October 26, 2005.

② Claim for damages of ¥1,430 million by Aruze Corp.

The claim was filed at the Tokyo District Court on March 26, 2001. On August 30, 2005, the Tokyo District Court dismissed Aruze's claim. Subsequently, the Tokyo District Court's verdict became final after the appeal period expired on September 16, 2005.

③ Claim for damages of ¥5,145 million by Aruze Corp.

The claim was filed at the Tokyo District Court on May 31, 2002. On August 30, 2005, the Tokyo District Court dismissed Aruze's claim. Subsequently, the Tokyo District Court's verdict became final after the appeal period expired on September 16, 2005.

The patent right in question in the above case ① was the same as the one in case ②. The Japan Patent Office judged that the patent right was invalid and a document of invalidation judgment was published as of December 25, 2002. In response, Aruze filed a claim with the Tokyo High Court on January 27, 2003, insisting that the judgment be revoked. However, the Tokyo High Court dismissed Aruze's claim on February 21, 2005. Dissatisfied with the Tokyo High Court's verdict, Aruze submitted an appeal to the Supreme Court on March 7, 2005. The Supreme Court dismissed the claim on July 14, 2005 and a final verdict on invalidating this patent was reached.

In the above case ③, the Japan Patent Office also judged that the patent right in question was invalid and a document of invalidation judgment was published as of November 17, 2003. In response, Aruze filed a claim with the Tokyo High Court on December 25, 2003, insisting that the judgment be revoked. However, the Tokyo High Court dismissed Aruze's claim on February 15, 2005. Dissatisfied with the Tokyo High Court's verdict, Aruze submitted an appeal to the Supreme Court on March 1, 2005. The Supreme Court dismissed the claim on July 7, 2005 and a final verdict on

invalidating this patent was reached.

As a result of the foregoing, the series of lawsuits brought against Sammy by Aruze were closed, with all lawsuits decided in favor of the Company.

In addition, the following lawsuits have been filed against subsidiary SEGA CORPORATION and its group companies in relation to their business activities.

① Claim for damages for violation of fiduciary duty (United States)

Conseco Health Insurance Company, a preferred stockholder of SEGA GAMEWORKS, L.L.C., an affiliated company of SEGA SAMMY HOLDINGS INC., filed a lawsuit with the High Court of California on March 12, 2004 requesting payment of more than US\$10 million for alleged damages resulting from SEGA GAMEWORKS, L.L.C. not respecting its rights as a shareholder. The defendants are SEGA Enterprises, Inc. (U.S.A.), which is a direct shareholder of SEGA GAMEWORKS, L.L.C., and three directors of SEGA GAMEWORKS L.L.C. originally from SEGA CORPORATION. The case went to trial in the above court, with AC SGW Holdings LLC replacing Conseco Health Insurance Corporation as the plaintiff in the case. However, on October 25, 2005, the case was closed after the plaintiff and defendant reached an out-of-court settlement of US\$425,000.

② Patent infringement lawsuit (United States)

SEGA of America, Inc., a SEGA Group company, and 12 other game software publishers were named as defendants in a lawsuit filed by American Video Graphics, L.P. on August 23, 2004 with the U.S. District Court in Texas. The allegation of American Video Graphics was that SEGA of America used the former's patented imaging technology without permission in the Nintendo Gamecube version of "Super Monkey Ball 2," a home videogame software product of SEGA CORPORATION. The case went to trial at the above court, but was brought to a close through an out-of-court settlement of US\$110,000 on September 21, 2005.

3. Operating Results and Financial Position

(1) Overview

During the first half of the fiscal year ending March 31, 2006, Japan's economy continued to face concerns over the impact of a series of major natural disasters, soaring crude oil prices and other issues. However, the nation's economy has continued to improve, led by the corporate and household sectors, prompting the Japanese government to announce that the nation's economy had almost emerged on the path to recovery.

In this environment, the pachislot and pachinko industry continued to see increasing moves by machine manufacturers to develop models that conform to new regulations enacted roughly one year ago when regulations pertaining to the law in Japan governing gaming machines were revised.

In the amusement machine sales industry, there has been an increase in large-scale videogame machines that adopt card systems, and further improvement in network-enabled game machines as more sophisticated infrastructure becomes available. In addition, family-oriented machines, such as prize crane machines, have been gaining ground.

In the amusement center operations industry, one notable trend has been the opening of multi-purpose amusement centers and larger facilities. There has also been a continued increase in facilities inside shopping centers that attract large numbers of customers. Serving as family-oriented community spaces, amusement centers are becoming increasingly popular among people in wider age segments. During the period under review, the primary source of growth was games for children that use cards and allow head-to-head game play.

In the home videogame software industry, as industry realignment triggered by the merger of major companies and other developments proceed apace, videogames for new portable game consoles launched at the end of 2004 are proving extremely popular. This has been followed by a series of announcements of next-generation home videogame consoles with functions that will revolutionize traditional videogame consoles. These and other developments have triggered fierce competition to develop new products targeting further growth in the market. While the emergence of these next-generation videogame consoles is expected to drive demand higher in the software industry, more advanced requirements in terms of hardware specifications are expected to increase R&D-related cost outlays. This is expected to further highlight differences between companies in terms of product development capabilities.

In this business environment, the fiscal year ending March 31, 2006 is the second year since SEGA and Sammy merged to form the SEGA SAMMY Group. Continuing on from the previous fiscal year, the Group has implemented the following business reorganization measures:

<Business Reorganization in the First Half of the Fiscal Year Ending March 31, 2006>

- ① On April 1, 2005, SEGA CORPORATION absorbed certain operations spun off from Sammy Corporation through a corporate separation. This step was taken to allow Sammy to specialize in the pachislot, pachinko and peripheral equipment businesses. This was accomplished by concentrating the Group's overlapping operations, such as Sammy's amusement machine sales and home videogame software business, at SEGA.
- ② On April 1, 2005, SEGA CORPORATION, Sega Amusement Co., Ltd., a subsidiary of SEGA, and Sammy Amusement Service Co., Ltd. merged to integrate the functions of the amusement center operations business, which were previously dispersed throughout the Group, and more closely coordinate the amusement machine sales and amusement center operations business.
- ③ On September 1, 2005, SEGA AMUSEMENTS U.S.A. Inc. (SAU) and Sammy USA Corporation (SUSA) merged to rationalize and raise the efficiency of commercial amusement machine development, manufacturing, and sales in North America.

On the side of business result, the SEGA SAMMY Group posted a steady overall performance. This was supported by record unit sales of the "CR Hokuto No Ken" pachinko machine by SAMMY Corporation, robust sales of "Star Horse 2 NEW GENERATION," a large-scale game machine supplied by the amusement machine sales business, and continued brisk sales of trading cards, including cards for "MUSHIKING: The King of Beetles" in the amusement center operations business.

As a result, consolidated net sales totaled ¥248,563 million, operating income was ¥49,894 million and net income was ¥24,954 million.

Results by business segment were as follows.

《Pachislot and Pachinko Machines》

In the pachislot machine business, the Group recorded steady growth in sales of “Onimusha 3,” which was launched in the previous fiscal year under the RODEO brand. Sales of this model reached 51 thousand units, or cumulative sales of 120 thousand units from the previous fiscal year. In addition, “Pachislot Umimonogatari,” developed and manufactured by Sammy based on Sanyo Bussan Co. Ltd.’s “Umimonogatari” pachinko series and sold by Sanyo Sales Co., Ltd., recorded sales of 63 thousand units. The Group also sold 57 thousand units of “Ultraman Club ST,” the successor to “Ultraman Club 3,” a hugely popular product released in 1998. As a result, total pachislot machine sales were 255 thousand units.

In the pachinko machine business, the Group sold 178 thousand units of “CR Hokuto No Ken,” which made it Sammy’s best-selling pachinko machine in terms of units sold, repeating the success of its predecessor, “Hokuto No Ken.” “CR Hokuto No Ken” retains almost all of the game playing features of its predecessor, which became the pachislot industry’s best-ever hit product in the previous fiscal year. As a result, total pachinko machine sales were 223 thousand units, making a significant contribution to Group-wide operating results.

In the pachinko ball and token dispensing machine and other peripheral businesses, as well as the pachinko parlor design business, the Group continued to focus on building a stronger operating base. Steps were taken to bolster marketing capabilities, including increasing sales locations. In a move to enhance product development capabilities, the Group also acquired H-I System Corporation to make it a subsidiary. This company is engaged in businesses related to pachinko parlor computers and POS systems for prize items.

Due to the above items, net sales in this segment totaled ¥129,849 million and operating income was ¥46,408 million.

Main Pachislot Machines and Units sold

Variety	Units sold (: Thousand)
Pachislot Umimonogatari	63
Ultraman Club ST	57
Onimusha 3	51
Unit supply	75
Others	7
Total	255

Main Pachinko Machines and Unit Sold

Variety	Units sold (: Thousand)
CR-Hokuto No Ken series	178
CR-ChoroQ series	29
CR-Azumi series	9
CR-Premium Dynamite series	6
Total	223

《Amusement machine sales》

In the amusement machine sales business, although sales of prize games, including “UFO Catcher,” experienced a cyclic downturn in Japan, overall performance was strong thanks to brisk sales of high-value-added products. These included “Sangokushi Taisen,” a network-enabled trading card game launched in the previous fiscal year that remained popular, and “Star Horse 2 NEW GENERATION” (winner of the Fiscal 2005 Good Design Award), the latest in the Star Horse series, featuring significant upgrades to a broad spectrum of game features.

As a result, net sales in this segment were ¥30,835 million and operating income was ¥4,512 million.

《Amusement center operations》

In the amusement center operations business, “MUSHIKING: the King of Beetles” saw steady increases in installations and card sales underpinned by its unparalleled popularity. “Oshare Majo Love and Berry,” which created a new genre for girl gamers, enjoyed a further boost in popularity. The success of special card game events held in various regions, mainly during the extended golden-week holiday in May and the summer vacation period, also made a strong contribution to operating results.

During the first half of the fiscal year ending March 31, 2006, 6 new amusement centers were opened in Japan, including “Festival Walk Soga,” while 32 locations were closed, resulting in a total of 451 locations at September 30, 2005.

As a result, net sales in this segment were ¥48,559 million, and operating income was ¥4,333 million.

《Consumer Business》

In the consumer business, videogame software sales during the fiscal first half totaled 1,540 thousand copies in Japan and Asia, 1,010 thousand copies in the U.S. and 1,930 thousand copies in Europe. These sales were underpinned by better-than-forecast record sales of “The King of Beetle MUSHIKING: Road to Greatest Champion” for Game Boy Advance. Another strong seller was “Sakura Taisen V: Saraba Itoshiki Hito yo,” the latest addition to the “Sakura Taisen” series of adventure games, which has posted cumulative sales of 3.5 million copies since its debut in 1996. The latest title in the “Tsukuro!” series”, “Pro Yakyu Team wo Tsukuro! 3” was also launched.

The SEGA SAMMY Group also performed well in the toy and mobile phone content fields. As a result, the consumer business posted net sales of ¥28,593 million. However, the segment recorded an operating loss of ¥4,332 million as sales were unable to offset higher R&D expenditures and other upfront costs required mainly to develop videogames for next-generation videogame consoles.

《Others》

This segment covers planning, design, management, construction, KARAOKE business, and other services involving commercial and other facilities. Segment sales totaled ¥10,724 million, and operating losses was ¥430 million.

(2) Financial Position

Operating activities provided net cash of ¥22,117 million. This mainly reflected income before income taxes and minority interests of ¥49,647 million, which was partially offset by income taxes paid of ¥27,792 million.

Investing activities used net cash of ¥26,780 million. The main uses of cash were for the purchase of tangible fixed assets related to the amusement center operations business and payment for the acquisition of shares of affiliated companies.

Financing activities used net cash of ¥9,778 million, mainly for the payment of dividends.

Due to the above items, cash and cash equivalents as of September 30, 2005 were ¥137,871 million, a decrease of ¥13,381 million from the beginning of the fiscal year.

(3) Outlook for the March 2006 Fiscal Year

The pachislot and pachinko industry saw steady growth in shipments of pachinko machines compatible with revised gaming machine regulations in the first fiscal half. This trend is likely to continue during the rest of the fiscal year, as demand for pachinko machines compatible with new industry standards remains at a high level. Meanwhile, only a few new pachislot models compatible with the revised regulations were launched in the first fiscal half due to delays in obtaining regulatory approval. However, in the second fiscal half, pachislot manufacturers are expected to launch a steady stream of new models compatible with the new industry standards.

In the amusement machine sales and amusement center operations sectors, performance is projected to remain robust thanks to increases in the number of amusement centers in multipurpose commercial facilities and stand-alone locations, in addition to growth in existing markets.

In the consumer business in Japan, the uptake of portable game consoles launched in the previous fiscal year, the emergence of next-generation game hardware slated for launch in the second fiscal half and other factors are projected to revitalize the market. In the North American and European markets, robust demand for game software is also expected.

In this business environment, the SEGA SAMMY Group, in its pachinko and pachislot business, is seeking to launch highly distinctive pachislot machines by leveraging its advanced capabilities in planning and visual expression. Based on this approach, the Group is targeting unit sales of over 580 thousand pachislot machines for the full fiscal year. In pachinko machines, through the active development and launch of strategic products, the Group aims to sell more than 430 thousand units for the full fiscal year. In addition to pachislot and pachinko machines, the Group will focus on strengthening related businesses such as peripheral equipment and pachinko parlor design operations, with the aim of recasting itself as a full-service pachinko parlor producer.

In the amusement machine sales business, armed with a more expansive lineup of products following the integration of SEGA and Sammy, the Group will supply various products that respond to diversifying market needs.

In the amusement center operations business, the Group will work to maintain its strong performance by opening new amusement centers, including centers specifically developed for multipurpose commercial facilities, in addition to renovating centers to reinvigorate existing operations. Building on the successes of “MUSHIKING: the King of Beetles” and “Oshare Majo Love and Berry,” the Group will launch “DINOSAUR KING” to reinforce its children’s card game business.

In the consumer business, the Group will rigorously manage each title project in terms of schedule, cost, quality and other aspects. The Group is projecting total sales of software for the full fiscal year of over 15 million copies, with sales of over 4.7 million copies in Japan and the rest of Asia, and sales of more than 4.7 million copies and 5.6 million copies in the U.S. and Europe, respectively. Furthermore, by taking maximum advantage of Group content and through other actions, the Group is determined to strengthen its mobile phone content and toy businesses.

In light of the foregoing, for the fiscal year ending March 31, 2006, the Group is projecting consolidated net sales of ¥567.0 billion, an increase of 10.0% year on year, operating income of ¥100.0 billion, a decrease of 4.2%, and net income of ¥56.0 billion, an increase of 10.7%.

The Company is currently reviewing its consolidated and non-consolidated projections for the full year given that its performance is ahead of the full-year business plan. However, because the strong sales of the aforementioned products are an unknown quantity, it is difficult to incorporate them completely in projections. Accordingly, the Company will make a further announcement on its full-year projections when incorporation is possible.

[Caution with Regard to Operating Results Outlook]

Statements in this report pertaining to market projections and the outlook for operating results reflect the assumptions and judgment of the Company’s management based on the most accurate information available at the time of release. Such statements carry an inherent amount of risk and uncertainty. Factors that may affect operating results include, but are not limited to, those discussed in the projections and outlook. Readers are cautioned that changes in a variety of factors could cause actual results to differ substantially from the aforementioned projections and outlook.

(4) Operational Risk Information

Risks that could affect the performance or operations of the SEGA SAMMY Group are given below. Further, the following is 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 September 30, 2005.

(a) Statutory Regulations Affecting the Pachislot and Pachinko Businesses

Among the Group's mainstay operations, the Pachislot and Pachinko Businesses account for a significant portion of net sales and income. In particular, that 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 National 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 gambling 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.

(b) Product Lifecycles

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 videogame software is susceptible to changes in seasonal demand, which focuses on such periods as the run up to Christmas and New Year. 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 components 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.

(c) Consumer Business

Breaking down operating income and operating loss by segment, the Consumer Business and Other Businesses segments recorded operating losses in the first half of fiscal 2006. In particular, the Group regards the Consumer Business as an important segment because its market will likely expand due to the emergence of next-generation hardware. The Group aims to make that segment profitable by implementing effective cost control based on the combining of technology development capabilities through business combination and the reduction and concentration of software titles under development. However, the Consumer Business could continue to record operating losses because it necessarily incurs substantial R&D expenses and advertising costs prior to marketing.

(d) Entry into Overseas Markets

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

(e) Adoption of Asset-impairment Accounting

Effective from the first half of fiscal 2006, the SEGA SAMMY Group has adopted asset-impairment accounting standards. Depending on the performance of each of its businesses, the Group may book impairment losses as a result of the application of these accounting standards.

(f) 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.

(g) 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 rights.

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2005 AND MARCH 31, 2005

(Unit : Millions of Yen)

	Current period (As of September 30, 2005)		Prior year (As of March 31, 2005)	
	Amount	Percentage	Amount	Percentage
(A s s e t s)		%		%
I Current Assets				
Cash and deposits	138,401		152,277	
Notes and accounts receivable - trade	87,982		76,922	
Allowance for doubtful accounts - current	(1,086)		(1,891)	
Securities	499		—	
Inventories	29,314		32,001	
Others	39,578		23,151	
Total current assets	294,690	63.8	282,461	64.3
II Fixed assets				
Tangible fixed assets				
Buildings and structures	29,333		27,556	
Others	49,510		45,631	
Total tangible fixed assets	78,843	17.1	73,187	16.7
Intangible fixed assets				
Goodwill	5,567		3,404	
Others	7,493		6,636	
Total intangible fixed assets	13,060	2.8	10,040	2.3
Investments and other assets				
Investment securities	45,441		43,775	
Others	38,287		39,069	
Allowance for doubtful accounts non - current	(8,578)		(9,544)	
Total investments and other assets	75,151	16.3	73,300	16.7
Total fixed assets	167,055	36.2	156,529	35.7
Total assets	461,746	100.0	438,991	100.0

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2005 AND MARCH 31, 2005

(Unit : Millions of Yen)

	Current period (As of September 30, 2005)		Prior year (As of March 31, 2005)	
	Amount	Percentage	Amount	Percentage
(Liabilities)				%
I Current liabilities				
Notes and accounts payable - trade	57,088		57,139	
Short - term bank loans and current portion of long - term debt	8,480		10,023	
Income taxes payable	25,462		12,507	
Accrued employees' bonuses	1,677		1,722	
Others	29,684		28,874	
Total current liabilities	122,392	26.5	110,268	25.1
II Non-current liabilities				
Bonds payable	24,620		25,788	
Corporate bond with stock acquisition rights	2,132		5,322	
Long - term debt, less current portion	8,191		11,118	
Severance and retirement allowance	6,611		6,036	
Retirement benefits for directors and corporate auditors	1,115		1,162	
Others	9,248		11,837	
Total non - current liabilities	51,919	11.3	61,265	14.0
Total liabilities	174,312	37.8	171,533	39.1
Minority interest	11,715	2.5	8,503	1.9
(Shareholders' equity)				
Common stock	28,886	6.2	27,291	6.2
Capital surplus	170,000	36.8	176,302	40.2
Retained earnings	158,728	34.4	133,760	30.5
Adjustment on revaluation of Land	(6,541)	(1.4)	(6,541)	(1.5)
Net unrealized holding gains on securities	7,352	1.6	10,792	2.4
Foreign currency translation adjustments	(9,218)	(2.0)	(9,425)	(2.1)
	349,208	75.6	332,179	75.7
Treasury stock	(73,490)	(15.9)	(73,225)	(16.7)
Total shareholders' equity	275,718	59.7	258,954	59.0
Total liabilities and shareholders' equity	461,746	100.0	438,991	100.0

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME

FOR THE 6 MONTHS ENDED SEPTEMBER 30, 2005 AND YEAR ENDED MARCH 31, 2005

(Unit : Millions of Yen)

	Current period From April 1,2005 To September 30,2005		Prior year From April 1,2004 To March 31,2005	
	Amount	Percentage	Amount	Percentage
Net sales	248,563	100.0	515,668	100.0
Cost of sales	149,848	60.3	304,109	59.0
Gross profit	98,714	39.7	211,558	41.0
Selling, general and administrative expenses	48,820	19.6	106,469	20.6
Operating income	49,894	20.1	105,089	20.4
Other income (expenses) :				
Interest and dividend income	315		759	
Gain on change in equity of a subsidiary	1,049		2,251	
Reversal of allowance for doubtful receivables	505		1,325	
Interest expenses	(359)		(803)	
Loss on disposal of fixed assets	(495)		(907)	
Loss on sale of fixed assets	(38)		(768)	
Loss from revaluation of investment securities	(230)		(1,040)	
Loss of business reorganization	(312)		(2,944)	
Impairment losses	(198)		—	
Others	(481)		(13,479)	
Sub total	(247)	(0.1)	(15,607)	(3.0)
Income before income taxes and minority interest	49,647	20.0	89,482	17.4
Income taxes - current	27,115	10.9	32,437	6.3
- deferred	(3,019)	(1.2)	5,651	1.1
Total income taxes	24,096	9.7	38,089	7.4
Net income before minority interests	25,550	10.3	51,393	10.0
Minority interests	595	0.3	819	0.2
Net income	24,954	10.0	50,574	9.8

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
FOR THE 6 MONTHS ENDED SEPTEMBER 30, 2005 AND YEAR ENDED MARCH 31, 2005
(Unit : Millions of Yen)

	Current period From April 1,2005 To September 30,2005	Prior year From April 1,2004 To March 31,2005
	Amount	Amount
(Capital surplus)		
I Capital surplus at the beginning of period/year Beginning balance	176,302	154,340
II Increase		
1. Issuance of new stock	1,594	17,285
2. Issuance of new stock of wholly owned subsidiary before the stocks transfer	—	2,847
3. Gain on sale of treasury stock	1	3
4. Gain on sale of treasury stock of wholly owned subsidiary before the stocks transfer	—	1,826
III Decrease		
1. Dividends	(7,498)	—
2. Bonuses to directors and corporate auditors	(180)	—
3. Transfer of Capital surplus to Retained earnings	(220)	—
IV Capital surplus at the end of period/year	170,000	176,302
(Retained earnings)		
I Retained earnings at the beginning of period/year Beginning balance	133,760	101,837
II Increase		
1. Net income	24,954	50,574
2. Increase amount due to consolidation scope change	178	1,910
3. Reversal of adjustment on revaluation of Land	—	276
4. Transfer of Capital surplus to Retained earnings	220	—
III Decrease		
1. Dividends of wholly owned subsidiary before the stock transfer	—	(7,432)
2. Bonuses to directors and corporate auditors	(358)	(525)
3. Decrease amount due to consolidation scope change	(26)	—
4. Loss of disposal of treasury stock of wholly owned subsidiary before the stocks transfer	—	(10,355)
5. Loss on sale of treasury stock of wholly owned subsidiary before the stocks transfer	—	(2,524)
IV Retained earnings at the end of period/year	158,728	133,760

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE 6 MONTHS ENDED SEPTEMBER 30, 2005 AND YEAR ENDED MARCH 31, 2005

(Unit : Millions of Yen)

	Current period From April 1,2005 To September 30,2005	Prior year From April 1,2004 To March 31,2005
	Amount	Amount
Cash flows from operating activities:		
Income before income taxes and minority interests	49,647	89,482
Depreciation and amortization	8,714	17,674
Impairment losses	198	—
Amount of transfer of equipment by amusement center operation business	(3,122)	(4,981)
Interest and dividend income	(315)	(759)
Interest expenses	359	803
Amortization of goodwill	269	720
Gain on change in equity of a subsidiaries	(985)	(2,251)
Equity in losses (earnings) of affiliates	212	(25)
Loss on disposal/sales of fixed assets	526	1,354
Loss from revaluation of fixed assets	—	325
Loss (Gain) on sales of investment securities	(23)	373
Loss from revaluation of investment securities	230	1,040
Gain on investment in partnerships	(299)	(1,066)
Loss of business reorganization	312	2,944
Loss from redemption of bonds	—	10,606
Others	(2,301)	(4,769)
Changes in assets and liabilities:		
Decrease (Increase) in notes and accounts receivable	(10,787)	34,138
Decrease (Increase) in inventories	2,576	(3,947)
Decrease in notes and accounts payable	(458)	(12,091)
Sub-total	42,974	129,569
Receipt of interest and dividend income	485	718
Payment of interest expenses	(329)	(735)
Payment of income taxes	(27,792)	(51,791)
Refund of Deposit for lawsuit	5,000	—
Net cash provided by operating activities	22,117	77,762

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE 6 MONTHS ENDED SEPTEMBER 30, 2005 AND YEAR ENDED MARCH 31, 2005

(Unit : Millions of Yen)

	Current period From April 1,2005 To September 30,2005	Prior year From April 1,2004 To March 31,2005
	Amount	Amount
Cash flows from investing activities:		
Decrease (Increase) in time deposit – net	488	(3,500)
Payment for purchase of securities	(499)	–
Payment for purchase of tangible fixed assets	(11,355)	(24,416)
Proceeds from sales of tangible fixed assets	155	1,045
Payment for purchase of intangible fixed assets	(1,178)	(1,826)
Proceeds from sales of intangible fixed assets	15	1,828
Payment for acquisition of shares of affiliated companies	(4,820)	(2,234)
Proceeds from sales of shares of affiliated companies	15	–
Payment for purchase of investment securities	(1,369)	(2,897)
Proceeds from sales of investment securities	200	179
Payment for investment in partnerships	(3,696)	(2,060)
Proceeds from distribution of investment in partnerships	1,562	696
Payment for acquisition of consolidated subsidiaries – net	(1,825)	(2,677)
Proceeds from (Payment for) sales of consolidated subsidiaries – net	(144)	160
Decrease (Increase) in loans receivable – net	109	(1,789)
Lease deposits	(2,374)	(3,652)
Refund of deposits	1,110	2,265
Payment for acquisition of operation	(1,780)	–
Others	(1,392)	(738)
Net cash used in investing activities	(26,780)	(39,617)
Cash flows from financing activities:		
Decrease in short - term bank loans	(723)	(2,540)
Proceeds from issuance of long - term debt	1,019	1,707
Payment of long - term debt	(4,194)	(7,781)
Proceeds from issuance of bonds	194	193
Payment of redemption of bonds	(1,539)	(21,265)
Proceeds from issuance of stock to minority shareholders	3,341	4,956
Cash dividends paid	(7,498)	–
Cash dividends paid for minority shareholders	(99)	(81)
Cash dividends paid of wholly owned subsidiary before the stock transfer	–	(7,432)
Payment for purchase of treasury stock	(284)	(444)
Proceeds from exercise of stock acquisition rights of wholly owned subsidiary before the stock transfer	–	7,261
Others	4	(276)
Net cash used in financing activities	(9,778)	(25,702)
Effect of exchange rate changes on cash and cash equivalents	273	53
Net increase in cash and cash equivalents	(14,167)	12,495
Cash and cash equivalents at beginning of period/year	151,253	138,758
Net increase in cash and cash equivalents due to consolidation scope change	462	–
Net increase in cash and cash equivalents due to merger	323	–
Cash and cash equivalents at end of period/year	137,871	151,253

SEGMENT INFORMATION

A. Operations by product

Current period (From April 1, 2005 to September 30,2005)

(Unit: Millions of yen)

	Pachinko Pachislot	Amusement machine sales	Amusement center operations	C o n s u m e r b u s i n e s s	Others	Total	Corporate and eliminations	Consolidated
Net sales -								
(1) Outside customers	129,849	30,835	48,559	28,593	10,724	248,563	—	248,563
(2) Inter segment	288	1,586	1	212	605	2,693	(2,693)	—
Total	130,137	32,422	48,561	28,805	11,330	251,257	(2,693)	248,563
Cost and expenses	83,729	27,910	44,227	33,137	11,760	200,765	(2,096)	198,668
Operating income (loss)	46,408	4,512	4,333	(4,332)	(430)	50,491	(597)	49,894

(Note)

1. The Company has 5 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
 - (1) Pachinko and pachislot … Development, manufacture and sale of Pachinko and pachislot machines and design parlors
 - (2) Amusement machine sales … Development, manufacture and sale of game machines used in an amusement arcades
 - (3) Amusement center operations … Development, operation, rent and maintenance of Amusement center
 - (4) Consumer business … Development and sale of home video game software,
Development, manufacture, and sale of toys
Project and production of entertainment contents through cellular phone etc.
 - (5) Others … Planning, design, management and construction of commercial establishment, etc.
3. General corporate expenses of ¥ 2,492 million, which mainly consist of expenses incurred by the submitting company's group management, are included in "Corporate and eliminations."

Prior year (From April 1, 2004 to March 31,2005)

(Unit: Millions of yen)

	Pachinko Pachislot	Amusement machine sales	Amusement center operations	Consumer business	Others	Total	Corporate and eliminations	Consolidated
Net sales -								
(1) Outside customers	280,109	63,304	83,193	65,341	23,719	515,668	—	515,668
(2) Inter segment	32	16,535	125	115	746	17,555	(17,555)	—
Total	280,141	79,840	83,319	65,456	24,466	533,223	(17,555)	515,668
Cost and expenses	176,210	72,416	77,847	74,266	25,007	425,748	(15,169)	410,578
Operating income (loss)	103,930	7,423	5,472	(8,809)	(541)	107,475	(2,386)	105,089

(Note)

1. The Company has 5 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
 - (1) Pachinko and pachislot … Development, manufacture and sale of Pachinko and pachislot machines and design parlors
 - (2) Amusement machine sales … Development, manufacture and sale of game machines used in an amusement arcades
 - (3) Amusement center operations … Development, operation, rent and maintenance of Amusement center
 - (4) Consumer business … Development and sale of home video game software,
Development, manufacture, and sale of toys
Project and production of entertainment contents through cellular phone etc.
 - (5) Others … Planning, design, management and construction of commercial establishment, etc.
3. General corporate expenses of ¥ 2,181 million, which mainly consist of expenses incurred by the submitting company's group management, are included in "Corporate and eliminations."

B. Geographical segment information

Geographical segment information was not presented as the sales of the Company and its consolidated domestic subsidiaries for the 6 months ended September 30, 2005 and for the year ended March 31, 2005 exceed 90% of consolidated net sales.

C. Overseas sales

Overseas sales was not presented as the overseas sales of the Company and its consolidated subsidiaries for the 6 months ended September 30, 2005 and for the year ended March 31, 2005 were less than 10% of consolidated net sales.