SEGA SAMMY HOLDINGS

Business Report

Report and Reference for the Third Ordinary General Meeting of Shareholders

Contents

I am pleased to have this opportunity to report the performance of SEGA SAMMY HOLDINGS in the fiscal year ended March 31, 2007.

To Our Shareholders

Today finds SEGA SAMMY HOLDINGS both looking back on a disappointing year and looking forward into a year in which we will continue to face various challenges. While we take this particular point in time to pause and reflect, we are also a fluid and dynamic company that is constantly addressing market changes and internal operations and adapting as a market leader. The net sales of ¥528,238 million, ordinary income of ¥81,287 million and net income of ¥43,456 million we reported for fiscal year ending March 31, 2007 came amidst an environment where pachinko halls faced a difficult operating situation, a new generation of video game consoles were just beginning to take hold, and competition intensified in the kids card game business. We have every confidence, despite the volatility we are facing recently in some of our operating markets, that our core business segments are solid long term industries and that the measures we are implementing in response to such trends will lead us to further success going forward.

In the second half, we began to fundamentally reevaluate the development process in the pachinko business after it became clear to us that many of the pachinko machine titles we had been introducing to the market were not satisfactorily meeting the quality demands of the market. Additionally, sales in our domestic amusement center operations and in the overseas division of our amusement machine manufacturing business were trending below the level we had anticipated. These areas, as well as others where profitability or performance are not meeting expectations, are currently being evaluated and will be addressed as soon as prudently possible.

Other businesses, on the other hand, showed their resilience and ability to respond to changing market environments. The pachislot market began, albeit slowly, to see the long anticipated shift to new regulation machines. We believe that we are already differentiating ourselves even at this early stage of a new cycle, and that this ability is reflected in both the quality and level of sales of our products. In the same manner, we continue to deliver SEGA branded arcade machines which set themselves apart in terms of technology and user appeal, thereby becoming attractive value propositions to the operator market. The consumer business segment also showed continued strong top line growth in the period, delivering popular video game titles over a variety of platforms. We will make sure that these segments continue to have the resources needed to further the strength and reputation they enjoy.

We have announced plans for the fiscal year ending March 2008 which incorporate net sales of ¥670,000 million, ordinary income of ¥67,000 million and net income of ¥35,000 million. There are a number of temporary factors that have drawn us to implement this plan, particularly in the pachislot industry which is facing a major shift to new regulation machines. The heart of the shift will take place over the summer months, and the market will see a highly concentrated period of replacement from old to new regulation machines, resulting in significant but transient business challenges in the pachislot market overall. Sammy, as the leading manufacturer of pachislot machines, is responding to these industry-wide issues in a proactive manner to ensure the smoothest possible transition into a new cycle and ensure that the market is positioned to renew growth for the long term. Such efforts, including the introduction of limited time discounts and a new rental plan, are designed to provide support to the market as it shifts into the new cycle, and while we expect the initiatives to temporarily put pressure on our profit margins during this concentrated period, they will also provide an opportunity for us to maximize profitability over the full new regulation cycle. We also assume that the high concentration of replacement in the summer months will limit cost efficiencies we have enjoyed in the past such as the re-use of parts. However, we fully anticipate a rebound in profit levels as the market normalizes in the next fiscal year.

The SEGA SAMMY Group knows that this will not be an easy year. Although some of the challenges already mentioned will be temporary in nature, it will also be a year in which we will step up our efforts throughout the Group in order to improve our operating and profit structure for maximized efficiency and to support sustained long term growth.

We appreciate your continued support of the SEGA SAMMY Group.

June 2007

Hajime Satomi
Chairman of the Board and Chief Executive Officer

Business Report

English translation of financial statements originally issued in the Japanese language.

(Report and Reference for the Third Ordinary General Meeting of Shareholders)
From April 1, 2006 to March 31, 2007

1. Group's Current Condition

① BUSINESS DEVELOPMENTS AND RESULTS

During the fiscal year ended March 31, 2007, the Japanese economy was generally robust amid a continued long-term economic recovery. Higher corporate profits continued to support increasing capital expenditure and production. As the job market accordingly improved, individual consumption gradually increased.

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 in July 2004, when regulations pertaining to the law in Japan governing gaming machines were revised. Nonetheless, the ongoing decline in the number of pachinko parlors and players nationwide makes it imperative for the industry as a whole to attract a wider range of users and reinvigorate the market by actively developing and supplying machines that meet the needs of a diverse range of users.

In the amusement machine sales industry, network-enabled game machines have garnered more attention, thanks to advancement in communications infrastructure. In addition, large-scale "satellite-model" videogame machines featuring card systems have steadily established a strong user base through a series of upgrades. These game machines now rank among the top in terms of sales.

In the amusement center operations business, as large-scale, multi-purpose amusement centers gain ground, amusement centers located within shopping malls that attract large numbers of customers have grown to become a community space for families. However, the market is currently awaiting the arrival of new games machines aimed at children, as the boom in children's card game machines that has been seen over the past few years is slowing down.

In the home videogame software and toys industry, videogames for various new portable game consoles targeting wider age segments and new users proved extremely popular. This was particularly noteworthy amid challenging market conditions marked by industry realignment triggered by the integration and merger of major companies. The emergence of a series of new game platforms since last year is giving rise to growing expectations of higher demand for software sales, but more advanced requirements in hardware specifications are expected to increase R&D-related cost outlays. This is expected to further highlight differences between software developers in terms of product development capabilities and financial resources.

In this business environment, the fiscal year ended March 31, 2007 was the third year since SEGA and Sammy merged to form the SEGA SAMMY Group. Continuing from the previous fiscal year, the Group implemented the following M&As targeting business expansion across all business fields together with capital and business tie-ups with leading companies and other investment activities.

<Main Measures in the Fiscal Year Ended March 31, 2007>

① SEGASAMMY HOLDINGS converted Sports Interactive Ltd. and Secret Level, Inc. into subsidiaries to make the Group more competitive in the U.S.A. and European markets by bolstering its lineup of products and acquiring state-of-the-art development technologies.

② To increase sales opportunities in the U.S. amusement market, SEGASAMMY HOLDINGS established Sega Amusement Works, LLC to launch the Group's amusement machines primarily in the U.S. retail market.

③ SEGASAMMY HOLDINGS concluded a basic agreement on a strategic business alliance with Sanrio Company, Ltd., with the aim of contributing to mutual development and growth. Sanrio has a portfolio of highly valuable characters which it licenses worldwide.

④ With the aim of developing a complex focused on entertainment in the Central Ward of the Minato Mirai 21 development project in the City of Yokohama in Kanagawa prefecture, SEGA concluded a land purchase contract with the Yokohama City Land Development Corporation for blocks 55, 56 and 57 of the Central Ward within the Minato Mirai 21 development zone.

⑤ SAMMY, together with TAIYO ELEC Co., Ltd., for the purpose of development of the industry and both companies, concluded a basic agreement to form cooperative ties in the business area relating to pachinko machines, pachislot machines, arrange ball machines, jankyu machines and other entertainment and also enter into a business and capital tie-up to strengthen their relationship.

Turning to operating results, sales of pachislot machines were robust, with the "Hokuto no Ken SE" machine, based on previous industry standards, recording strong sales in keeping with the strong reputation of its predecessor, and the company recorded similarly strong sales of machines compatible with new regulations in the second half of the fiscal year. This contrasted with results for pachinko machines, where the Company was unable to deliver a truly distinctive machine that could capture the market's imagination. Similarly, steady sales of large medal games and various upgrade kits in the amusement machine sales business were accompanied by setbacks in amusement center operations including the slowing down of the boom in children's card games and sluggish sales at existing amusement centers. In the consumer business, "Love and Berry" videogame software for portable game consoles recorded sales volume of over a million copies and new overseas subsidiaries also contributed to earnings.

As a result, net sales for the consolidated fiscal year totaled ¥528,238 million, a decrease of 4.5% year on year, ordinary income was ¥81,287 million, down 35.8%. The SEGA SAMMY Group recorded impairment losses of ¥1,705 million on certain amusement centers, and amortization of goodwill of ¥2,335 million as extraordinary loss. Consequently, net income fell 34.4% to ¥43,456 million.

Results by business segment were as follows.

Pachislot and Pachinko Machines

In the pachislot machine business, the SEGA SAMMY Group retained a top share of the market and introduced numerous models offering various game features and high entertainment value, posting total pachislot machine sales of 523 thousand units. These included "Hokuto No Ken SE," a pachislot machine with even more outstanding entertainment features than its predecessor, the "Hokuto No Ken" model that became an unprecedented top-selling product in 2004. In the second half of the fiscal year, sales were also strong for machines compatible with revised regulations, including the "Spider-Man 2" machine.

In the pachinko machine business, despite several product launches, lack of support from pachinko parlors and players meant that sales were held to 132 thousand pachinko machines. Notable product launches included the "CR-Hokuto No Ken STV" pachinko machine, which offers play for the casual user, and "CR-Salaryman Kintaro," which is based on a popular cartoon. The Group also launched "CR-Mangetsu No Yoru Ni Shoten Shitai," the first product developed under the GINZA brand since the formation of an equity-based business alliance between Sammy Corporation and GINZA CORPORATION.

In the pachinko ball, token dispensing machine, and other peripheral businesses, the SEGA SAMMY Group continued steps started in the previous fiscal year to strengthen "pachinko parlor total services."

As a result of the above, net sales in this segment totaled ¥213,710 million, down 19.9% year on year, and operating income was ¥71,102 million, dropping 28.8%.

Main Pachislot Machines and Units sold

Variety		Units sold (Thousand)
Hokuto No Ken SE	(Sammy)	340
Spider-Man 2	(Sammy)	39
Kamen Rider DX8	(Sammy)	29
Ore No Sora	(Rodeo)	25
Ring Ni Kakero 1	(Ginza)	18
Others		70
Total		**523**

Main Pachinko Machines and Units Sold

Variety		Units sold (Thousand)
CR-Salaryman Kintaro	(Sammy)	28
CR-Hokuto No Ken STV	(Sammy)	23
CR-Freddy vs. Jason	(Sammy)	19
CR-Mangetsu No Yoru Ni Shoten Shitai	(Ginza)	12
CR-Gatchaman STVA	(Sammy)	10
Others		38
Total		**132**

"Spider-Man 2"

"CR-Hokuto No Ken STV"

Amusement Machine Sales

In the amusement machine sales business, although sales of existing prize games experienced a fairly normal year, overall performance was strong, thanks to brisk sales of new products. These included “Sangokushi Taisen 2,” a network-enabled trading card game launched in the previous fiscal year that continued to be popular, “ami-gyo,” a new type of medal game that everyone from couples to families can enjoy, and “Initial D Arcade Stage 4,” the newest version of the popular racing game.

As a result, net sales in this segment were ¥79,619 million, up 3.0%, and operating income was ¥11,682 million, a decrease of 4.1%.

“Sangokushi Taisen 2”

“Initial D Arcade Stage 4”

Amusement Center Operations

In the amusement center operations business, sales at existing amusement centers undercut those of the previous fiscal year from the second quarter and onwards. Similarly, card sales volume in the children’s card game machine business, which includes the highly profitable “LOVE AND BERRY Dress up and Dance!” and “MUSHIKING The King of Beetles” franchises, was down year on year due to a slowing down of the boom for such products and increasingly fierce competition.

During the fiscal year, 18 new amusement centers were opened in Japan, while 31 locations were closed. As a result, the Group had a total of 449 amusement centers as of March 31, 2007.

As a result, net sales in this segment were ¥103,859 million, down 2.3%, and operating income was ¥132 million, a decrease of 98.6%.

SEGA WORLD DREAMFACTORY

G-link Shibuya-Dogenzaka

Consumer Business

In the consumer business, videogame software sales were 21,270 thousand copies, exceeding sales in the previous fiscal year by 4,870 thousand copies. By region, the Company recorded videogame software sales of 5,800 thousand copies in Japan, 8,230 thousand in the U.S., 7,180 thousand in Europe, and 60 thousand in other regions. In Japan, strong-selling videogame software titles included “LOVE AND BERRY” which achieved sales of over one million copies; and “Ryu ga Gotoku 2,” the latest title in the “Ryu ga Gotoku” series which recorded sales of 600 thousand copies. With cumulative sales topping one million copies, the “Ryu ga Gotoku” series has developed into a prominent franchise title. Overseas, “Sonic The Hedgehog”, “Football Manager 2007” and other titles sold well.

The SEGA SAMMY Group also performed well in content production for mobile phones and animated videos, although toy sales were weak.

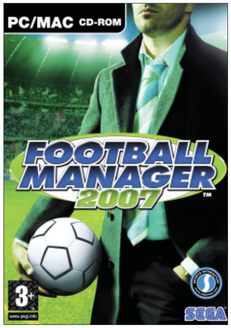
As a result, net sales in this segment were ¥119,833 million, an increase of 32.1% year on year. Operating income decreased 11.5% to ¥1,748 million.

Others

This segment covers planning, design, management, construction, and other services involving commercial and other facilities and the sales of commercial karaoke systems. Segment sales totaled ¥19,633 million, down 5.7%, and the operating loss was ¥1,345 million, compared to an operating loss of ¥1,712 million a year earlier.

“LOVE AND BERRY”

“Ryu ga Gotoku 2”



“Football Manager 2007”

② ISSUES TO BE ADDRESSED

Looking at the pachislot and pachinko machine business, the SEGA SAMMY Group will take steps to maintain its position as an industry leader boasting top market share in the pachislot business. The Group will reinforce the development of models that comply with revised regulations pertaining to the law in Japan governing gaming machines. While strengthening development, the SEGA SAMMY Group will continue to develop multiple brands in the pachinko business, as it does in the pachislot business, through tie-ups with GINZA CORPORATION, and work to fulfill the Group's medium-term goal of rapidly capturing a top share of the pachinko machine market.

At the same time, the SEGA SAMMY Group will work to provide a "pachinko parlor total service" that users enjoy while also meeting the needs of the pachinko parlor operators. This will be accomplished by drawing on the Group's collective strengths to offer peripheral equipment, as well as the planning, design and construction of pachinko parlors. Alongside these steps, the Company will also develop content derived from existing pachinko and pachislot machines.

In the amusement machine sales business in Japan, the SEGA SAMMY Group will work to increase installations while enhancing profitability. Specifically, steps will be taken 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 develop the products by incorporating customer needs that differ by nation and region into product development.

In the amusement center operations business, the SEGA SAMMY Group will work to achieve an upturn in sales at existing facilities through efforts to enhance customer satisfaction with products and services that differentiate our facilities from those of other companies. At the same time, we will focus on increasing profitability by working to reduce costs. Strategic priorities will be given to continue developing the existing children's card game business, established through the success of "MUSHIKING: The King of Beetles," while also looking at ways to increase profits in products aimed at children in recognition of the current slowdown in the boom for such card games. Meanwhile, the SEGA SAMMY Group plans to formulate business strategies to develop a large amusement center that maximizes investment returns while minimizing risks for the Group as a whole.

In the consumer business, the home videogame software market has seen the emergence of next-generation game consoles. In response to this, the SEGA SAMMY Group is expanding development capacity and pushing ahead with strategies based on a business structure focused on profitability. In overseas markets, local product development will be essential to accurately respond to the specific needs of each market. Accordingly, the SEGA SAMMY Group will bolster staff levels at development companies as part of efforts to reinforce its product lineup and acquire state-of-the-art development technologies. The goal is to sharpen the Group's competitive edge.

Finally, looking at the online game market, the SEGA SAMMY Group understands the need to develop this promising growth field into a profitable business. This will entail appropriately distributing management resources based on an understanding of the profitability of the online business in each region.

Efforts will also be made to reinforce content for mobile phones, toys, video, and other businesses, primarily through our publicly listed subsidiaries.

③ FUND PROCUREMENT, ETC.

(1) Fund Procurement

Starting the previous fiscal year, the SEGA SAMMY Group implemented a cash management system (CMS) for the Company, Sammy Corporation, and SEGA CORPORATION to centralize the procurement and utilization of Group funds and promote the effective use of Group resources.

In addition, the Company concluded commitment line contracts totaling ¥50 billion. This step was taken to reinforce the Company's CMS and ensure the liquidity of funds over the medium and long term. During the fiscal year under review, the Company signed a new contract with three foreign banks to support the Group's overseas expansion strategy. As a result, the Company has commitment line contracts with a total of nine banks by the syndicate method.

During the fiscal year under review, the Company obtained a short-term loan from a bank in the amount of ¥22.5 billion in March, 2007 as funds for operations.

(2) Capital Expenditures

The Group's capital expenditures totaled ¥59,271 million, including ¥8,790 million for the purchase of land adjoining Sammy's Kawagoe factory and other investments in the pachinko pachislot business. In addition, there were ¥40,753 million in capital expenditures related to amusement facilities operated by SEGA Corporation, including the purchase of land for development of a multi-purpose entertainment facility in the "Minato Mirai 21" Central Region by SEGA Corporation.

(3)Business Transfers, Absorption-type Demergers, and Incorporation-type Demergers

There is no applicable material information for the fiscal year under review.

(4) Business Transfer from Other Companies

On December 1, 2006, Sega Amusement Works, LLC, a subsidiary of the Company, took over the amusement equipment operation business in the US market from Sunshine Entertainment Holdings, LLC.

(5) Succession of Rights and Obligations Related to Businesses of Other Corporations, etc., through Absorption-type Mergers or Demergers

There is no applicable material information for the fiscal year under review.

(6) Acquisition or Disposition of Stocks and Other Interests or Stock Acquisition Rights, etc., of Other Companies

① On April 3, 2006, SEGA Holdings Europe Ltd., a Company subsidiary, acquired all issued shares of Sports Interactive Ltd., thereby making it a wholly-owned subsidiary of the Company.

② On April 3, 2006, SEGA Holdings U.S.A., Inc., a Company subsidiary, acquired all issued shares of Secret Level, Inc., thereby making it a wholly-owned subsidiary of the Company.

③ On March 22, 2007, Sammy Corporation, a Company subsidiary, underwrote a capital increase through a third-party allotment by TAIYO ELEC Co., Ltd., which thereby became an equity-method affiliate of the Company.

④ ASSETS AND PROFITS AND LOSSES FOR THE PREVIOUS THREE FISCAL YEARS

Item / Fiscal Year		FY 2004 (From April 1, 2004 To March 31, 2005)	FY 2005 (From April 1, 2005 To March 31, 2006)	FY 2006 (From April 1, 2006 To March 31, 2007)
Net sales	(¥ million)	515,668	553,240	528,238
Ordinary income	(¥ million)	104,432	119,500	81,287
Net income	(¥ million)	50,574	66,221	43,456
Net income per share	(¥)	410.53	261.06	172.47
Total assets	(¥ million)	438,991	522,914	549,940
Net assets	(¥ million)	258,954	316,679	358,858

Notes: 1. Figures shown in millions of yen have been rounded down to the nearest million.
2. The prior fiscal year for reporting purposes covers the year ended March 31, 2005, whereas the past fiscal period on an operating basis was the six-month period that ended on March 31, 2005.
3. Net income per share is calculated based on the average number of shares outstanding during the period.
4. Pursuant to a resolution passed by the Board of Directors on August 31, 2005, the Company conducted a two-for-one stock split on November 18, 2005. Net income per share for the fiscal year ending March 31, 2006 has been calculated assuming the stock split was conducted at the beginning of the fiscal year.
5. Effective as of the third fiscal year, in order to evaluate the Company's net assets, the Company and its subsidiaries adopted the Accounting Standard Related to Indication of Net Assets on Balance Sheets (Financial Accounting Standard No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the Implementation Guidance for the Accounting Standard, etc., Related to Indication of Net Assets on Balance Sheets (Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).
6. Details for fiscal 2006 are discussed in "① Business Development and Results"

⑤ MAJOR BUSINESS SEGMENTS

The business segments of the SEGA SAMMY Group are pachislot and pachinko machines, amusement machine sales, amusement center operations, consumer business and other businesses. The primary business activities are as follows.

Segment	Main Business
Pachislot and Pachinko machines	Development, manufacture and sale of Pachinko and Pachislot machines. Development, manufacture sales and maintenance of Pachislot and Pachinko peripherals. Design for parlors.
Amusement machine sales	Development, manufacture and sale of game machines used in an amusement arcades
Amusement center operations	Development, operation, rental and maintenance of amusement centers.
Consumer business	Development and sale of home video game software. Development, manufacture, and sale of toys. Planning and production of entertainment content through cellular phone etc. Planning, production and sale of animated movies.
Others	Project, design, management and construction of commercial establishments, etc.

⑥ MAJOR BUSINESS LOCATIONS OF THE GROUP

(1) The Company : SEGA SAMMY HOLDINGS INC.

Head Office (Minato-ku, Tokyo)

(2) Offices of the Main Subsidiaries

① Sammy Corporation
Head Office: Toshima-ku, Tokyo
Kawagoe Factory: Kawagoe, Saitama
Branches and Sales Offices: 7 Branches, 33 Sales Offices

② SEGA CORPORATION
Tokyo Head Office: Ohta-ku, Tokyo
Amusement Center Operating Locations: 404 locations

(3) Employees of the Group

Number of Employees (change from end of previous year) 7,734 (+1,318)

Note: The number of employees includes full-time staff and staff on loan, but not temporary employees.

⑦ MATERIAL PARENT COMPANY AND SUBSIDIARIES

(1) Relationships with Parent Company

There is no pertinent matter.

(2) Relationships with Subsidiaries

Company	Capital	Voting Rights (%)	Main business
Sammy Corporation	¥18,221 million	100.0%	Development / manufacture / sales of pachislot and pachinko machines
SEGA CORPORATION	¥60,000 million	100.0%	Development / manufacture / sales of game machines used in amusement arcades Development / operations of amusement centers Development / sales of home videogame software
RODEO Co., Ltd.	¥100 million	65.0% (Note 1)	Development / manufacture / sales of pachislot machines
Shuko Electronics Co., Ltd.	¥179 million	100.0% (Note 1)	Development / manufacture / sales of pachislot and pachinko peripherals
Sammy Rental Service Co., Ltd.	¥160 million	100.0% (Note 1)	Rental / lease / maintenance of pachislot and pachinko machines
Sammy Design Co., Ltd.	¥40 million	100.0% (Note 1)	Planning / design / construction of pachinko parlors
SI ELECTRONICS LTD.	¥244 million	88.1% (Note 1)	Development / sales of LCD optical imaging system chips
H-I System Corporation	¥10 million	100.0% (Note 1)	Development / manufacture / sales of pachislot and pachinko peripherals
GINZA CORPORATION	¥10 million	49.0% (Note 1)	Development / manufacture / sales of pachislot and pachinko machines
Sega Logistics Service Co., Ltd.	¥200 million	100.0% (Note 1)	Maintenance service, transportation, and warehouse business
Sega Amusements U.S.A., Inc.	US$3 million	100.0% (Note 1)	Import / manufacture / sales of amusement equipment
Sega Amusements Europe Ltd.	£22 million	100.0% (Note 1)	Import / manufacture / sales of amusement equipment
Sega Entertainment U.S.A., Inc.	US$0 million	100.0% (Note 1)	Operations of amusement centers
Sammy NetWorks Co., Ltd.	¥2,306 million	56.6%	Internet music contents provider
SEGA TOYS, LTD.	¥1,728 million	52.4%	Development / manufacture / sales of toys
TMS ENTERTAINMENT, LTD	¥8,816 million	55.4% (Note 1)	Planning / production / sales and other activities involving animated movies
Sega of America, Inc.	US$41 million	100.0% (Note 1)	Development of home video game software
Sega Enterprises, Inc.(U.S.A.)	US$110 million	100.0% (Note 1)	Development / management of home video game software development
Sega Europe Ltd.	£320 million	100.0% (Note 1)	Sales of home video game software
Sega Publishing Europe Ltd.	£0 million	100.0% (Note 1)	Sales of home video game software
Nissho Inter Life Co., Ltd.	¥5,018 million	51.4%	Planning / design / management / construction of displays and commercial facilities
SEGA SAMMY ASSET MANAGEMENT INC.	¥100 million	100.0%	Real estate management and investment advisory
SEGA MUSIC NETWORKS CO., LTD	¥400 million	100.0% (Note 1)	Sales of commercial karaoke machine equipment

Notes:
1. Percentage of voting rights held includes rights of indirectly owned shares.
2. On April 1, 2007, Shuko Electronics Co., Ltd., merged with H-I System Corporation., and the resulting entity was renamed Sammy Systems Corporation.

⑧ MAIN BANKS AND BORROWINGS

(Unit: millions of yen)

Lenders	Balance of loan payable
Sumitomo Mitsui Banking Corporation	12,981 million
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	11,002 million
Mizuho Corporate Bank, Ltd.	2,000 million
Others	4,372 million
Total	30,355 million

⑨ WHERE THE ARTICLES OF INCORPORATION PROVIDE FOR THE BOARD OF DIRECTORS TO DETERMINE DISTRIBUTIONS, ETC., OF RETAINED EARNINGS, POLICY REGARDING EXERCISE OF SUCH AUTHORITY

SEGA SAMMY HOLDINGS has made returning profits to shareholders a priority. The Company's basic policy is to pay an appropriate dividend that is commensurate with profits.

SEGA SAMMY HOLDINGS paid interim and is scheduled to pay year-end dividends of ¥30 per share each respectively in the fiscal year ended March 31, 2007, in order to continuously return profits to shareholders.

Furthermore, SEGA SAMMY HOLDINGS' policy is to effectively use retained earnings to bolster its financial position and operating base, to make investments in conjunction with business expansion, to establish new subsidiaries, and to carry out M&A activity.

⑩ OTHER SIGNIFICANT EVENTS OF THE GROUP

On December 27, 2005, Aruze Corporation filed a lawsuit against subsidiary Sammy Corporation, claiming financial damages of ¥21.0 billion and other sanctions for the alleged infringement of two Aruze patents, specifically patents No. 3069092 and No.3708056, by Sammy in relation to the manufacture and sale of "Hokuto No Ken" pachislot machines. The case is currently under trial at the Tokyo District Court. Meanwhile, the Japan Patent Office issued notification on October 17, 2006 of its ruling to invalidate Patent No. 3708056 as of October 4, 2006.

Sammy Corporation believes that this case does not constitute an infringement of Aruze's patents, and that the Japan Patent Office's invalidation ruling will be correctly reflected in the judgment of the court. However, the SEGA SAMMY Group's business results may still be affected depending on the outcome of the trial.

SEGA CORPORATION has in the past agreed with subcontractors on reduction of the unit price of purchased products, and retroactively applied this new reduced unit price to certain products ordered prior to the agreement date with consent of the subcontractors. On November 15, 2006, the Fair Trade Commission ruled that this retroactive application violated the Subcontracting Law. SEGA CORPORATION received a citation stating that the reduced payment to the subcontractors violated the Law on the Prevention of Delay in the Payment of Subcontracting Charges and Related Matters (hereinafter "Subcontracting Law"). SEGA CORPORATION has implemented corrective measures in accordance with the citation under the direction of the Fair Trade Commission, and on December 27, 2006, filed a report on improvements made based on the citation.

SEGA CORPORATION has completely returned the amount of reduction in payment to the subcontractors, as directed by the Fair Trade Commission. The Group as a whole is taking this citation seriously. It is developing various measures for the Group companies and relevant divisions, including thorough dissemination of information about the Subcontracting Law, education of employees in administrative positions, and preparation of an internal system to address the relevant issues. It is also making thorough efforts to further prevent recurrence and enforce compliance with law.

2. Shares Outstanding and Shareholders

① NUMBER OF SHARES AUTHORIZED FOR ISSUE

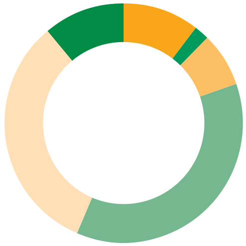
800,000,000 shares

② TOTAL SHARES ISSUED AND OUTSTANDING

283,229,476 shares

③ NUMBER OF SHAREHOLDERS

101,258



Composition of Shareholders	(%)
Financial Institutions	10.34
Securities Companies	2.02
Other Companies	7.33
Foreign Institutions and Individuals	36.70
Japanese Individuals and Others	32.57
SEGA SAMMY HOLDINGS INC.	11.04

④ PRINCIPAL SHAREHOLDERS (TOP 10)

Name of shareholder	Investment in SEGA SAMMY HOLDINGS	
	Shares held	Voting rights (%)
Hajime Satomi	43,569,338	17.46
SEGA SAMMY HOLDINGS INC.	31,276,992	—
The Chase Manhattan Bank, N.A. London	19,591,357	7.85
FSC Co., Ltd.	14,172,840	5.68
State Street Bank and Trust Company	13,996,821	5.61
Hero and Company	13,063,509	5.23
Morgan Stanley and Company Inc.	6,916,718	2.77
The Master Trust Bank of Japan, Ltd. (Trustee)	6,408,400	2.56
Japan Trustee Services Bank, Ltd. (Trustee)	4,867,800	1.95
Goldman Sachs and Company Regular Account	3,310,455	1.32

3. Company's Stock Purchase Rights

① OUTLINE OF STOCK PURCHASE RIGHTS ISSUED TO THE COMPANY'S DIRECTORS AND CORPORATE AUDITORS AS REMUNERATION FOR THEIR SERVICES AS OF THE END OF THE FISCAL YEAR UNDER REVIEW

Resolutions of the Ordinary General Meeting of Shareholders	June 20, 2006
Number of individuals with rights Company directors	4
Number of stock purchase rights	430 (1 right allows for the purchase of 100 shares)
Class of shares for stock purchase rights	Common stock
Number of shares for stock purchase rights	43,000
Payment on exercise of stock purchase rights	¥510
Capital contribution upon exercise of stock purchase rights	¥4,235
Period for exercise of stock purchase rights	August 15, 2008 – July 30, 2010
Terms and conditions for exercise of stock purchase rights	(Note)
Matters concerning the transfer of Stock Purchase Rights	When transferring Stock Purchase Rights, approval must be obtained from the Board of Directors

Notes:
Terms and conditions for exercise of stock purchase rights are as follows:
① The grantee shall be Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company or any of its subsidiaries when he or she exercises the rights, unless he or she loses such position by law or under the Articles of Incorporation or regulations of the Company or any of its subsidiaries or either ② or ③ applies:
② Notwithstanding ① above, even in the event that the grantee loses his or her position as the Company's Director, Executive Officer, or employee, the grantee may exercise stock purchase rights that are unexercised when such position is lost if any of a through c applies:
  a. Where the loss of such position is due to expiration of the term of office or amendment of law;
  b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction, or where the grantee is transferred to a subsidiary of the Company at the Company's convenience;
  c. Where, immediately after the loss of such position, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, or Counsel of the Company, or Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of any of the Company's subsidiaries.
③ Notwithstanding ① above, even in the event that the grantee loses his or her position as Director, Executive Officer, or employee of any of the Company's subsidiaries, the grantee may exercise stock purchase rights that are unexercised when such position is lost if any of a through c applies:
  a. Where the loss of such position is due to expiration of the term of office or amendment of law;
  b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction, or where the grantee is transferred to the Company or another subsidiary of the Company at the Company's convenience;
  c. Where, immediately after the loss of such position, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company or any of its subsidiaries.
④ No lien or any other disposition of stock purchase rights is permitted.
⑤ Other terms and conditions regarding the exercising of stock purchase rights will be set forth in the Stock Purchase Right Allotment Agreement to be entered into with the grantee.

② OUTLINE OF STOCK PURCHASE RIGHTS ISSUED TO COMPANY EMPLOYEES OR SUBSIDIARY DIRECTORS, CORPORATE AUDITORS, OR EMPLOYEES AS REMUNERATION FOR THEIR SERVICES DURING THE FISCAL YEAR UNDER REVIEW

Resolutions of the Ordinary General Meeting of Shareholders	June 20, 2006
Number of grantees	
Company employee	6
Subsidiary director, corporate auditor, or employee	1,080
Number of stock purchase rights	27,015 (1 right allows for the purchase of 100 shares)
Class of shares for stock purchase rights	Common stock
Number of shares for stock purchase rights	2,701,500
Payment on exercise of stock purchase rights	Free of cost
Capital contribution upon exercise of stock purchase rights	¥4,235
Period for exercise of stock purchase rights	August 15, 2008 – August 13, 2010
Terms and conditions for exercise of stock purchase rights	(Note)
Matters concerning the transfer of Stock Purchase Rights	When transferring Stock Purchase Rights, approval must be obtained from the Board of Directors

Resolutions of the Ordinary General Meeting of Shareholders	June 20, 2006
Number of grantees	
Company employee	1
Number of stock purchase rights	100 (1 right allows for the purchase of 100 shares)
Class of shares for stock purchase rights	Common stock
Number of shares for stock purchase rights	10,000
Payment on exercise of stock purchase rights	Free of cost
Capital contribution upon exercise of stock purchase rights	¥4,068
Period for exercise of stock purchase rights	September 5, 2008 – September 4, 2010
Terms and conditions for exercise of stock purchase rights	(Note)
Matters concerning the transfer of Stock Purchase Rights	When transferring Stock Purchase Rights, approval must be obtained from the Board of Directors

Notes: Terms and conditions for exercise of stock purchase rights are as follows:

① The grantee shall be Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company or any of its subsidiaries when he or she exercises the rights, unless he or she loses such position by law or under the Articles of Incorporation or regulations of the Company or any of its subsidiaries or either ② or ③ applies:

② Notwithstanding ① above, even in the event that the grantee loses his or her position as the Company's Executive Officer, or employee, the grantee may exercise stock purchase rights that are unexercised when such position is lost if any of a through c applies:

a. Where the loss of such position is due to expiration of the term of office or amendment of law;

b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction, or where the grantee is transferred to a subsidiary of the Company at the Company's convenience;

c. Where, immediately after the loss of such position, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, or Counsel of the Company, or Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of any of the Company's subsidiaries.

③ Notwithstanding ① above, even in the event that the grantee loses his or her position as Director, Executive Officer, or employee of any of the Company's subsidiaries, the grantee may exercise stock purchase rights that are unexercised when such position is lost if any of a through c applies:

a. Where the loss of such position is due to expiration of the term of office or amendment of law;

b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction, or where the grantee is transferred to the Company or another subsidiary of the Company at the Company's convenience;

c. Where, immediately after the loss of such position, the grantee becomes Director, Corporate Auditor, Executive Officer, Consultant, Counsel, or employee of the Company or any of its subsidiaries.

④ No lien or any other disposition of stock purchase rights is permitted.

⑤ Other terms and conditions regarding the exercising of stock purchase rights will be set forth in the Stock Purchase Right Allotment Agreement to be entered into with the grantee.

4. Company Directors and Corporate Auditors

① DIRECTORS AND CORPORATE AUDITORS

Title	Name	Main Responsibilities
Chairman of the Board and Chief Executive Officer	Hajime Satomi	Chairman and CEO, Sammy Corporation Chairman and CEO, SEGA CORPORATION
Vice Chairman	Hisao Oguchi	President and COO, SEGA CORPORATION
Vice President	Keishi Nakayama	Executive for Planning Office, President Office
Executive director	Tadashi Ishida	Executive for Administrative Division, Auditor’s Office, CSR promotion Department
Director	Toru Katamoto	President and COO, Sammy Corporation
Director	Hideki Okamura	Managing Director, SEGA CORPORATION
Director	Yasuo Tazoe	Director, SEGA CORPORATION
Standing Corporate Auditor	Kazutada Ieda	
Corporate Auditor	Akio Kioi	Attorney
Corporate Auditor	Ryoichi Arai	Standing Corporate Auditor, SEGA CORPORATION
Corporate Auditor	Toshio Hirakawa	Standing Corporate Auditor, Sammy Corporation

Notes:
1. Akio Kioi and Toshio Hirakawa are outside corporate auditors as stipulated in Article 2, Clause 16 of the Company Law.
2. Tadashi Ishida was newly elected and assumed office at the Ordinary General Meeting of Shareholders on June 20, 2006.
3. The Company has adopted the executive officer system to speed up decision-making, strengthen oversight of business execution, and reinforce business execution functions. The Company has four executive officers: Akira Sugano, Division Manager of the Administrative Division; Koichi Fukazawa, Division Manager of the Planning Division; Masakimi Hotta, General Manager of the President Office, IR Office, Secretary Office, and Sports Fellowship Department; and Tetsushi Ikeda, Vice Division Manager of the Administrative Division and General Manager of the Finance Department.

② TOTAL REMUNERATION, ETC., TO DIRECTORS AND CORPORATE AUDITORS

Title	Number of individuals	Remuneration, etc.	Summary
Director	4	¥431 million	
Corporate Auditor	1	¥17 million	
Total	5	¥448 million	

Notes:
1. Remuneration, etc., includes bonuses to Directors and Corporate Auditors in the amount of ¥190 million (¥186 million for Directors and ¥4 million for Corporate Auditors) and stock options in the amount of ¥6 million (¥6 million for Directors).
2. The remuneration limit for Directors is ¥600 million, pursuant to the resolution at the Ordinary General Meeting of Shareholders on June 20, 2006
3. The remuneration limit for Corporate Auditors is ¥50 million, pursuant to the resolution at the Ordinary General Meeting of Shareholders of Sammy Corporation on June 25, 2004, and at the Ordinary General Meeting of Shareholders of SEGA Corporation on June 29, 2004.

③ ADDITIONAL MATERIAL POSITIONS HELD BY OUTSIDE DIRECTORS AND CORPORATE OFFICERS

Title	Name	Company where additional position held	Additional position	Relationship
Outside Corporate Auditor	Akio Kioi	Sammy Corporation	Outside Corporate Auditor	Company subsidiary
Outside Corporate Auditor	Toshio Hirakawa	Sammy Corporation	Outside Corporate Auditor	Company subsidiary

④ MAIN ACTIVITIES OF OUTSIDE DIRECTORS AND CORPORATE AUDITORS

Title	Name	Major Activities
Outside Corporate Auditor	Akio Kioi	He attended 16 Board of Directors meetings out of the 27 meetings held during the year (10 out of 12 regular meetings) and expressed his opinion on professional and managerial view points as an attorney. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors. He also attended 12 Corporate Auditors meetings out of 14 meetings held during the year exchanging the opinions on auditing results and deliberating the significant issues related to audits.
Outside Corporate Auditor	Toshio Hirakawa	He attended 26 Board of Directors meetings out of the 27 meetings held during the year (all of the 12 regular meetings) and expressed his opinion on managerial view points. He also made some proposals to secure the adequateness and fairness of decision making of the Board of Directors. He also attended 14 Corporate Auditors meetings out of 14 meetings held during the year exchanging the opinions on auditing results and deliberating the significant issues related to audits.

⑤ LIABILITY LIMITATION AGREEMENTS FOR OUTSIDE DIRECTORS AND CORPORATE AUDITORS

At the Second Ordinary General Meeting of Shareholders on June 20, 2006, the Company amended its Articles of Incorporation and established regulations regarding liability limitation agreements for Outside Corporate Auditors.

An outline of the contents of the liability limitation agreement that the Company has entered into with Outside Corporate Auditor Akio Kioi is as follows:

(Outline of Liability Limitation Agreement)

The liability to compensate for damages under Article 423, Section 1, of the Company Law will be limited to the minimum liability set forth by law in the absence of malicious intent or material negligence.

⑥ TOTAL REMUNERATION, ETC., TO OUTSIDE DIRECTORS AND CORPORATE AUDITORS

	Number of individuals	Remuneration, etc.	Remuneration, etc., from subsidiary
Total remuneration, etc., to outside Directors and Corporate Auditors	2	¥28 million	¥28 million

5. Independent Auditors

① NAME

KPMG AZSA & Co.

② LIABILITY LIMITATION AGREEMENT WITH INDEPENDENT AUDITORS

At the Second Ordinary General Meeting of Shareholders on June 20, 2006, the Company amended its articles of incorporation and established regulations regarding liability limitation agreements with independent auditors.

An outline of the content of the liability limitation agreement that the Company has entered into with KPMG AZSA & Co., the Company's independent auditor, is as follows:

(Outline of Content of Liability Limitation Agreement)

The liability to compensate for damages under Article 423, Section 1, of the Company Law will be limited to the minimum liability set forth in law, in the absence of malicious intent or material negligence.

③ REMUNERATION, ETC.

	Remuneration, etc
Remuneration, etc., related to the fiscal year under review	¥66 million
Total of cash and other profits to be paid to independent auditors by the Company and its subsidiaries	¥ 276 million

Notes:
1. The Company pays its independent auditors for "Advice Related to Internal Controls Evaluation," which is a service other than those set forth in Article 2, Section 1, of the Certified Public Accountant Law.
2. The Company's subsidiaries, Japan Multimedia services Corporation and Sega Europe Ltd., is audited by auditors that differ from Company's.

④ POLICY REGARDING DETERMINATION OF TERMINATION OR NOT REAPPOINTING

The Company entrusts the Board of Corporate Auditors with the responsibility for deciding on the dismissal or non-reappointment of the independent auditor, and if any clause within Article 340, Section 1 of the Company Law is deemed to apply, the independent auditor will be dismissed in accordance with the Company's policy. The Board of Corporate Auditors also determines the reappointment or non-reappointment of the independent auditor upon consideration of the current status related to their performance, etc.

6. Outline of Resolutions Regarding Preparation of Internal Control System and so forth to Ensure Appropriate Business Execution

The Company made the following resolutions at the Board of Directors' Meeting held on May 8, 2006 regarding the "Basic Policy on Preparation of Internal Controls System":

(1) System to Ensure the Efficient Implementation of Directors' Duties and Compliance with Laws and the Articles of Incorporation

Establish a Group CSR Charter and Group Code of Conduct, and Representative Directors will repeatedly communicate the spirit of such charter and code to employees in administrative post, in order to thoroughly establish compliance with laws as a condition for all corporate activities. These efforts will reflect the Company's fundamental policy of fulfilling its social responsibility as a member of society and provide a basis for establishing a compliance system that comprises such policy. In addition, in the interest of further strengthening corporate governance, the Board of Directors will make efforts to build an effective internal controls system and to secure a system for compliance with laws and the Articles of Incorporation for the Company as a whole, so that the Company's business execution is appropriate and sound. Also, the Board of Corporate Auditors will audit the effectiveness and functionality of this internal controls system, and make efforts to identify and correct issues early through regular inspection.

(2) System Related to the Retention and Management of Information Related to the Implementation of Directors' Duties

Representative Directors will appoint the Director in charge of the Administrative Division as the person in charge of the entire Company with respect to the retention and management of information related to the implementation of Directors' duties. Information related to the implementation of Directors' duties will be recorded in writing or electronic media based on the Company regulations and so forth, and preserved and managed so that the Directors and Corporate Auditors are able to appropriately and accurately view such information and also so that such information is easy to search.

(3) Regulations and Other Systems Regarding Risk Management for Losses

With respect to risks related to the Company's business, each relevant division and department will analyze and identify anticipated risks and clarify the risk management system. The Internal Audit Department will audit each division's and department's risk management and report the results regularly to the management decision-making body and executive and supervisory management organization.

(4) System to Ensure that Directors' Duties are Implemented Efficiently

Adopt a corporate auditor system for efficient implementation of Directors' duties, as well as for Company Directors and Corporate Auditors to be well-informed about the Group's businesses and promptly and appropriately make decisions for the Group. The system should also enable appropriate and efficient implementation of duties under rules related to authorities and decision-making based on the Regulations of the Board of Directors, and so forth.

(5) System to Ensure Appropriate Compliance with Law, and the Articles of Incorporation Concerning the Performance of Employees' Duties

① Grant the CSR Governing Committee, which governs the Company's and Group's CSR activities, compliance-related governing functions. Establish a Group CSR Charter and Group Code of Conduct as a code or standards of conduct so that executives and employees in administrative posts can act in compliance with law, the Articles of Incorporation, Company regulations, and social norms. Make the foregoing known thoroughly inside the Company and promote compliance.

② Establish a "Hot Line" system that enables an employee to report in the interest of public good any violation of law, the Articles of Incorporation, Company regulations, or conduct in violation of social norms. Also establish a system that enables the person in charge promptly to report any material matters to the Board of Directors and Board of Corporate Auditors. Also, protect such an informant, and authorize the Company Compliance Department and so forth, and outside counsel as recipients of an informant's report outside the ordinary reporting line, as part of a system that maintains transparency and accurately addresses relevant issues.

(6) System to Ensure that the Businesses of the Group, Comprised of the Company, its Parent, and its Subsidiaries, are Executed Properly

Hold meetings for the Group's Directors and Group's Corporate Auditors, where various problems in the Group or governance matters with material risks are addressed. The Company's Internal Audit Department will conduct audits for the benefit of the Group as a whole, and efforts will be made to ensure to the extent possible that information is shared among members of the Group and businesses are properly executed.

(7) Matters Regarding Employees whom Corporate Auditors Request to Assist them in the Performance of their Duties

Establish a Corporate Auditor's Office as an organization that reports directly to the Board of Corporate Auditors and employees in such office will assist the Corporate Auditors' duties under their direction and order.

(8) Matters Related to the Independence of Corporate Auditors' Staff from Directors Described in the Previous Clause

① An employee who assists a Corporate Auditor's duties is a dedicated employee who is not directed or supervised by Directors.

② Appointment, termination, personnel transfer, evaluation, disciplinary action, revision of wages, and so forth, of or involving employees described in the previous section will require prior agreement of the Board of Corporate Auditors.

(9) System to Enable Directors or Employees to Report to Corporate Auditors, and other Systems Related to Reporting to Corporate Auditors

① Directors and employees promptly must report to the Board of Corporate Auditors material violations of law or the Articles of Incorporation or illegal conduct related to performance of duties or risks of conspicuous harm to the Company that they learn.

② Directors and employees promptly must report to the Board of Corporate Auditors decisions that materially affect the Company's business or organization or results of internal audits.

(10) Systems Established to Ensure the Efficacious Performance of Auditing Responsibilities by Corporate Auditors

① Representative Directors regularly will meet with Corporate Auditors, exchange opinions related to Company management, in addition to business reports, and otherwise communicate effectively with them.

② The Board of Directors will ensure Corporate Auditors' participation in important work-related meetings to ensure that the Company's business is executed properly.

③ The Board of Corporate Auditors will use attorneys, certified public accountants, and other outside advisors, as necessary for itself, and its opportunities to receive advice related to audit work will be guaranteed.

English translation of financial statements originally issued in the Japanese language.

Consolidated Balance Sheet (As of March 31,2007)

(Unit: millions of yen)

Item	Amount
Assets	
Current Assets	**312,175**
Cash and deposits	146,645
Notes and accounts receivable-trade	83,492
Marketable securities	996
Inventories	40,117
Income tax refunds receivable	5,594
Deferred taxes – current	6,904
Others	28,994
Allowance for doubtful accounts – current	(571)
Fixed Assets	**237,765**
Tangible fixed assets	**111,897**
Buildings and structures	31,165
Amusement game machines	19,850
Land	46,029
Construction in progress	1,565
Others	13,285
Intangible fixed assets	**25,267**
Goodwill	18,524
Others	6,743
Investments and other assets	**100,600**
Investment securities	63,471
Long-term loan receivables	3,234
Lease deposits	23,326
Deferred taxes non – current	3,197
Others	15,091
Allowance for doubtful accounts non- current	(7,721)
Total assets	**549,940**

Item	Amount
Liabilities	
Current liabilities	**153,021**
Notes and accounts payable-trade	71,414
Short-term bank loans and current portion of long-term debt	29,244
Redeemable bond within a year	7,925
Income taxes payable	12,059
Accrued employees' bonuses	1,731
Accrued directors' and corporate auditors' bonuses	489
Allowance for sales return	225
Allowance for game points earned by customers	119
Others	29,813
Non-current liabilities	**38,060**
Bonds payable	15,695
Long-term debt, less current portion	1,111
Severance and retirement allowance	8,429
Retirement benefits for directors and corporate auditors	1,293
Deferred taxes liabilities non-current	1,881
Others	9,649
Total liabilities	**191,082**
Net Assets	
Shareholders' equity	**348,565**
Common stock	29,953
Capital surplus	171,096
Retained earnings	221,172
Treasury stock	(73,656)
Accumulated gains (losses) from valuation and translation adjustments	**(10,496)**
Unrealized gains on available-for-sale securities, net of taxes	4,779
Unrealized losses on hedging derivatives, net of taxes	(17)
Land revaluation difference, net of taxes	(7,505)
Foreign currency translation adjustments	(7,752)
Stock purchase rights	**454**
Minority interests	**20,334**
Total net assets	**358,858**
Total liabilities and net assets	**549,940**

Notes:
1. Figures shown in millions of yen have been rounded down to the nearest million.
2. Beginning with the current consolidated fiscal year, consolidated financial statements are prepared in accordance with the Company Law and the Corporate Calculation Regulations.

Consolidated Statement of Income (From April 1, 2006 to March 31, 2007)

(Unit: millions of yen)

Item	Amount	
Net sales		**528,238**
Cost of sales		**325,158**
Gross profit		**203,079**
Selling, general and administrative expenses		126,548
Operating income		**76,530**
Non-operating income		
Interest income	759	
Dividends income	648	
Equity in earnings of affiliated companies	12	
Gain on investment in partnerships	5,601	
Foreign currency exchange gain	580	
Others	984	8,585
Non-operating expenses		
Interest expense	624	
Sales discount	946	
Non-operating commission expenses	96	
Bad debt expenses	246	
Loss on investment in partnerships	1,442	
Others	471	3,828
Ordinary income		**81,287**
Extraordinary income		
Gain on the prior-term adjustment	50	
Gain on sale of fixed assets	112	
Reversal of allowance for doubtful receivables	828	
Gain on sale of investment in securities	119	
Gain on change in equity of a subsidiary	4	
Liquidation dividend from investment securities	3,206	
Others	212	4,533
Extraordinary expenses		
Loss from the prior-term adjustment	474	
Loss on disposal of fixed assets	860	
Loss on sale of fixed assets	14	
Impairment losses	1,705	
Loss from revaluation of investment securities	1,051	
Amortization of goodwill	2,335	
Others	1,961	8,403
Income before income taxes		**77,417**
Income taxes-current	33,698	
Income taxes-deferred	(1,148)	32,549
Minority interests		**1,411**
Net income		**43,456**

Notes:
1. Figures shown in millions of yen have been rounded down to the nearest million.
2. Beginning with the current consolidated fiscal year, consolidated financial statements are prepared in accordance with the Company Law and the Corporate Calculation Regulations.

Consolidated Statement of Changes in Shareholders' Equity

(From April 1, 2006 to March 31, 2007)

(Unit: millions of yen)

	Shareholders' equity					Accumulated gains (losses) from valuation and translation adjustments	
	Common Stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gains on available-for-sale securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes
Balances as of March 31, 2006	29,953	171,071	193,721	(73,549)	321,196	11,756	—
Changes in the term							
Dividend of retained earnings			(15,118)		(15,118)		
Bonuses to directors and corporate auditors (Note)			(645)		(645)		
Net income			43,456		43,456		
Purchase of treasury stock				(107)	(107)		
Sale of treasury stock		25		0	25		
Consolidation scope change			(241)		(241)		
Changes in the item except Shareholders' equity (Net amount)						(6,977)	(17)
Total changes in the term	—	25	27,451	(107)	27,369	(6,977)	(17)
Balances as of March 31, 2007	29,953	171,096	221,172	(73,656)	348,565	4,779	(17)

	Accumulated gains (losses) from valuation and translation adjustments					
	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Total accumulated losses from revaluation and translation	Stock purchase rights	Minority interest	Total net assets
Balances as of March 31, 2006	(7,506)	(8,767)	(4,516)	—	19,311	335,991
Changes in the term						
Dividend of retained earnings						(15,118)
Bonuses to directors and corporate auditors (Note)						(645)
Net income						43,456
Purchase of treasury stock						(107)
Sale of treasury stock						25
Consolidation scope change						(241)
Changes in the item except Shareholders' equity (Net amount)	0	1,014	(5,979)	454	1,022	(4,502)
Total changes in the term	0	1,014	(5,979)	454	1,022	22,867
Balances as of March 31, 2007	(7,505)	(7,752)	(10,496)	454	20,334	358,858

Note: Items concerning appropriation of earnings resolved at the Ordinary General Meeting of Shareholders in June 2006.

Notes to Consolidated Financial Statements

① SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Scope of Consolidation

Number of consolidated subsidiaries 87

For a complete list of major consolidated subsidiaries, refer to the section "1. Group's Current Condition" under "⑦ Material Parent Company and Subsidiaries" of "(2) Relationships with subsidiaries."

Effective as of the fiscal year under review, the following became the Company's consolidated subsidiaries, etc.: Secret Level, Inc., Sports Interactive Ltd., and three other companies through stock acquisition; SEGA NetWorks (CHINA) Co., Ltd., and six other companies, because of the increased importance of their businesses to the Group; Sega Sammy Media Inc. and eight other companies, which were newly established with the Company's investments; and three investment partnerships as a result of applying the Practical Treatment Regarding Application of Control and Influence Standards on Investment Partnerships (Report on Practical Measures No. 20 issued by Accounting Standards Board of Japan on September 8, 2006).

Apanda Co., Ltd, Sonic Team Co., Ltd., and seven other companies were liquidated and excluded from the scope of consolidation effective as of the fiscal year under review.

Number of non-consolidated subsidiaries 9

The Company has nine non-consolidated subsidiaries, including United Source International Ltd., SEGA Software (Shanghai) Co., Ltd., and TMS MUSIC CO., LTD.

All nine non-consolidated subsidiaries are excluded from the scope of consolidation because the combined amounts in assets, net sales, net income, and retained earnings applicable to the equity interest of the Company are immaterial.

(2) Application of the Equity Method

Number of equity-method affiliates 9

Main equity-method affiliates: TAIYO ELEC Co., Ltd., CRI Middleware Co., Ltd., etc.

TAIYO ELEC Co., Ltd., became an equity-method affiliate through a third-party allotment.

Number of non-consolidated subsidiaries and affiliates not accounted for by the equity method 17

Seventeen non-consolidated subsidiaries and affiliates were not accounted for by the equity method, including Liverpool Co., Ltd. and Micott & Basara Inc.

The equity method was not applied to other non-consolidated subsidiaries and affiliates because the combined amount of these companies in net income (loss) and retained earnings applicable to the equity interest of the Company are immaterial.

(3) Fiscal Year for Consolidated Subsidiaries

Consolidated subsidiaries whose fiscal year-ends differ from the consolidated balance sheet date are listed below. Necessary adjustments are made on consolidation for material transactions that occurred between the end of the fiscal years of these subsidiaries and the end of the consolidated balance sheet date.

The financial accounts of consolidated subsidiaries with asterisks (*) are calculated on a provisional basis as of the consolidated balance sheet date (March 31).

Consolidated subsidiary	Fiscal year-end
SEGA R&D Holdings Ltd.	June 30*
O.S. Capital U.S.A., Inc.	December 31
Nissho Inter Life Co., Ltd.	March 20
Sega Amusements Taiwan Ltd.	December 31
Shanghai New World Sega Recreation Co., Ltd.	December 31
Sammy NetWorks Asia Pacific Ltd.	December 31*
JVMMS Holdings Ltd.	December 31*
Guangzhou HuaChuang Information Technology Ltd.	December 31*
Guangzhou Altra Information Technology Ltd.	December 31*
Guangzhou HongChuang Information Technology Ltd.	December 31*
Sem Communications Pte.Ltd.	December 31
Five investments in partnerships	December 31

(4) Accounting Standards

① Valuation standards and accounting treatment for important assets

a. Held-to-maturity debt securities are stated at amortized cost (the straight-line method).

b. Other marketable securities

Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains or losses on securities in net asset, with cost of sales determined by the moving average method.

c. Other securities without quoted market prices are carried at cost, which is determined by the moving-average method.

The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under Article 2-2 of the Securities and Exchange Law of Japan, is calculated based on the relevant financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

d. Derivatives

Derivatives are stated at fair market value.

e. Inventories

Inventories are stated at cost, cost being determined mainly by the gross-average method

② Method for depreciating and amortizing important assets

a. Tangible assets

Depreciation is computed primarily using the declining-balance method.

However, buildings (excluding attached equipment) acquired after April 1, 1998 are depreciated using the straight-line method.

Useful life for primary assets is as follows:

Building/Structure : 2-50 years

Amusement game machines : 2-5 years

Regarding buildings and structures built on land leased under term leasehold contracts, the straight-line method is used with the remaining lease period as the useful life and the residual value as zero.

b. Intangible assets

Depreciation is computed using the straight-line method. We adopt the straight-line method over the useful life of 5 years for Software for internal use.

③ Accounting for allowances

a. Allowance for doubtful accounts: The reserve for doubtful accounts is provided in amount sufficient to cover possible losses estimated as a historical write-off ratio of bad debts for general receivables, with the addition of required amounts for doubtful accounts and bankrupt receivables based on a case-by-case assessment of the possibility of collection.

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

c. Accrued directors' and corporate auditors' bonuses

The estimated amount of bonuses for the fiscal year under review was recorded to meet the bonus payments to Directors and Corporate Auditors.

(Change in Significant Accounting Policies Used in Preparation of Consolidated Financial Statements)

Effective as of the fiscal year under review, the Company and its domestic subsidiaries adopted the Accounting Standard for Directors' Bonuses (Statement issued by the Accounting Standards Board of Japan No. 4, November 29, 2005). As a result, operating income, ordinary income, and income before income taxes each decreased by ¥489 million.

d. Allowance for sales return :In order to prepare for losses associated with future returns, an estimated loss amount amount in conjunction with future returns is posted.

e. Allowance for game points earned by customers: In order to prepare for expenses associated with the redemption of points earned by customers, an estimated amount related to future redemption has been posted in the fiscal year under review.

f. Accrued retirement benefits for employees: The Company and its consolidated domestic subsidiaries provided allowance for employees' retirement benefits at the balance sheet date based on the estimated amounts of projected benefit obligations and the fair value of the plan assets at that date. Actuarial differences are treated as a lump-sum expense in the following fiscal year. except, SEGA CORPORATION and 3 other domestic subsidiaries that amortize actuarial differences using the straight-line method over a fixed number of years (10 years), but no more than the average remaining service period for employees in service.

g. Accrued retirement benefits for directors and corporate auditors: The Company and certain domestic consolidated subsidiaries provide an allowance for directors' retirement bonuses to adequately cover payment of such bonuses at the end of the applicable period in accordance with internal regulations.

④ Accounting for lease transactions
Finance leases, which do not transfer ownership to lessees, are accounted for in the same manner as operating leases.

⑤ Accounting for significant hedge

a. Hedge accounting
The Company adopts deferred hedge accounting. However, special treatment (under special treatment, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed) is used for qualifying interest rate swap transactions. Moreover, allocation hedge accounting is applied to qualifying foreign exchange forward contracts.

b. Hedging instruments and hedged items
Hedging instrument: Interest rate swaps, foreign currency forward contracts
Hedged item: Interest on debts, receivables and payables denominated in foreign currencies, investment securities.

c. Hedge policy
Derivative instruments are used to mitigate risks associated with foreign currency exchange and interest rate fluctuations.
As a rule, hedging is only used for items for which actual demand exists, and not for speculative purposes.

d. Evaluation of hedge effectiveness
Hedge effectiveness is evaluated through comparative analysis of the cumulative fluctuations in the market for the hedged item relative to that for the hedging instrument. For interest rate swaps with special treatment, hedge effectiveness is not evaluated.

⑥ Accounting method for consumption taxes
Consumption taxes and local consumption taxes are accounted using the net-of-tax method.

(5) Valuation of consolidated subsidiaries' assets and liabilities
The assets and liabilities of consolidated subsidiaries are evaluated using the fair value including the portion attributable to minority shareholders.

(6) Matters concerning the amortization of goodwill and negative goodwill
If the duration of the effect of goodwill can be rationally estimated, amortization has been based on the estimated number of years of duration, in other cases, amortization has been based on the five-year-period straight line method. However, certain goodwill attributable to overseas consolidated subsidiaries has not been amortized, in accordance with US accounting standards. In these cases, judgment of impairment is made either annually or when an event that may involve impairment occurs.

(7) Changes in Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

① Accounting standard, etc., regarding indication of net assets on the balance sheet
Effective from the fiscal year under review, the Company and its domestic subsidiaries adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for Presentation of Net Assets in the Balance Sheet (Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).
The amount of total "Shareholders' Equity" prior to this change was ¥338,086 million.

② Accounting standard, etc., regarding stock options, etc.
Effective from the fiscal year under review, the Company and its domestic subsidiaries adopted the Accounting Standard for share-based payment (Statement No. 8 issued by the Accounting Standards Board of Japan 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 Accounting Standards Board of Japan on May 31, 2006).
As a result, operating income, ordinary income, and income before income taxes each decreased by ¥454 million.

③ Accounting Standards Relevant to Business Combinations
Effective from the current consolidated fiscal year ended March 31, 2007, the Company and its domestic subsidiaries have adopted the following three accounting standards: "Accounting Standards for Business Combinations (Business Accounting Council, October 31, 2003)"; "Accounting

Standards for Business Divestitures (Statement No.7 issued by the Accounting Standards Board of Japan on December 27, 2005)"; and "Guide on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures (Guidance No.10 issued by the Accounting Standards Board of Japan on December 22, 2006)". The adoption of these accounting standards had no effect on the Statements of Income.

④ Treatment regarding application of control standards and influence standards with respect to investment association partnerships

Effective from the fiscal year under review, the Company and its domestic subsidiaries adopted the Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations (Report on Practical Measures No. 20 issued by Accounting Standards Board of Japan on September 8, 2006).

The adoption of these accounting standards had no material effect on the Statements of Income.

② NOTES TO CONSOLIDATED BALANCE SHEET

(1) Accumulated depreciation of tangible fixed assets ¥101,291 million

(2) Assets pledged

Assets pledged		Covered for liabilities	
Time deposit	¥20 million	Accounts payable – trade	¥0 million
Notes receivable	¥278 million	Accounts payable – other	¥0 million
Buildings / Structures	¥67 million	Short-term debt	¥340 million
Land	¥419 million	Long-term debt	¥111 million

(3) Guarantee of Obligations

Guaranteed Party	Details	Amount
Dimps Corporation	Guarantee of bank loan	¥400 million
Orix Premium Ltd.	Lease liabilities guarantee	¥218 million
Sega (Shanghai) Software Co., Ltd	Joint guarantee of bank borrowings	¥100 million
Electronic Authentication System Association	Joint guarantee under lease agreement	¥65 million
FIELDS CORPORATION	Joint guarantee of affiliated union	¥10 million

(4) Security loaned

Investment securities includes ¥722 million in securities loaned

(5) Revaluation of Land

Consolidated subsidiary SEGA CORPORATION has revalued land for commercial use, pursuant to Japan's Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and Amendments to the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001). SEGA has recorded an item for the revaluation difference of land under net assets.

Revaluation method

SEGA CORPORATION computed the value of land based on the methodology regarding rational adjustments to valuation of fixed assets stipulated in Article 2-3, and appraisals by licensed real estate appraisers prescribed in Article 2-5 of the Enforcement Ordinance No. 119 (March 31, 1998) pertaining to the Law Concerning Revaluation of Land.

Date of the revaluation March 31, 2002

(6) Outstanding balance of overdraft account: ¥47,554 million

Outstanding balance of commitment line: ¥52,795 million

The amount of ¥30,000 million in the overdraft account is limited to the outstanding balance of the commitment line. Pursuant to the commitment line contract, any amount exceeding the limit shall be repaid by the following business day.

(7) Accounting Treatment of Notes Matured as of Fiscal Year-end

Notes matured at the end of the fiscal year were settled as of the note exchange date. Because the end of the fiscal year under review was a holiday, the fiscal year-end balances of the following notes that matured as of the fiscal year-end were included:

Notes Receivable	¥3,128 million
Notes Payable	¥2,703 million

③ NOTES TO CONSOLIDATED STATEMENT OF INCOME

(1) R&D expenses included in general management expenses and this fiscal year's production expenses ¥52,106 million

(2) Breakdown of major extraordinary items

① Breakdown of gain on the prior-term adjustment.

Revision to cost of sales in previous fiscal year ¥50 million

② Breakdown of gain on sale of fixed assets

Buildings / Structures	¥101 million
Other tangible fixed assets	¥10 million
Other intangible fixed assets	¥0 million
Total	¥112 million

③ Breakdown of loss from the prior-term adjustment

Revision to net sales in previous fiscal year ¥474 million

④ Breakdown of loss on disposal of fixed assets

Buildings / Structures	¥585 million
Other tangible fixed assets	¥167 million
Other intangible fixed assets	¥107 million
Total	¥860 million

⑤ Breakdown of loss on sale of fixed assets

Buildings / Structures	¥10 million
Other tangible fixed assets	¥4 million
Total	¥14 million

⑥ Breakdown of impairment loss.

(Unit: millions of yen)

Use	Location	Type	Impairment Loss
Amusement facilities	Tarumi-ku, Kobe	Buildings / Structures	167
		Other tangible fixed assets	5
	Akashi-shi, Hyogo	Buildings / Structures	133
		Other tangible fixed assets	20
		Other intangible fixed assets	1
	Funabashi-shi, Chiba	Buildings / Structures	115
		Other tangible fixed assets	12
		Other intangible fixed assets	0
	Kita-ku, Osaka	Buildings / Structures	112
		Other tangible fixed assets	2
	Tokushima-shi, Tokushima	Buildings / Structures	93
		Land	11
	Nishi-ku, Hiroshima; and seven other locations	Buildings / Structures	131
		Other tangible fixed assets	81
Assets for business	Ota-ku, Tokyo and five other locations	Buildings / Structures	26
		Other tangible fixed assets	201
		Other intangible fixed assets	486
		Investment and other assets	29
		Lease assets	72
Total			1,705

The Group uses business segments as the base, and groups any asset or asset group with respect to which its cash flow can be separately projected. If the market value of any asset or asset group has decreased conspicuously or it is expected to continuously generate negative cash flow from operations, its book value is reduced to its recoverable value, and such reduction is recorded as an "impairment loss" under "extraordinary expenses." The recoverable value is calculated mainly from the net selling price based on actual transaction price.

④ NOTES TO CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(1) Issued Stock

(Unit: shares)

Type of stock	End of previous fiscal year	Increase	Decrease	End of fiscal year under review
Common stock	283,229,476	—	—	283,229,476

(2) Treasury Stock

(Unit: shares)

Type of stock	End of previous fiscal year	Increase	Decrease	End of fiscal year under review
Common stock	31,254,693	29,441	7,142	31,276,992

(Outline of Causes of Change)
The main causes of the increase are as follows:
Increase due to repurchase of fractional shares 29,441 shares
The main causes of the decrease are as follows:
Decrease due to request to purchase fractional shares 7,142 shares

(3) Stock Purchase Rights

Company	Breakdown	Underlying stock type	Number of underlying shares				Balance at end of fiscal year under review (¥ million)
			End of previous fiscal year	Increase	Decrease	End of fiscal year under review	
Company	Stock options	—	—	—	—	—	429
Consolidated Subsidiaries	—	—	—	—	—	—	25
Total			—	—	—	—	454

(4) Dividends

① Dividend Amount

Resolution	Type of Stock	Total dividend (¥ million)	Dividend per share (¥)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 20, 2006	Common stock	7,559	30	March 31, 2006	June 21, 2006
Special Board of Directors Meeting on November 10, 2006	Common stock	7,558	30	September 30, 2006	December 11, 2006

② Of the dividends for which the record date is in the fiscal year under review, but for which the effective date will be in the following fiscal year

Resolution	Type of Stock	Resource of dividend	Total dividend (¥ million)	Dividend per share (¥)	Record date	Effective date
Special Board of Directors Meeting on May 16, 2007	Common stock	Retained earnings	7,558	30	March 31, 2007	June 4, 2007

⑤ NOTE REGARDING PER SHARE INFORMATION

Net assets per share	¥1,341.80
Net income per share	¥172.47

⑥ NOTE REGARDING MATERIAL SUBSEQUENT EVENTS

There is no pertinent matter.

Independent Auditors' Report (Copy)

Independent Auditors' Report

Date May 11, 2007

The Board of Directors
SEGA SAMMY HOLDINGS INC.

KPMG AZSA & Co.

Yuichi Yamada (Seal)
Designated and Engagement Partner
Certified Public Accountant

Eiji Mizutani (Seal)
Designated and Engagement Partner
Certified Public Accountant

We have audited the consolidated statutory report, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the related notes of SEGA SAMMY HOLDINGS INC.as of March 31, 2007 and for the year from April 1, 2006 to March 31, 2007 in accordance with Article 444(4) of the Corporate Law. The consolidated statutory report is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statutory report referred to above presents fairly, in all material respects, the financial position and the results of operations of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries for the period, for which the consolidated statutory report was prepared, in conformity with accounting principles generally accepted in Japan.

Supplementary Information.

As discussed in Note IV(7) to the consolidated financial statements, effective April 1, 2006, SEGA SAMMY HOLDINGS INC. and consolidated domestic subsidiaries adopted the new accounting standards for net assets of balance sheet.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

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English translation of financial statements originally issued in the Japanese language.

Non-Consolidated Balance Sheet (As of March 31,2007)

(Unit: millions of yen)

Item	Amount
Assets	
Current assets	**103,919**
Cash and deposits	95,741
Prepaid expenses	139
Short-term loan receivables from affiliates	5,200
Income tax refunds receivable	5,333
Deferred taxes-current	64
Others	117
Allowance for doubtful accounts-current	(2,677)
Fixed assets	**327,491**
Tangible fixed assets	**1,483**
Buildings	424
Structures	5
Vehicles	44
Tools, furniture and fixtures	436
Land	272
Construction in progress	300
Intangible fixed assets	**455**
Trade mark right	15
Software	437
Others	3
Investments and other assets	**325,552**
Investment securities	27,218
Investment in subsidiaries and affiliates	290,440
Other investment securities of affiliates	7,155
Long term prepaid expense	5
Others	732
Total assets	**431,410**

Item	Amount
Liabilities	
Current liabilities	**155,676**
Short term bank loan and current potion of long term debt	22,500
Accounts payable – other	16
Accrued expense	503
Deposits received of affiliates	132,151
Deposits received	15
Accrued directors' and corporate auditors' bonuses	190
Accrued employees' bonuses	134
Others	164
Non-current liabilities	**145**
Deferred tax liabilities non-current	2
Severance and retirement allowance	8
Retirement benefits for directors and corporate auditors	134
Total liabilities	**155,822**
Net assets	
Shareholder's equity	**275,664**
Common stock	**29,953**
Capital surplus	**287,188**
Additional paid-in capital	29,945
Capital surplus – other	257,243
Retained earnings	**75,281**
Retained earnings – other	75,281
General reserve	30,000
Earned surplus carried forward	45,281
Treasury stock	**(116,758)**
Accumulated gains (losses) from valuation and translation adjustments	**(505)**
Unrealized gains on available-for-sale securities, net of taxes	(505)
Stock purchase rights	**429**
Total net assets	**275,588**
Total liabilities and net assets	**431,410**

Notes:
1. Figures shown in millions of yen have been rounded down to the nearest million.
2. Effective as of the fiscal year under review, "Note Regarding Material Subsequent Events" are being prepared pursuant to the Company Law and the Corporate Calculation Regulations.

Non-Consolidated Statement of Income (From April 1, 2006 to March 31, 2007)

(Unit: millions of yen)

Item	Amount	
Operating revenue		
Management fees	7,573	
Dividends income	33,548	41,122
Operating expenses		
Selling, general and administrative expenses	7,561	7,561
Operating income		**33,560**
Non-operating income		
Interest income	110	
Interest on marketable securities	177	
Dividends income	244	
Gain on sales of investment securities	2	
Gain on investment in partnerships	2,423	
Others	189	3,147
Non-operating expenses		
Interest expense	214	
Non-operating commission expense	81	
Loss on investment in partnerships	1,549	
Bad debt expenses	2,677	
Others	24	4,547
Ordinary income		**32,161**
Extraordinary income		
Gain on bond retirement	0	0
Extraordinary expenses		
Loss from revaluation of investment securities	348	348
Income before income taxes		**31,813**
Income taxes – current	1,384	
Income taxes – deferred	187	1,572
Net income		**30,240**

Notes:
1. Figures shown in millions of yen have been rounded down to the nearest million.
2. Effective as of the fiscal year under review, “Note Regarding Material Subsequent Events” are being prepared pursuant to the Company Law and the Corporate Calculation Regulations.

Non-Consolidated Statement of Changes in Shareholders' Equity

(From April 1, 2006 to March 31, 2007)

(Unit: millions of yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
					Retained earnings–other				
	Common Stock	Additional paid-in capital	Capital surplus – other	Total capital surplus	General reserve	Earned surplus carried forward	Total retained earnings	Treasury stock	Total shareholder's equity
Balances as of March 31, 2006	29,953	29,945	257,244	287,189	—	60,359	60,359	(116,678)	260,824
Changes in the term									
Reserve of general reserve					30,000	(30,000)	—		—
Dividends of retained earnings						(15,118)	(15,118)		(15,118)
Bonuses to directors and corporate auditors (Note)						(200)	(200)		(200)
Net income						30,240	30,240		30,240
Purchase of treasury stock								(107)	(107)
Sale of treasury stock			(1)	(1)				26	25
Total changes in the term	—	—	(1)	(1)	30,000	(15,077)	14,922	(80)	14,840
Balance as of March 31, 2007	29,953	29,945	257,243	287,188	30,000	45,281	75,281	(116,758)	275,664

	Accumulated gains (losses) from valuation and translation adjustments			
	Unrealized gains on available-for-sale securities, net of taxes	Total accumulated losses from revaluation and translation	Stock purchase rights	Total net assets
Balances as of March 31, 2006	521	521	—	261,345
Changes in the term				
Reserve of general reserve				—
Dividends of retained earnings				(15,118)
Bonuses to directors and corporate auditors (Note)				(200)
Net income				30,240
Purchase of treasury stock				(107)
Sale of treasury stock				25
Changes in the item except shareholder's equity (Net amount)	(1,027)	(1,027)	429	(597)
Total changes in the term	(1,027)	(1,027)	429	14,243
Balance as of March 31, 2007	(505)	(505)	429	275,588

Note: Items concerning appropriation of earnings resolved at the Ordinary General Meeting of Shareholders in June 2006.

Individual Notes

① NOTES REGARDING MATERIAL MATTERS RELATED TO ACCOUNTING POLICIES

Valuation standards and accounting treatment for assets

(1) Valuation standards and methods for securities

① Investments in subsidiaries and affiliates are stated at moving-average cost.

② Other securities

Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains or losses on securities in net assets, with cost of sales determined by the moving average method.

Other securities without fair market value 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 Securities 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.

Depreciation of fixed assets

(1) Tangible fixed assets

Depreciation is computed by the declining-balance method.

However, buildings (excluding attached equipment) are depreciated using the straight-line method.

Useful life for primary assets is as follows:

Building:	2–50 years
Tools/Furniture:	2–20 years

(2) Intangible fixed assets

Depreciation is computed using the straight-line method. We adopt the straight-line method over the useful life of 5 years for Software for internal use.

Accounting for allowances

(1) Allowance for doubtful accounts

To cover possible losses of bad debts for receivables, the allowance for doubtful accounts is provided in required amounts based on a case-by-case assessment of the possibility of collection.

(2) Accrued employees' bonuses

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

(3) Accrued director and corporate auditor bonuses:

The estimated amount of bonuses for the fiscal year under review was recorded to meet the bonus payments to Directors and Corporate Auditors.

(Change in Accounting Policy)

Effective as of the fiscal year under review, the Company and its domestic subsidiaries adopted the Accounting Standard for Directors' Bonuses (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005). As a result, operating income, ordinary income, and income before income taxes each decreased by ¥190 million.

(4) Accrued retirement benefits for employees

The liability for retirement benefits is based on the estimated amount of benefit obligations at the end of the fiscal year.

(5) Accrued retirement benefits for directors and corporate auditors

The amount of the reserve required at the end of the fiscal year for directors and corporate auditors' retirement benefits is based on company regulations.

Other material matters that form the basis of accounting documents

(1) Accounting for lease transactions

Finance leases that do not transfer ownership to lessees are accounted for in the same manner as operating leases.

(2) Accounting method for consumption taxes

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

Material Changes to Accounting Policies

(1) Accounting standard, etc., regarding indication of net assets on the balance sheet
Effective from the fiscal year under review, the Company and its domestic subsidiaries adopted the Accounting Standard for Presentation on of Net Assets in the Balance Sheet (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for Presentation of Net Assets in the Balance Sheet (Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).
The amount of total "Shareholders' Equity" prior to this change was ¥275,158 million.

(2) Accounting standard, etc., regarding stock options, etc.
Effective from the fiscal year under review, the Company and its domestic subsidiaries adopted the Accounting Standard for share-based payment (Statement No. 8 issued by the Accounting Standards Board of Japan 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 Accounting Standards Board of Japan on May 31, 2006).
As a result, operating income, ordinary income, and income before income taxes each decreased by ¥429 million.

(3) Treatment regarding application of control standards and influence standards with respect to investment association partnerships
Effective from the fiscal year under review, the Company and its domestic subsidiaries adopted the Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations (Report on Practical Measures No. 20 issued by Accounting Standards Board of Japan on September 8, 2006).
As a result, ¥5,050 million was transferred from "Investments in affiliates" to "Other investment securities of affiliates" under "Investments and other assets."

② NOTES TO BALANCE SHEET

(1) Accumulated depreciation of tangible fixed assets ¥149 million

(2) Receivables from and payables to affiliates

Short-term receivables from affiliates	¥5,231 million
Short-term payables to affiliates	¥132,217 million

③ NOTES TO STATEMENT OF INCOME

Transactions with affiliates

Management fees	¥7,573 million
Dividends income	¥33,548 million
SG&A expenses	¥249 million
Non-operating transactions	¥4,501 million

④ NOTES TO STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Number and type of Treasury stock as of the end of the fiscal year under review

Common stock	31,276,992 shares

⑤ NOTE REGARDING TAX EFFECT ACCOUNTING

The main reason for recording deferred tax assets is denial of accrued bonuses, and the main reason for recording deferred tax liabilities is differences in revaluation of other securities.

⑥ NOTE REGARDING LEASED FIXED ASSETS

In addition to fixed assets listed on the balance sheet, significant fixed assets used on lease contracts included vehicles.

⑦ NOTES REGARDING TRANSACTIONS WITH RELATED PARTIES

(1) Subsidiaries and Affiliates

(Unit: millions of yen)

Type	Name	Voting rights (%)	Relationship	Name of transactions	Transaction amount (Note 1)	Accounts	Balance at end of fiscal year
Subsidiary	Sammy Corporation	100.0	Management guidance to the company, interlocking directorate	Management fees (Note 2)	4,013	—	—
				Deposit received (Note 3)	—	Deposits received of affiliates	118,619
				Interest on deposit (Note 3)	170	—	—
Subsidiary	SEGA CORPORATION	100.0	Management guidance to the company interlocking directorate	Management fees (Note 2)	3,559	—	—
				Deposit received (Note 3)	—	Deposits received of affiliates	13,531
				Interest on deposit (Note 3)	42	—	—
Subsidiary	SEGA SAMMY INVESTMENT INC.	100.0	Interlocking directorate	Loans for financing (Note 4)	—	Short-term loan receivable of affiliates	5,200
				Interest on loans (Note 4)	71	—	—
Subsidiary	Global Entertainment Fund	— (Note 6)	Management of funds	Contribution of investment funds (Note 5)	1,716	—	—
				Distribution of cash (Note 5)	7,610	—	—
Subsidiary	Global Entertainment Invest Fund	— (Note 6)	Management of funds	Contribution of investment funds (Note 5)	170	—	—
				Distribution of cash (Note 5)	8,810	—	—

Notes:
1. Consumption taxes are not included in transaction amounts.
2. The amount of the Management fee is decided based on the Company's necessary expenses.
3. Cash management system transactions are used for the purpose of uniformly and efficiently procuring and managing funds within the Group, and interest is determined with consideration to market interest rates.
4. Interest on loans is decided with consideration to market interest rates.
5. Capital investment and cash dividend are based on a silent partnership agreement.
6. The Company's equity interests in the silent partnership is 100%.

(2) Directors, Key Individual Shareholders, etc.

(Unit: millions of yen)

Type	Name	Voting rights (%)	Relationship	Name of transactions	Transaction amount (Note 1)	Accounts	Balance at end of fiscal year
Company in which Directors or their relatives own majority voting rights	FSC Co., Ltd (Note 2)	5.68%	Insurance representative	Payment of insurance premium (Note 3)	14	Prepaid expenses Accrued expenses	7 0
			Subcontractor	Payment of subcontracting fees (Note 3)	11	—	—
Directors and their relatives	Hajime Satomi	17.46%	Chairman of the Board and Chief Executive Officer of the Company	Payment for use of a business jet (Note 4)	250	—	—

Notes:
1. Consumption taxes are not included in transaction amounts.
2. Hajime Satomi, Chairman of the Board and Chief Executive Officer of the Company, holds 53% of the voting rights of FSC Co., Ltd.
3. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
4. Transaction prices are based on actual current prices.

⑧ NOTE REGARDING PER SHARE INFORMATION

Net assets per share	¥1,092.11
Net income per share	¥120.02

⑨ NOTE REGARDING MATERIAL SUBSEQUENT EVENTS

There is no pertinent matter

Independent Auditors' Report (copy)

Independent Auditors' Report

Date May 11, 2007

The Board of Directors
SEGA SAMMY HOLDINGS INC.

KPMG AZSA & Co.

Yuichi Yamada (Seal)
Designated and Engagement Partner
Certified Public Accountant

Eiji Mizutani (Seal)
Designated and Engagement Partner
Certified Public Accountant

We have audited the statutory report, comprising the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and its supporting schedules of SEGA SAMMY HOLDINGS INC. as of March 31, 2007 and for the 3rd business year from April 1, 2006 to March 31, 2007 in accordance with Article 436(2)① of the Corporate Law. The statutory report and supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory report and supporting schedules based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the statutory report and supporting schedules are free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the statutory report and supporting schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statutory report and supporting schedules referred to above present fairly, in all material respects, the financial position and the results of operations of SEGA SAMMY HOLDINGS INC. for the period, for which the statutory report and supporting schedules were prepared, in conformity with accounting principles generally accepted in Japan.

Supplementary Information.

As discussed in Note IV 1.5. to the financial statements, effective April 1, 2006, SEGA SAMMY HOLDINGS INC. and consolidated domestic subsidiaries adopted the new accounting standards for net assets of balance sheet.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Board of Corporate Auditors' Report (copy)

Audit Report

The Board of Corporate Auditors has received the reports of the audit procedures and results concerning the execution of the duties of the Directors during the 3rd business year from April 1, 2006 through March 31, 2007 prepared by each of the Corporate Auditors. After deliberation of the reports, we have prepared this Audit Report and report as follows.

1. Procedures and details of the audits by the Corporate Auditors and the Board of Corporate Auditors

The Board of Corporate Auditors established the audit policy, work share, and other relevant matters, and received reports from each Corporate Auditor regarding the implementation of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the Independent Auditor regarding the execution of their duties, and sought explanations as necessary.

Each Corporate Auditor complied with the auditing standards for Corporate Auditors established by the Board of Corporate Auditors, according to the audit policy, allocation of duties, and other relevant matters, communicated with the Directors, the internal audit department, other employees, and any other relevant personnel. We also made efforts to optimize the environment for information collection and audit, and participated in meetings of the Board of Directors and other important meetings, received reports from the Directors, employees, and other relevant personnel regarding performance of their duties, and sought explanations as necessary. We inspected important authorized documents and associated information, and investigated the execution of business and property at the head place of business and principal offices. In addition, we monitored and verified the system for ensuring that the execution of the duties of the Directors conforms to the relevant laws and regulations and the Articles of Incorporation, as well as the details of the resolutions of the Board of Directors regarding the organization of the system stipulated in Article 100, Item 1 and Paragraph 3 of the Ordinance for Enforcement of the Corporate Law and the status of the system (the Internal Control System) based on said resolutions, a necessary measure for ensuring that a joint stock corporation's business is proper. With respect to subsidiaries, we communicated and exchanged information with Directors, Corporate Auditors, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary. Based on the above methods, we examined the business report and annexed detailed statement related to the relevant Fiscal Year.

Furthermore, we monitored and viewed whether the Independent Auditor maintained its independence and implemented appropriate audits, and we received reports from the Independent Auditor regarding the performance of its duties and sought explanations as necessary. In addition, we received notice from the Independent Auditor that "systems for ensuring that duties are performed properly" (matters set forth in each Item of Article 159 of the Corporate Calculation Regulations) were maintained in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary. Based on the above methods, we examined the financial statements (balance sheet, statement of income, statement of changes in shareholders' equity, and notes, to the financial statements) and supporting schedules, and the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in shareholders' equity, and notes, to the consolidated financial statements) and consolidated supporting schedules related to the relevant Fiscal Year.

2. Result of audit

(1) The Report of Business Operations

1) In our opinion, the business report and supporting schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent the Company's condition.

2) With regard to the execution of the duties of the Directors, we have found no evidence of wrongful action or material violation of the relevant laws and regulations, nor of any violation with respect to the Articles of Incorporation.

3) In our opinion, the contents of the resolutions of the Board of Directors regarding the Internal Control System are fair and reasonable. In addition, we have found no matters on which to remark in regard to the execution of the duties of the Directors regarding the Internal Control System.

As described in the business report, regarding Japan Fair Trade Commission's recommendation on violation to "Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors" by our subsidiary, SEGA CORPORATION, the SEGA SAMMY Group thoroughly strives to prevent a reoccurrence and comply with the relevant laws and regulations.

(2) Audit result of the Financial Statements and supporting schedules

In our opinion, the audit procedures and audit results received from the Independent Auditor KPMG AZSA & Co., are appropriate.

(3) Audit result of the Consolidated Financial Statements and consolidated supporting schedules

In our opinion, the audit procedures and audit results received from the Independent Auditor, KPMG AZSA & Co., are appropriate.

May 15, 2007

Board of Corporate Auditors, SEGA SAMMY HOLDINGS INC.
Kazutada Ieda, Standing Corporate Auditor
Akio Kioi, Outside Corporate Auditor
Ryoichi Arai, Corporate Auditor
Toshio Hirakawa, Outside Corporate Auditor

SEGA SAMMY Topics

Keep Your Eye on the SEGA SAMMY Athletic Club

Yasuko Hashimoto wins her first full marathon in Japan.

The SEGA SAMMY Athletic Club includes the Company's track, baseball, and snowboard clubs.

The track club is actively training runners for medium and long distance events and marathons held around the world. The club's members include Yasuko Hashimoto, who won the 2007 Nagoya Women's Marathon and has been selected as a member of the Japanese team for the 11th IAAF World Championships in Athletics, Osaka 2007 (August 25 to September 2). In addition, the track club is also preparing to compete in long-distance relay races. Last year, in its first year in competition, the baseball club finished only one step away from the finals of the Intercity Baseball Tournament. In addition, to help expand the popularity of baseball, the baseball club is participating in a variety of regional and social activities, such as baseball seminars for children. This year, the club continues working toward its goal of appearing in the finals of the Intercity Baseball Tournament. The snowboard club is competing in events around the world. The club's members Kaori Mitsui, who specializes in the Snowboard Cross, which made its debut as an official event at the Torino Winter Olympic Games. We are ready to compete, so keep your eye on the SEGA SAMMY Athletic Club!

SEGA and Nintendo to cooperate in the production and marketing of Mario & Sonic at the Olympic Games

SEGA® Corporation and Nintendo Co. Ltd. made a historical announcement that two of the biggest icons in the entertainment industry, Mario™ and Sonic™, are joining forces to star in *Mario & Sonic at the Olympic Games*. Developed for the Wii™ video game system and the Nintendo DS™ system, this momentous agreement marks the first time these two renowned stars have appeared together in a game. Published by SEGA across Europe and North America, and published by Nintendo in the Japanese market, *Mario & Sonic at the Olympic Games* will be available within 2007 and is licensed through a worldwide partnership with International Sports Multimedia (ISM), the exclusive interactive entertainment software licensee of the International Olympic Committee (IOC). In *Mario & Sonic at the Olympic Games,* players will compete in events that take place in environments based on the official venues of the Beijing 2008 Olympic Games. Using a supporting cast of characters from the amazing worlds of both Mario and Sonic, gamers will be able to compete as or against a range of lovable personalities including Mario, Sonic, and more. Many people worldwide will be amazed with this game where the two renowned stars come together to compete in the world's greatest sporting event.

(This is based on a news release from SEGA dated March 28, 2007.)

IR Information

IR Information Center

Working to build trust through two-way communication with its shareholders and other investors, SEGA SAMMY HOLDINGS has established an IR information center. If you have any inquiries regarding share, corporate, or other information, please do not hesitate to contact us at:

Tel: +81-3-6215-9954 9:00-18:00
(except weekends, national holidays, and company holidays)

E-mail: ir@mail.segasammy.co.jp

IR Web Site

http://www.segasammy.co.jp/japanese/ir/index.jsp

Share Information

Securities Code
6460

Unit of Trading
100 shares

Fiscal Year-End
March 31

Ordinary General Meeting of Shareholders
June

Date of Record
March 31
(September 30 for interim dividends, if paid)
Advance, public notification is given when required for other dividend payments.

Method of Announcements
Internet
(www.segasammy.co.jp/english/index.html)
In the event that announcements cannot be provided through the Internet, they will be listed in the Nihon Keizai Shimbun.

Shareholder Register Manager
Mitsubishi UFJ Trust and Banking Corporation
1-4-5, Marunouchi, Chiyoda-ku,
Tokyo 100-8212, Japan

Administrative Office of Shareholder Register Manager
Securities Agent Department,
Mitsubishi UFJ Trust and Banking Corporation

Agency
Mitsubishi UFJ Trust and Banking Corporation branches in Japan

American Depositary Receipts
Depositary bank:
The Bank of New York
101 Barclay Street,
New York, NY 10286, U.S.A.
Telephone: (212) 815-2042
U.S. Toll Free: 888-269-2377
(888-BNY-ADRS)
Symbol: SGAMY
CUSIP: 815794102
Exchange: OTC
Ratio: 4:1

SEGA SAMMY HOLDINGS

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