BACK ON THE RIGHT TRACK

Annual Report 2008

SEGA SAMMY HOLDINGS INC.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

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

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

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

The SEGA SAMMY Group

As of March 31, 2008

SEGA SAMMY HOLDINGS INC.

Head Office	Shiodome Sumitomo Building, 1-9-2 Higashi Shimbashi, Minato-ku, Tokyo 105-0021, Japan
Established	October 1, 2004
Paid-in Capital	¥29.9 billion
Number of Employees	108 (non-consolidated)
	7,665 (consolidated)

PRINCIPAL SUBSIDIARIES

Company	Capital	Voting Rights (%)
Sammy Corporation	¥18,221 million	100.0%
SEGA CORPORATION	¥60,000 million	100.0%
RODEO Co., Ltd.	¥100 million	65.0% [1]
Sammy Systems Corporation[2]	¥179 million	100.0% [1]
Sammy Rental Services Co., Ltd.	¥160 million	100.0% [1]
Sammy Design Co., Ltd.	¥40 million	100.0% [1]
GINZA CORPORATION	¥10 million	49.0% [1]
TAIYO ELEC Co., Ltd.	¥5,125million	50.9% [1]
Sega Logistics Service Co., Ltd.	¥200 million	100.0% [1]
Sega Amusements U.S.A., Inc.	US$3 million	100.0% [1]
Sega Amusements Europe Ltd.	£22 million	100.0% [1]
Sega Entertainment U.S.A., Inc.	US$0 million	100.0% [1]
Sammy NetWorks Co., Ltd.	¥2,330 million	56.3%
SEGA TOYS, LTD.	¥1,729 million	52.3%
TMS ENTERTAINMENT, LTD.	¥8,816 million	55.9%
Sega of America, Inc.	US$41 million	100.0% [1]
Sega Enterprises, Inc. (U.S.A.)	US$110 million	100.0% [1]
Sega Europe Ltd.	£10 million	100.0% [1]
Sega Publishing Europe Ltd.	£0 million	100.0% [1]
SEGA SAMMY INVESTMENT & PARTNERS INC.[3]	¥100 million	100.0%

1 Percentage of voting rights held includes rights of indirectly owned shares.
2 Shuko Electronics Co., Ltd., merged with H-I System Corporation on April 1, 2007, and changed its name to Sammy Systems Corporation.
3 SEGA SAMMY ASSET MANAGEMENT INC.changed its name to SEGA SAMMY INVESTMENT & PARTNERS INC. on September 1, 2007.

Main Business
Development / manufacture / sales of pachislot and pachinko machines
Development / manufacture / sales of game machines used in amusement arcades; development / operations of amusement centers; development / sales of home video game software
Development / manufacture / sales of pachislot machines
Development / manufacture / sales of pachislot and pachinko peripherals
Rental / maintenance of pachislot and pachinko machines
Planning / design / construction of pachinko parlors
Development / manufacture / sales of pachislot and pachinko machines
Development / manufacture / sales of pachislot and pachinko machines
Maintenance service / transportation / warehouse business
Import / manufacture / sales of amusement equipment
Import / manufacture / sales of amusement equipment
Operations of amusement centers
Internet music contents provider
Development / manufacture / sales of toys
Planning / production / sales and other activities involving animated movies
Sales of home video game software
Management of home video game software development
Sales of home video game software
Sales of home video game software
Real estate management and investment advisory

Annual Report 2008

SEGA SAMMY HOLDINGS INC.

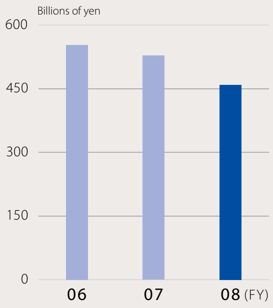
Consolidated Financial Highlights

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2008, 2007, and 2006

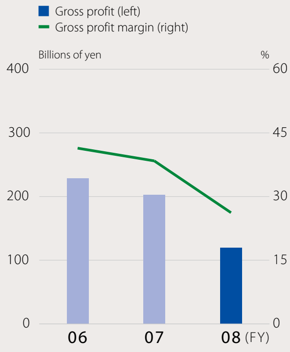
	Millions of yen unless stated otherwise				Thousands of U.S. dollars[1]
	2008	2007	2006	% change	**2008**
Net sales	¥458,977	¥528,238	¥553,241	–13.1%	$4,581,066
Pachislot and Pachinko Machine Business[2]	145,583	211,540	265,632	–31.2%	1,453,069
Amusement Machine Sales Business[2]	71,062	75,455	71,513	–5.8%	709,272
Amusement Center Operations[2]	91,227	103,850	106,246	–12.2%	910,540
Consumer Business[2]	141,791	119,593	90,353	18.6%	1,415,221
Others[2]	9,314	17,800	19,497	–47.7%	92,964
Gross profit	120,403	203,079	229,012	–40.7%	1,201,747
Selling, general and administrative expenses	126,232	126,549	109,868	–0.3%	1,259,926
Operating income (loss)	(5,829)	76,530	119,144	–	(58,179)
Pachislot and Pachinko Machine Business	8,444	71,102	99,848	–88.1%	84,280
Amusement Machine Sales Business	7,152	11,683	12,177	–38.8%	71,384
Amusement Center Operations	(9,807)	132	9,244	–	(97,884)
Consumer Business	(5,989)	1,749	1,977	–	(59,776)
Others	(75)	(1,345)	(1,713)	–	(748)
Corporate and elimination	(5,554)	(6,791)	(2,389)	–	(55,435)
EBITDA[3]	39,782	104,578	140,999	–62.0%	397,066
Net income (loss)	(52,471)	43,456	66,222	–	(523,715)
Capital expenditures	50,422	59,272	37,650	–14.9%	503,264
Depreciation and amortization	45,611	28,048	21,855	62.6%	455,245
Research and development expenses	65,385	52,107	36,338	25.5%	652,610
Net cash (used in) provided by operating activities	(25,879)	60,623	83,228	–	(258,299)
Net cash used in investing activities	(10,399)	(75,395)	(54,706)	–	(103,793)
Free cash flow[4]	(36,278)	(14,772)	28,522	–	(362,092)
Total assets	469,643	549,940	522,914	–14.6%	4,687,524
Total net assets / shareholders' equity[5]	281,628	358,858	316,680	–21.5%	2,810,939
Number of shares outstanding (shares)	283,229,476	283,229,476	283,229,476		
Per share data		Yen			U.S. dollars[1]
Net income (loss)	¥ (208.26)	¥ 172.47	¥ 261.06	–	$ (2.08)
Diluted net income	–	172.35	260.35	–	–
Total net assets / shareholders' equity[5]	1,030.09	1,341.80	1,254.14	–23.2%	10.28
Cash dividends	45.00	60.00	80.00	–25.0%	0.45
Key ratios		%			
Gross profit margin	26.2	38.4	41.4		
SG&A ratio	27.5	24.0	19.9		
Operating margin	–	14.5	21.5		
ROE	–	13.3	23.0		
ROA	–	8.1	13.8		
Total net assets ratio	55.3	61.5	60.6		

1 Yen amounts have been translated into U.S. dollars solely for convenience at the rate of ¥100.19 = US$1, the approximate exchange rate at March 31, 2008.
2 Net sales to external customers
3 EBITDA = operating income + depreciation and amortization
4 Free cash flow = net cash (used in) provided by operating activities + net cash used in investing activities
5 Following the enactment of the new Japanese Corporate Law in 2006, the Company presents total net assets for the fiscal years ended March 31, 2007 and 2008, which represent the shareholders' equity figure used in previous years plus minority interests and share subscription rights.

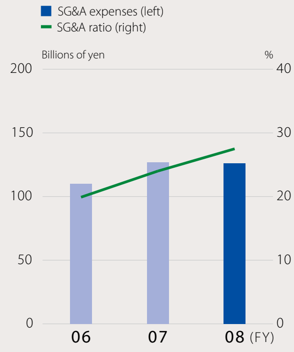
Net Sales



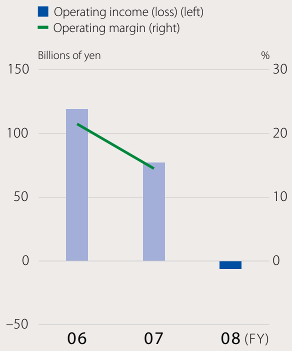
Gross Profit / Gross Profit Margin



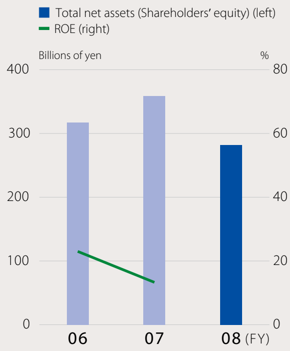
SG&A Expenses / SG&A Ratio



Operating Income (Loss) / Operating Margin

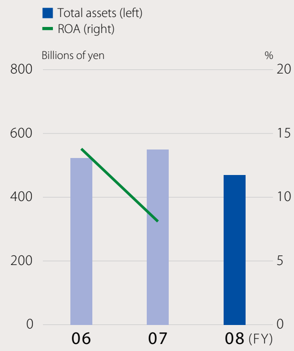


Total Net Assets (Shareholders' Equity)* / ROE

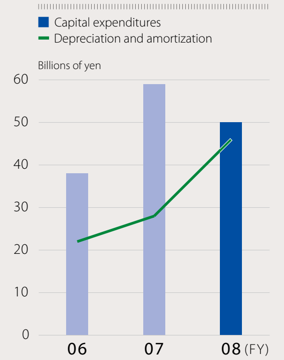


* Following the enactment of the new Japanese Corporate Law in 2006, the Company presents total net assets for fiscal 2008 and fiscal 2007, which represents the shareholders' equity figure used in previous years plus minority interests and share subscription rights.

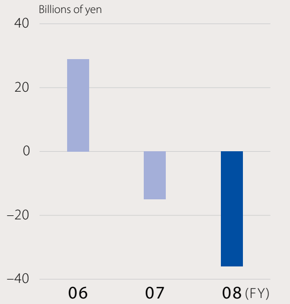
Total Assets / ROA



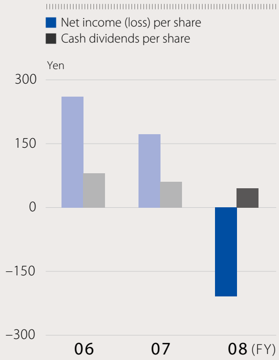
Capital Expenditures / Depreciation and Amortization



Free Cash Flow



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



To Our Stakeholders

Under a new management system, the entire Group will work with firm resolve to implement reforms targeting our return to a path of growth.

In fiscal 2008, the year ended March 31, 2008, SEGA SAMMY HOLDINGS recorded a substantial decline in net sales, an operating loss, and a net loss. We are taking these results very seriously, and on behalf of everyone at the SEGA SAMMY Group, I would like to offer our apologies to our shareholders and other supporters.

The Group has identified the issues that led to this performance and is already taking a united approach to the implementation of measures targeting those issues.

The Group's short-term challenges are as follows:

- **Strengthen the pachinko machine business, where there is substantial room to expand our market share.**
- **Improve revenue and profit in the Amusement Center Operations segment, where sales at existing centers are sluggish.**
- **Improve revenue and profit in the domestic operations of the Consumer Business segment.**

In the year under review, we implemented a range of measures. First, with the objective of strengthening the pachinko machine business, we made TAIYO ELEC Co., Ltd., a subsidiary. In the Amusement Center Operations segment, we rigorously examined the profitability of centers. We decided to close or sell 110 centers with low profitability or future potential, and we are implementing that decision in stages. We have also taken steps to focus our management resources on our core businesses, such as canceling the development of an entertainment complex in the Minato Mirai 21 Central District and selling shares of Nissho Inter Life Co., Ltd. Moreover, we took decisive action to increase our flexibility in the area of costs, such as offering voluntary early retirement to about 400 employees at SEGA.

In fiscal 2009 and thereafter, we will continue to implement reforms at the same rapid pace. The pachinko machine business has been positioned as a growth field over the medium to long term, and we will work to strengthen it by bolstering the development division and rigorously utilizing quality checks. Moreover, in the Amusement Center Operations segment, we aim to strengthen profitability by strategically advancing scrap-and-build initiatives with clarified center opening/closing standards, and by achieving efficient operations through the rigorous reevaluation of administrative functions. In the domestic operations of the Consumer Business segment, we will reevaluate our lineup strategy and take steps to leverage human resources, such as utilizing talented outside staff.

On May 1, 2008, targeting further progress in reforms, we revised the management systems of subsidiaries SEGA and Sammy.

At SEGA, the path to improved revenues and profits and to a new growth stage has been established, and at this point, we need to revitalize core businesses and reinforce the revenue and profit foundation. As SEGA's president, representative director, and COO, Okitane Usui will lead the implementation of reforms.

To record continued growth, the SEGA SAMMY Group must improve the revenue and profit of the Pachislot and Pachinko Machine Business segment, centered on Sammy. In the future, Keishi Nakayama, as president, representative director, and COO, will lead the implementation of thorough restructuring measures.

I will continue as CEO of both SEGA and Sammy and will work together with Okitane Usui and Keishi Nakayama to improve revenues and profits at each company from a Groupwide perspective.

Under this new management system, the entire Group will work together and implement restructuring measures to ensure that the Group returns to a path of growth.

I would like to ask our stakeholders for their continued support.

August 2008

Hajime Satomi

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

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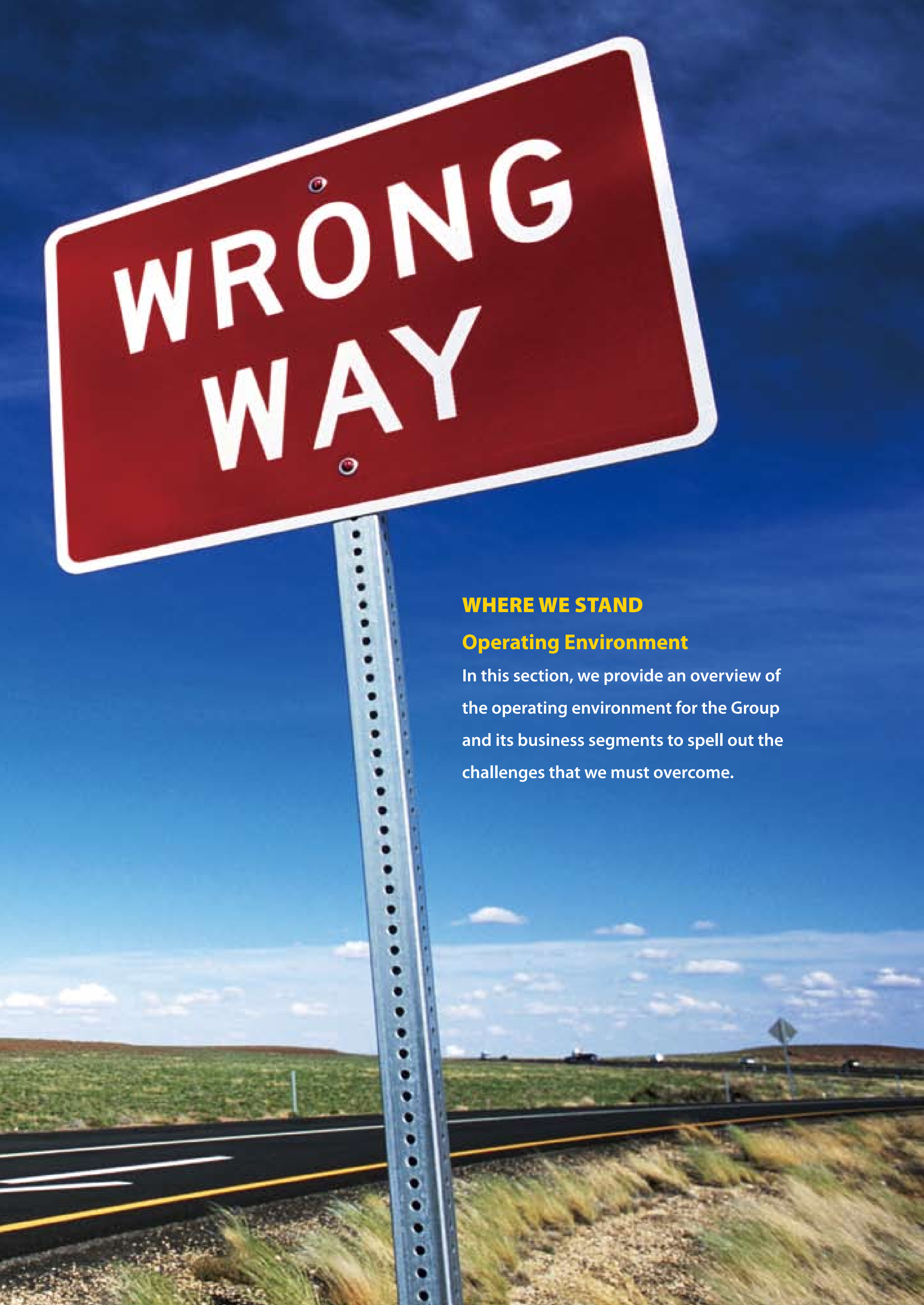


WHERE WE STAND

Operating Environment

In this section, we provide an overview of the operating environment for the Group and its business segments to spell out the challenges that we must overcome.

Operating Environment

PACHISLOT AND PACHINKO MACHINE BUSINESS (Fiscal 2008)

Net sales:	**¥145.6 billion (down 31.2%)**
Operating income:	**¥8.4 billion (down 88.1%)**
Operating margin:	**5.8% (down from 33.6%)**
Pachislot machine unit sales:	**380,688 units (down 142,734 units)**
Pachislot machine market share:	**21.8% (down from 32.0%)**
Pachinko machine unit sales:	**108,184 units (down 24,797 units)**
Pachinko machine market share:	**3.4% (down from 3.5%)**

Market Environment Analysis

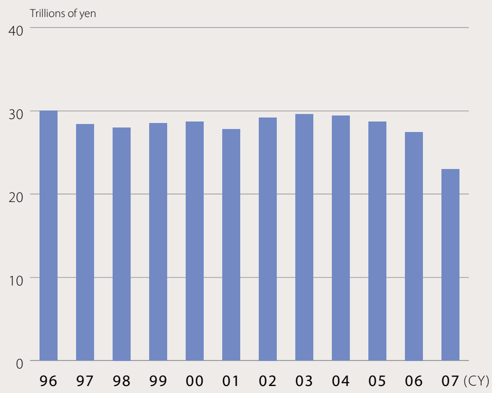
Market contraction due to loss of casual players

Pachinko and pachislot form a huge market of about ¥23 trillion that accounts for about 31% of Japan's ¥75 trillion a year leisure market. This market, which comprises the rental of balls and tokens by pachinko hall operators to players, has an influence on the market for sales of pachinko and pachislot machines to pachinko hall operators, which totals about ¥1,331.6 billion a year. Moreover, accompanying the trend toward increasingly advanced pachinko and pachislot machines in recent years, the pachinko and pachislot market also has an influence on the markets for parts, such as LCD panels, LEDs, semiconductors, and sensors.

Growth in the pachinko and pachislot market peaked around 1995, and in recent years the market has been contracting. The reason is related to the decline in the player population.

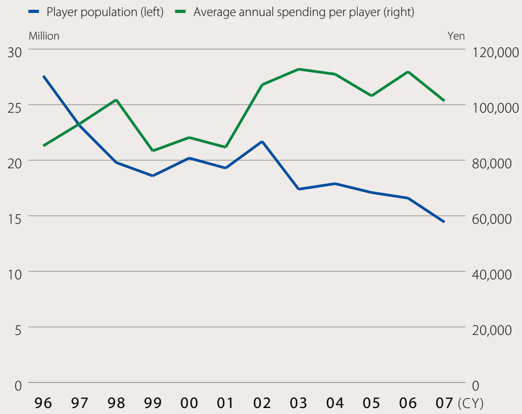
Since the 1990s, annual spending per player has been increasing. Please refer to the graph on the right. It is clear that, in tandem with the increase in average annual spending per player, the player population has been gradually declining since it peaked around 1996. The reason is that the casual players were lost on account of the increased complexity of pachinko and pachislot machine entertainment value and of factors related to the pachinko hall environment, and as a result the frequent players accounted for a growing share of the player population. This trend, which has continued to the present, marks the first step in the decline of the player population.

Pachinko and Pachislot Market Scale



Source: *White Paper on Leisure Industry 2008*

Player Population and Average Annual Spending per Player



Source: *White Paper on Leisure Industry 2008*

Market development driven by industry innovation in response to regulatory revisions

Manufacturers who plan to market new machines undergo inspections by the Security Electronics and Communications Technology Association and by the Public Safety Commissions in each prefecture. After the acquisition of certification that such elements as materials and functions are in conformance with current regulations, the machines are supplied to pachinko halls. Pachinko halls must then apply to the district police station in each prefecture, and after approval is received the new machines can be used for the first time.

The Entertainment Establishments Control Law of Japan, which is the law that covers this approval process, has been revised periodically. In response to those revisions, the industry has launched machines with innovative entertainment value, thereby securing the support of players. Certainly, the history of the development of the pachinko and pachislot industry is a history of regulatory revision followed by industry innovation.

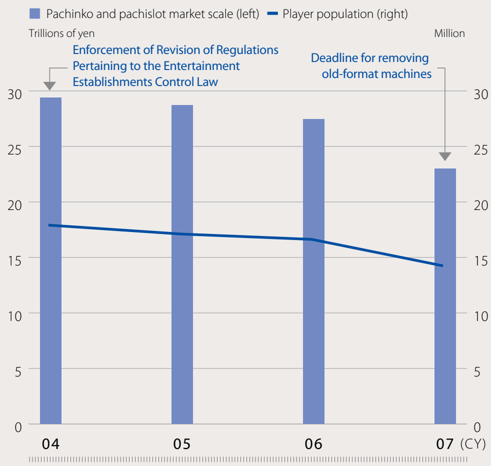
In July 2004, the Entertainment Establishments Control Law of Japan was revised again, resulting in major change in the pachinko and pachislot market.

* Please see pages 50 and 51 "Overview of Pachinko and Pachislot Market" for information about the approval process in the pachinko and pachislot industry.

Under the influence of the resulting change in the pachislot machine market, the decline in player population has entered the second stage

The intent of the revised Entertainment Establishments Control Law of Japan, which was enforced in July 2004, was to achieve sound development of the industry through control of the gambling element, which had become too prominent, and the supply of machines that could be readily enjoyed by a wide range of players. The regulatory revisions included a three-year installation period that was intended to give manufacturers development preparation time accompanying the change in entertainment value as well as to ameliorate the rapid change in the market environment. Over that period, the pachinko machine market was characterized by active development of machine types that transcended the previous boundaries of type 1, type 2, and type 3 in accordance with the purpose of the revisions, and the required approvals were steadily acquired.

Decline in Player Population – Second Stage



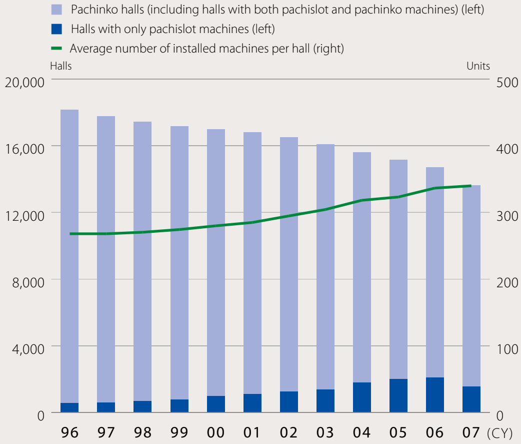
Source: *White Paper on Leisure Industry 2008*

As a result, the number of installed pachinko machines began to increase after the regulatory revision. On the other hand, manufacturers of pachislot machines required time to develop products that met the new regulations and offered advanced entertainment value, and as old-format machines, which have a comparatively high gambling element, remained in use after the regulatory revision. Manufacturers were unable to supply enough innovative new-format machines that changed the preferences of existing players and attracted new players, and in that environment the deadline for removing old-format machines was reached in fall 2007. As a result, under the influence of a rapid change in entertainment value without products that sufficiently met player needs, players began to abandon the pachislot market, and the number of installed pachislot machines recorded a substantial decline.

Small and medium-sized pachinko halls weeded out and halls became larger

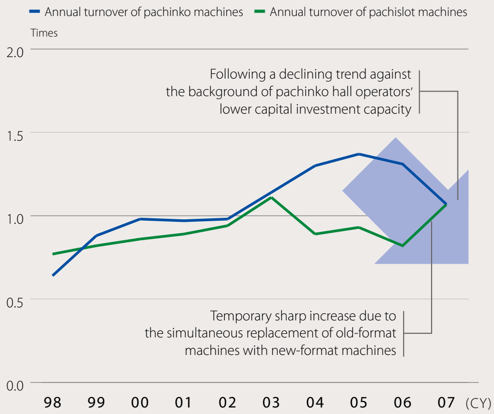
In recent years, the capital investment burden on pachinko halls has increased under the influence of such factors as substantial replacement of old-format machines with new-format machines accompanying the regulatory revision and a rise in product prices accompanying the advanced capabilities of machines. In this environment, small and medium-sized pachinko halls, which have only limited resources for installation of new machines and for advertising, are being driven out of the market, and the number of pachinko halls continues to decline. On the other hand, the total number of installed pachinko and pachislot machines is about level, and the number of installed machines per hall is increasing. This trend has developed against a background of small and medium-sized pachinko halls being weeded out due to the opening of large halls by major chains with substantial investment resources.

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



Source: National Police Agency

Annual Pachinko and Pachislot Machine Turnover

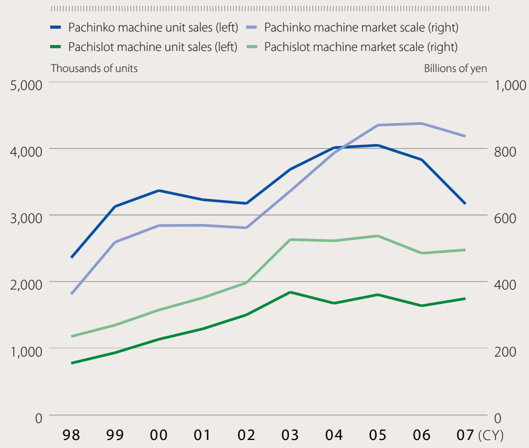


Source: Yano Research Institute Ltd.

A clear trend toward the survival of the fittest among pachinko and pachislot machine manufacturers due to the selective investment of pachinko hall operators

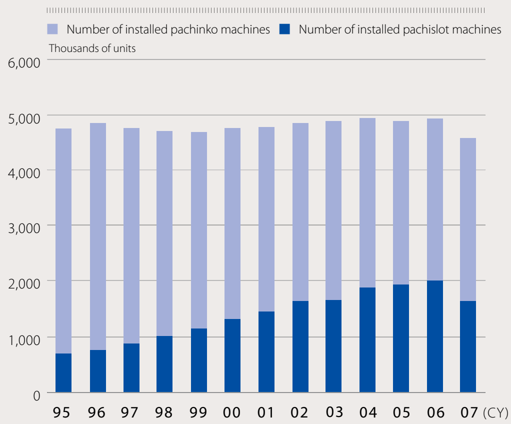
The annual unit turnover shown in the graph (page 10, bottom) is the ratio of the number of installed units to annual unit sales. It shows the number of times in a year that machines are replaced, which is implemented as one facet of pachinko hall promotion activities. In 2007, the annual turnover for pachislot machines increased rapidly, but this was attributable to the simultaneous replacement of old-format machines, for which the limit had been reached, with new- format machines, which became mandatory under the regulatory revision. In difficult financial conditions, pachinko halls have declining capacity for capital investment, and there is a trend toward limiting the replacement of pachinko and pachislot machines. At the same time, pachinko halls are choosing machines from which the invested funds can be readily recovered, and in addition to machines that attract players, products are being evaluated based on brand strength in accordance with past results. There is a focus on machine manufacturers with brand power. The shift in installations from pachislot machines, which have not yet satisfied players, toward pachinko machines, which offer enhanced entertainment value as a result of the regulatory revision, has also had an influence, and the number of installed pachislot machines has rapidly declined.

Annual Unit Sales and Market Scale



Source: Yano Research Institute Ltd.

Number of Installed Machines



Source: Yano Research Institute Ltd.

AMUSEMENT MACHINE SALES BUSINESS (Fiscal 2008)

Net sales:	**¥71.1 billion (down 5.8%)**
Operating income:	**¥7.2 billion (down 38.8%)**
Operating margin:	**10.1% (down from 15.5%)**

Market Environment Analysis

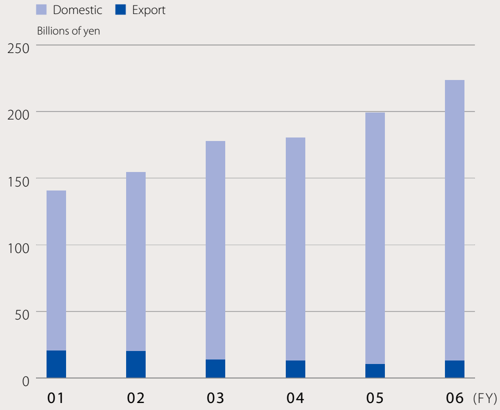
Market overview

In fiscal 2006, sales of amusement arcade machines were ¥210.2 billion in Japan and export sales were ¥13.2 billion, for a total of ¥223.4 billion. In the domestic market, video games accounted for the largest share of that total – 23.9% – followed by medal games at 23.1% and prizes at 13.4%. The domestic market has continued to expand for five years and has set new records for three consecutive years. However, due to such factors as a decline in existing center sales in the amusement center operations market, sales of amusement arcade machines are expected to decline in fiscal 2007.

Accelerating penetration of network-enabled amusement machines

In recent years, multi-satellite game machines and large-scale medal games that are clearly differentiated from home video games have spread through the market. In particular, network-enabled games, which allow multiple players to simultaneously participate over networks, have garnered support and are recording rapidly growing sales. However, accompanying the trends toward larger, more-advanced amusement machines, machine prices are increasing, and in consideration of current trends in the amusement center operations market, manufacturers need to supply machines that enable operators to achieve increased investment efficiency.

Domestic and Export Sales



Source: JAMMA, AOU, and NSA, *Amusement Industry Survey 2007*

AMUSEMENT CENTER OPERATIONS (Fiscal 2008)

Net sales:	**¥91.2 billion (down 12.2%)**
Operating loss:	**¥9.8 billion (down from operating income of ¥0.1 billion)**
YOY change in sales at existing centers:	**down 11.0% (compared with down 4.2%)**

Market Environment Analysis

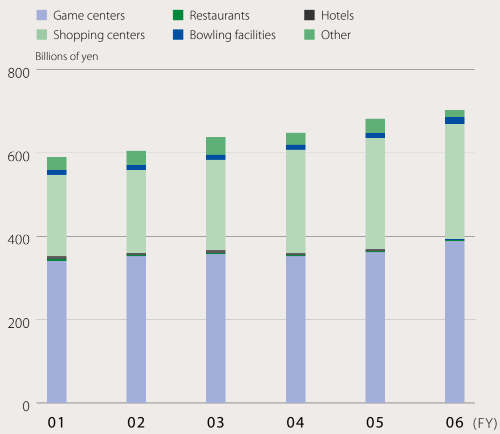
Market overview

The scale of the domestic market for amusement center operations in fiscal 2006 is estimated at about ¥702.9 billion, marking the fifth consecutive year of expansion and a record high level following fiscal 2005. This growth has been driven by centers in large shopping centers, large-scale centers in multiple use commercial facilities, and centers in bowling facilities. In particular, family oriented centers in shopping centers are recording notable growth. They have expanded for seven consecutive years and now account for 39.1% of the market. Multi-satellite game machines and other popular machines are also contributing to market growth. Although the market continues to show strong growth, indicators such as existing center sales and the number of centers show a different side of the market.

Sluggish existing center sales

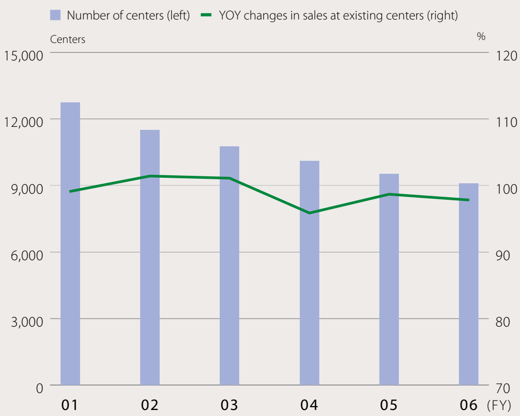
Sales continue to post strong growth, but existing center sales in the amusement center operations market have declined year on year since fiscal 2004, and in fiscal 2006 were down 2.2% from the previous fiscal year. The number of centers has steadily declined in line with the trend toward larger centers as a result of scrap-and-build initiatives, principally implemented by major operators.

Sales by Type of Center



Source: JAMMA, AOU, and NSA, *Amusement Industry Survey 2007*

Number of Centers* and YOY Changes in Sales at Existing Centers



Source: JAMMA, AOU, and NSA, *Amusement Industry Survey 2007*
* "Category 8" centers

CONSUMER BUSINESS (Fiscal 2008)

Net sales:	**¥141.8 billion (up 18.6%)**
Operating loss:	**¥6.0 billion (down from operating income of ¥1.7 billion)**
R&D expenditures:	**¥37.1 billion (up 39.5%)**

Market Environment Analysis

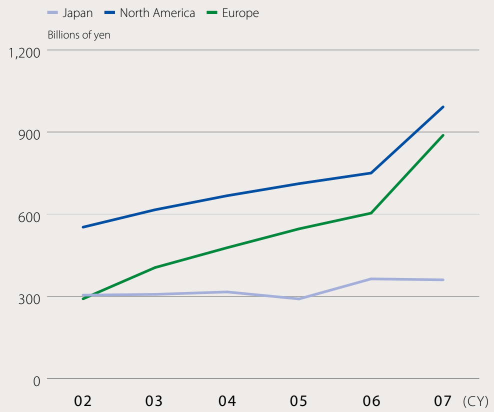
Market overview

North America and Europe have undergone the full-fledged adoption of home video game consoles. The home video game software market in each of these regions is showing dramatic growth, substantially surpassing the domestic market and exceeding ¥800.0 billion in 2007. For video game software makers, the targeting of overseas markets will be the key to future growth.

Mobile game consoles driving activation of the market

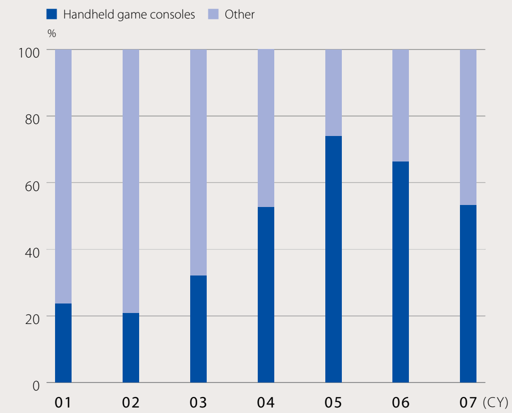
Japan's home video game software market is seeing an overlapping of the beginning of its activation with the debut period of new handheld game platforms. Due to the game platforms' innovative play styles and the introduction of software that transcends the framework of previous software offerings, a layer of new players that is entirely different from the core players of previous game consoles has been successfully attracted. As a result, in the game software market, in the wake of the appearance of such new genre of products as educational toys, new publishers from other industries have become an active presence. The enhancement of software that was created as a result of the entry of these new competitors, and the further expansion of the base of players, have created a virtuous cycle in the market.

Scale of Major Home Video Game Software Market



Source: *Famitsu Game White Paper 2008*

Composition of Handheld Game Consoles in Domestic Home Video Game Console Market*



Source: *2008 CESA Games White Paper*

* Value basis

Global market expansion triggered by console generation change

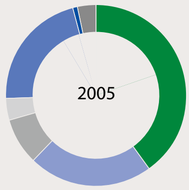
The introductions of new platforms – the Xbox 360™ in winter 2005 and the PLAYSTATION®3 and Wii® in winter 2006 – have shifted the video game software market to a new stage. To vie for market share, each console is leveraging its distinctive features – such as wireless LAN Internet connectivity, exceptionally high resolution through CPUs with advanced graphics processing capabilities, and new methods of play that utilize unique input devices.

Software makers need prudent development strategies

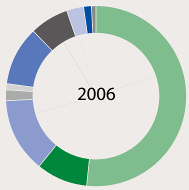
With the spread of new game consoles, the home video game software industry is benefiting from demand for software for those consoles, but the industry also faces problems at the same time. In comparison with the software for previous generations of consoles, the cost of developing software for new consoles with dramatically advanced capabilities is increasing. To recover those development costs, software makers must formulate prudent development strategies. Methods of reducing development risks that are being used by software makers include development for multiple platforms and multiple uses of content.

In the future, as they build their product portfolios, software makers must rigorously control development costs, pay careful attention to the penetration of each console, and track diverse needs by market in Japan, North America, and Europe.

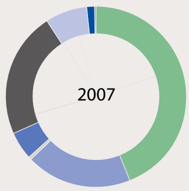
Share of Home Video Game Consoles in Domestic Market



NINTENDO DS®	40.1%
PSP®	22.3%
GAMEBOY ADVANCE® SP	8.3%
GAMEBOY® MICRO	4.0%
PlayStation®2	21.4%
Xbox 360™	0.8%
NINTENDO GAMECUBE®	3.1%



NINTENDO DS® Lite	51.7%
NINTENDO DS®	9.2%
PSP®	13.4%
GAMEBOY ADVANCE® SP	1.9%
GAMEBOY® MICRO	1.1%
PlayStation®2	10.6%
Wii®	6.8%
PLAYSTATION®3	3.2%
Xbox 360™	1.4%
NINTENDO GAMECUBE®	0.6%



NINTENDO DS® Lite	44.1%
NINTENDO DS®	0.1%
PSP®	18.7%
GAMEBOY ADVANCE® SP	0.2%
GAMEBOY® MICRO	0.3%
PlayStation®2	5.1%
Wii®	22.5%
PLAYSTATION®3	7.5%
Xbox 360™	1.6%
NINTENDO GAMECUBE®	0.1%

Source: *Famitsu Game White Paper 2008*

Operating a complex steering system,
receiving a proper response to an input, changing course...

THE TURNING POINT

SEGA SAMMY's Path to Renewed Growth

Based on an accurate understanding of the external environmental factors and the internal issues that affected our results in the year under review, we have ensured that all officers and employees understand the nature of the crisis that we face, and we are pushing forward with management reforms. The objective of our initiatives is to return to a course of growth and start once again to make progress toward the vision that we formulated at the time of the management integration: to become "the world's No. 1 comprehensive entertainment company."

Initiatives Targeting Our Return to Growth

We are on the path to renewed growth. However, there are still many challenges that we must overcome. We will continue to drive our reforms forward without letting up as we work to complete the revitalization of SEGA SAMMY.

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

Operating Results — Billions of yen

	Fiscal 2007	**Fiscal 2008**
Net sales	¥528.2	**¥459.0**
Operating income (loss)	76.5	**(5.8)**
Net income (loss)	43.5	**(52.5)**

Understanding the Factors Affecting Our Results

Before I explain the reforms that the SEGA SAMMY Group is advancing, I would like to explain the factors that affected our performance in fiscal 2008.

Consolidated net sales were down 13.1%, and, for the first time since the management integration of SEGA and Sammy, we recorded an operating loss. We have identified three key factors behind those results: (1) Lower revenue and profit in the Pachislot and Pachinko Machine Business segment, (2) poor results at existing centers in the Amusement Center Operations segment, and (3) poor results in domestic home video game software operations in the Consumer Business segment.

In response, we have implemented a range of restructuring measures from the second half of the year under review. The expenses associated with those measures were recorded as other expenses in fiscal 2008, and as a result we recorded a net loss of more than ¥50.0 billion. (Please see page 55 for information about the other expenses including expenses associated with the restructuring measures.)

Next, I will explain factors that affected our results in the year under review by segment.

Pachislot and Pachinko Machine Business

In discussing the market environment in the Pachislot and Pachinko Machine Business segment, I need to cover these separately.

First, looking at pachislot machine business, the dramatic changes in operating conditions, which stemmed from the revision of certain regulations pertaining to the Entertainment Establishments Control Law implemented in July 2004, had a substantial effect on our results in the year under review. Under the revision in order to facilitate a smooth transition to new-format machines, there was a three-year grace period for the use of old-format machines. Over that period, pachislot machine manufacturers focused on the development of new-format machines, but the new-format machines that were launched failed to change the preferences of existing players or to attract new players. Accordingly, pachinko hall operators were cautious in moving to new-format pachislot machines, and some operators replaced pachislot machines with pachinko machines. Despite initial expectations for strong replacement demand in fall 2007, which was the deadline for the removal of old-format pachislot machines, demand was sluggish. This was a key factor behind the decline in unit sales of the Group's pachislot machine business in the year under review.

Also, as the market share leader in pachislot machines, the Group offered limited-time rental plans to pachinko hall operators in order to support a smooth transition to new-format machines. As an industrywide cooperative initiative intended to reduce the financial burden on pachinko hall operators, who had to replace machines in a limited period of time, this initiative generated a certain level of results, and it also was a factor in reducing profit margins in the Group's pachislot machine business.

In pachinko machine business, unit sales were down year on year. I believe that this was a result of internal issues. In the pachinko machine market, the regulatory revision enabled the development of abundant varieties of machines. The market also benefited from the replacement of some pachislot machines with pachinko machines. However, due to the financial burden associated with the shift to new-format pachislot machines, pachinko hall operators took a cautious approach to investment and increasingly focused on machines that offered a high degree of certainty in investment recovery, that is, machines from top-ranked manufacturers with strong brands. In this setting, the Group moved to a new development system and worked to develop machines that would be highly evaluated in the marketplace and clearly differentiated from competing products. However, the supply of key titles developed under the new development system will begin in fiscal 2009, and as a result the unit sales in the year under review were down year on year.

Amusement Center Operations

In the Amusement Center Operations segment, domestic sales at existing centers were down 11.0% year on year. This decline was attributable to a variety of factors, such as a shortage of amusement machines that lead the market, worsening consumer sentiment stemming from higher prices for food and crude oil, and diversifying entertainment options. In this setting, our management challenges are to increase the Group's operational efficiency and to bolster center management.

Also, in kids' card games, which have led the market and supported our revenue and profit for several years, competition has intensified due to the entrance of many competitors, and unit sales of cards were down year on year.

Consumer Business

In home video game software business, overseas unit sales recorded substantial growth, while in the domestic market sales were down year on year. The Group has followed a strategy of building a lineup that is optimized for profitability and risk dispersion, based on such factors as platform, sales region, and genre. However, our domestic sales were sluggish. This is attributable to our failure to provide an adequate supply of software that meets consumer needs and to our failure to accurately forecast the penetration of new-generation platforms. To support global business expansion initiatives, R&D expenses were up ¥10.0 billion year on year, which had an effect on our operating results.

Revising Our Course to Achieve Renewed Growth – Reforms Implemented in the Year Under Review

In the year under review, the Group implemented a variety of management initiatives to achieve an early recovery in revenue and profits and to return to a course of growth.

Initiative 1.

Withdrawal from development of entertainment complex in the Minato Mirai 21 Central District development zone

Purpose

Focus management resources on core businesses

In 2005, the Group began planning a comprehensive entertainment facility in the Minato Mirai 21 Central District development zone in Yokohama City, Kanagawa Prefecture, with the goal of a 2011 opening. We have already purchased certain blocks of land for this project, but with the Group's operating environment changing rapidly, we concluded that we needed to focus our management resources on our core businesses, so we made the decision to halt development.

Initiative 2.

Closure or sale of about 110 amusement centers with lower profitability or future potential

Purpose

Improve profitability in Amusement Center Operations

In the Amusement Center Operations segment, where existing center sales are sluggish, SEGA rigorously examined all centers from the viewpoints of profitability and future potential and decided to withdraw from about 110 of them, of which 92 had been closed or sold by the end of March 2008. We plan to close or sell the remainder of the 110 centers in the first half of fiscal 2009. Furthermore, we will pursue efficient management through the thorough reevaluation of administrative functions and will work to improve support for center management.

Initiative 3.

Recruitment of 400 employees for voluntary early retirement from consolidated subsidiary SEGA

Purpose

Establishment of cost structure that fits revenue capacity

SEGA has recorded sluggish results in its core businesses, such as the Amusement Center Operations segment and the domestic operations of the Consumer Business segment, and to develop into a company that can consistently generate profits, SEGA has solicited about 400 employees for voluntary early retirement. In this way, we streamlined the workforce, reduced fixed costs, and restored flexibility in the area of costs. Through these workforce reductions, we expect to save about ¥3.5 billion in labor expenses.

Initiative 4.

Made TAIYO ELEC a consolidated subsidiary

Purpose

Strengthen management foundation in Pachislot and Pachinko Machine Business

In the Pachislot and Pachinko Machine Business segment, which faces dramatic change in its operating environment stemming from the revision of regulations pertaining to the Entertainment Establishments Control Law, our important management challenges are to sustain the top share in the pachislot market and to build our pachinko machine business into a source of revenue and profit on a par with the pachislot machine business. One initiative undertaken to resolve this management challenge is the transition to subsidiary status of TAIYO ELEC CO., Ltd., which develops, manufactures, and sells pachinko machines, pachislot machines, and arrange ball machines. TAIYO ELEC, which has a record of robust sales in the pachinko machine market, and Sammy, which has solid brand strength, development capabilities, and operational scale in the pachislot machine market, have joined forces. Together, they will take steps to build a cooperative system in development, marketing, and production, such as reducing costs through the use of common parts.

Initiative 5.

Conclusion of comprehensive business alliance with Sanrio

Purpose

Bolster character-related business

Characters are an extremely important strategic factor in the entertainment business. In the year under review, the Group concluded a comprehensive business alliance with Sanrio Co., Ltd., which has *Hello Kitty* and many other popular characters and is developing its character business around the world. To realize business alliances in specific fields, the Group and Sanrio have established subcommittees in each of the following fields and are proceeding with detailed study.

(1) Fields related to the licensing of characters currently owned by either of the two companies and the licensing of newly developed characters, including characters jointly developed by the two companies; fields related to the planning and development of products and services using characters; fields related to Internet and mobile businesses
(2) Fields related to development and operation of stores and facilities
(3) Fields related to distribution and to the procurement of goods and materials

New Growth Path – Policies in Fiscal 2009

Next, I will explain the initiatives that we are implementing in fiscal 2009.

Groupwide implementation of reforms under a new organizational system

The Group, as of May 1, 2008, renewed its organizational system. Okitane Usui, who has become SEGA's president, representative director, and COO, will work to achieve a full-fledged recovery in core businesses and aim for a rapid recovery in revenue and profit by following the path toward a new growth stage based on the various initiatives implemented in the year under review.

In order to forge a course of strong, renewed growth, the Group must improve revenue and profit in the Pachislot and Pachinko Machine Business segment, centered on Sammy. Accordingly, Keishi Nakayama, who has become Sammy's president, representative director, and COO, will lead a fundamental operational restructuring of Sammy.

Please refer to pages 24 to 27 for information about the policies for the reforms that will be made by each of these COOs.

I will continue to serve as CEO of SEGA and Sammy, while overseeing the entire Group. Okitane Usui, Keishi Nakayama, and I will work together and do our utmost to implement a range of initiatives, including those important management initiatives that are introduced below.

Management Challenges and Initiatives

Management Challenge 1.

Strengthen pachinko machine business

Initiatives

Transition to new development system, strict use of quality checks

As I have mentioned, the improvement of revenue and profit in the Pachislot and Pachinko Machine Business segment is an important element in the Group's return to growth. Due to the revision of regulations pertaining to the Entertainment Establishments Control Law implemented in July 2004, the pachislot machine market has been sluggish. However, conditions in the pachinko machine market, where manufacturers have increased latitude in machine development, have been solid. In this environment, our important management challenges are to sustain our top share in the pachislot machine market while expanding our share in the pachinko machine market. We will accelerate the reinforcement of our pachinko machine business, to which we have devoted considerable effort in recent years. Over the past few years, we have failed to provide machines that earned sufficient support in the marketplace and we have repeatedly been unable to meet our targets. From the second half of fiscal 2008, we transitioned to a new development process under which development is started after we have thoroughly examined the extent to which machines are supported by the market from multiple perspectives. In this development process, it is our policy to apply for prototype testing after repeatedly cycling through evaluations. The new machines created through this process will be launched in stages from the first half of fiscal 2009.

Management Challenge 2.

Improve profitability in Amusement Center Operations

Initiatives

- **By clarifying center opening / closing standards, we will strategically advance scrap-and-build projects**
- **Pursue efficient operational administration through rigorous reevaluation of administrative functions**

In these operations, SEGA decided to withdraw from about 110 centers with low profitability or future potential, and 92 of those centers had already been closed or sold by the end of March 2008. We will close or sell the remainder of the 110 centers in the first half of fiscal 2009, completing the reform of the existing center profit structure. Also, in the current year and the years ahead, by clarifying center opening/closing standards and by implementing those standards rigorously, we will advance a profitability-oriented scrap-and-build strategy. Furthermore, we will thoroughly review administrative functions, pursue efficient operational administration, and at the same time strengthen sales in each machine category (video games, medal games, prize games) and improve support for center management.

Management Challenge 3.

Improve revenue and profit in domestic operations of Consumer Business

Initiatives

- **Reevaluate lineup strategies**
- **Introduce the producer system and use talented outside creators**

In our domestic video game software operations in fiscal 2009, we will substantially reevaluate the lineup strategy and work to improve development efficiency, thereby improving profitability. Also, to create hit products and bolster the Company's intellectual property, we introduced the producer system and are recruiting talented creators from outside the company, and we expect to see the results of these measures from the second half of fiscal 2009.

Fiscal 2009 Business Plan

Next, I will discuss our business plan for the current year, fiscal 2009.

As shown in the table on the right, under the fiscal 2009 business plan, we anticipate a return to profitability. It will not be possible to return immediately to the previous level of operating income, in excess of ¥100 billion. However, targeting substantial growth in fiscal 2011 and thereafter, we will establish a solid revenue and profit foundation and strive to achieve the targets announced here, which we are approaching as objectives that must be achieved.

By business segment, in the pachislot machine business, we forecast continued sluggish market conditions, with total unit sales of 750,000 machines for the market as a whole. Accordingly, while we will maintain our top share, we are forecasting declines in both unit sales and sales. On the other hand, with a focus on profitability, we will target cost reductions through such measures as the use of common parts among Group companies and the reuse of parts.

In the pachinko machine business, the results of TAIYO ELEC which has been consolidated from the second half of the previous fiscal year, will make a full-year contribution. Moreover, we will supply major titles that were developed under the new development process. As a result, we are planning a major gain in unit sales.

In the Amusement Machine Sales Business segment, we plan to introduce the latest versions of major titles in Japan, and we are forecasting higher revenues. Also, by effectively using a direct sales system from Japan to markets in Asia, and by reevaluating production costs, we will work to increase the profitability of the segment's overseas business.

In the Amusement Center Operations segment, we are forecasting continued losses, but by working to enhance profitability through the policies mentioned above, we will strive to substantially reduce the scale of those losses.

In the Consumer Business segment, in addition to the profitability improvement in domestic home video game software resulting from the above initiatives, we will launch key titles in overseas markets and introduce products with tie-ins to popular films. In this way, we plan to generate a substantial increase in unit sales and to achieve a return to profitability.

Management Targets for Fiscal 2009 (consolidated) Billions of yen

	Fiscal 2008	Fiscal 2009
Net sales	459.0	**470.0**
Operating income (loss)	(5.8)	**15.0**
Net income (loss)	(52.5)	**5.0**

Management Targets for Fiscal 2009 by Segment Billions of yen

	Fiscal 2008	Fiscal 2009
Net sales		
Pachislot and Pachinko Machine Business	145.6	**160.0**
Amusement Machine Sales Business	71.1	**76.0**
Amusement Center Operations	91.2	**78.0**
Consumer Business	141.8	**153.0**
Others	9.3	**3.0**
Operating income (loss)		
Pachislot and Pachinko Machine Business	8.4	**13.0**
Amusement Machine Sales Business	7.2	**5.5**
Amusement Center Operations	(9.8)	**(1.5)**
Consumer Business	(6.0)	**3.3**
Others	(0)	**0.1**

Approach to Returning Profits to Shareholders

We position the return of profits to shareholders as an important management task, and we strive to provide an appropriate return in line with our profits. For the year under review, we paid an annual dividend of ¥45 per share. For fiscal 2009, we are planning an interim dividend of ¥15 per share and a year-end dividend of ¥15 per share, for a full-year dividend of ¥30 per share.

Currently, our greatest responsibility to shareholders is to strengthen the revenue and profit structure through continued reforms and once again realize increases in shareholder value. In regard to retained earnings, we will bolster our financial position and management foundation to achieve those objectives and endeavor to invest effectively as we expand our operations.

Toward the Revitalization of SEGA SAMMY

We will continue to implement fundamental operational reforms to ensure that the SEGA SAMMY Group returns to a course of growth. I will do my utmost to achieve these goals in fiscal 2009. Through the reforms that I have discussed, we have been able to outline the course toward that goal. However, our operating environment will be extremely challenging and business management will be difficult, and accordingly, we cannot slacken our implementation of reforms. From all perspectives, we will search for opportunities to implement reforms, and we will continue to fight with a strong resolve. I pledge to lead the SEGA SAMMY Group to a new stage of growth.

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

August 2008

Hajime Satomi

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

Messages to Stakeholders from the New Presidents

Keishi Nakayama, President, Representative Director, and COO, Sammy Corporation

I consider my mission to be the establishment of a truly strong company, and I will work together with all of our employees to build a robust corporate constitution for Sammy Corporation within three years.

I recently became the President, Representative Director, and COO of Sammy Corporation. I look forward to tackling the challenges that lie ahead.

My Mission Is to Build a Truly Strong Sammy

Sammy has secured the overwhelming support of pachislot and pachinko players by continually providing the market with machines that offer new entertainment value. With *Pachislot Hokuto No Ken*, we achieved the highest unit sales ever recorded in the pachislot industry, and that remains a landmark achievement today. The unique concept that generated that type of new value, and the development capability to turn the concept into a product, I believe that these are Sammy's strengths, and that they have been the drivers of our growth to date.

Which raises the question of why Sammy – which has these types of strengths – is currently in difficult circumstances. Looking back to previous years, at one point Sammy was recording operating income of nearly ¥100 billion a year. However, was the Sammy of that period truly a strong Sammy? Did it merely seem strong because it met its plans? Maybe external factors – such as the growth of the pachislot machine market itself – or a boost from an unexpected hit product were mistaken for the Company's true strength. A company with a strong organization should be able to handle any operating environment, no matter how much it fluctuates. That is the mission that I set for myself when I became president: to build a truly strong Sammy that has a solid revenue and profit structure which can transcend any type of operating environment.

Following SEGA's Initiatives in the Previous Fiscal Year, Sammy will Implement Reforms in the Fiscal Year Ending March 2009

Looking at the future of the pachislot and pachinko machines market, I expect the pachislot machine market to remain difficult to forecast due to the ongoing influence of revision of regulations pertaining to the Entertainment Establishments Control Law. On the other hand, the pachinko machine market is expected to enjoy more favorable conditions because it is now possible to develop an abundant variety of machines. In this setting, Sammy, as the company with the top share of the pachislot machine market, will aggressively implement strategic product development that can activate the market itself. We will give priority to the allocation of further resources to the pachinko machine market, which has growth potential and substantial room for us to expand our market share, and work to build a revenue and profit structure that can once again open up a new path for strong new growth. Accordingly, following on SEGA's initiatives in the previous fiscal year, we have positioned the fiscal year ending March 2009 as a year for Sammy to implement bold management reforms, and we will do our utmost to make them a success.

The specific initiatives that can be announced are as follows.

First, we will implement reforms in development so that we can create competitive products. Sammy has already transitioned to a new development system from the second half of fiscal 2008. Under the old system, the development process was completed within the Development Headquarters. Under the new system, however, the development, marketing, and production divisions will work together from the planning stage, implement product planning that matches market needs, establish multiple quality check points in the development schedule, and make appropriate revisions. In the future, we will strive to increase our share of both the pachislot machine market and the pachinko machine market by further streamlining our lineup of titles and by aggressively developing strategic titles and new specification development that is not available in the current market.

Second, we will improve our profit margins by reducing costs. We will work to expand the use of common parts in all of the Group's pachislot and pachinko machine operations and to reduce costs through economies of scale, reducing parts disposal loss and increasing the reuse percentage.

Third, we will encourage each employee to reconsider their own motivations and attitudes. Building a management system is a surface endeavor. Ultimately, it must be accompanied by a reform of motivations and attitudes as well as the corporate culture. In marketing and in development, there are always challenges and the situation is always changing. We will strive to transition to an organization in which each employee is aware of the need to responds quickly to challenge and to continue to advance operational reforms.

We will Definitely Generate Results

From the first half of fiscal 2009, we will introduce in stages products developed through the new development process that was introduced in the second half of the previous fiscal year. We are working to develop multiple strategic titles in our pachinko machine operations, and, in addition, TAIYO ELEC will make a full-year contribution to our results, so we expect especially strong growth in the pachinko machine business. Also, as I mentioned, to develop the Company into a truly strong Sammy, we will bolster our organizational strength by promoting the series of reforms described above, and we will create a new Sammy, with a strong revenue and profit structure that can generate profits steadily not only in the current year but also in the next year and the years after that.

Over the past few years, Sammy has not been able to meet everyone's expectations. We have taken that failure seriously, and moving forward we will steadily implement management reforms, ensure that those reforms generate results, and earn the trust of our shareholders and other stakeholders.

I would like to ask for your continued support in the years ahead.

August 2008

Keishi Nakayama

Keishi Nakayama

President, Representative Director, and COO,
Sammy Corporation

Messages to Stakeholders from the New Presidents

Okitane Usui, President, Representative Director, and COO, SEGA CORPORATION

In the world of digital entertainment, we will unleash the potential of SEGA's DNA and rebuild SEGA into a powerful global brand.

I recently became the President, Representative Director, and COO of SEGA CORPORATION. Here, I would like to explain my resolve and the policies that I will implement upon my appointment as president.

My Mission is to Unleash SEGA's DNA and Connect It to Our Results

"Our creativity is our most important competitive advantage." In accordance with this motto, which SEGA has followed throughout its business activities, we have created a number of hit products. It is this exceptionally high level of creativity and innovation that is SEGA's strength in the field of digital entertainment, and it is a strength that competitors cannot duplicate. My mission is to unleash SEGA's DNA, which has generated multiple successes, and connect it to our results.

Reorganization Targeting Rapid Decision-Making and Execution

On May 1, 2008, we implemented a reorganization with the objectives of facilitating rapid responses to changes in the operating environment and of making it easy to leverage synergies between amusement-related operations and Consumer Business. Previously, amusement-related operations and Consumer Business were positioned as separate business units, each with its own supervision office. We have eliminated those offices. As a result, we have established an organization that can take steps to leverage synergies, such as sharing of management resources among fields of business, and at the same time, be closer to the management front lines. In this way, we will implement rapid management decision making and implementation.

Three Objectives

We have adopted the slogan *CHANGE 2011 – Revitalizing SEGA* as our in-house medium-term vision, and we will implement reforms and revitalize our operations over the three years to fiscal 2011.

We have formulated the following three management objectives.

1. Optimization of core operations
2. Rapid achievement of profitability in new domains
3. Expansion of profits and stable generation of cash flows

To achieve these objectives, we will implement the following specific management strategies.

First, we will reinforce our customer orientation and provide eligible products and services. From an ongoing customer perspective, we will work to reliably track a wide range of customer needs, and leverage SEGA's innovativeness to create and provide new entertainment.

Second, we will pursue the optimal allocation of human resources, assets, and financial resources and work to create hit products. The generation of hit products is an extremely important part of our business, and the strategy to achieve that goal is vitally important. In the previous fiscal year, we moved forward with major steps to reduce fixed costs, centered on amusement-related operations. As we move forward, SEGA will implement the optimal allocation of management resources and return to offense as we strive to create hit products.

Third, we will aggressively move ahead in global markets and generate profits around the world. Without limiting ourselves to the domestic market, which is affected by the ongoing trends toward fewer children per family and an aging population, we will focus on the latent potential of markets, which is commensurate with their populations and economic growth. In this way, we will aggressively move forward in overseas operations. However, we will not simply advance randomly. Rather, we will rigorously select and concentrate on regions and fields in which we can expect to generate steady profits.

Fourth, we will optimize our operations through visualization. Through the visualization measurement of a range of operational processes, we will build a system that will optimize each of our businesses. In the past, SEGA was a com-pany with a strong vertical orientation, but by moving forward on a companywide basis with this measure, we will share a vast array of information and enhance our teamwork.

Rebuilding the SEGA Brand

Through the measures outlined above, we will strive to enhance profits in the near term, and over the medium to long term, we will endeavor to achieve strong growth in both sales and profits.

To do that, as I said, we must enhance and unleash the DNA that SEGA has inherited. We will remove any outdated approaches and systems that will block progress in that endeavor. All of our employees must avoid simply relying on what worked in the past. Rather, targeting the advancement of SEGA, they need to decisively reform their approach so that we all working together to build SEGA once again into a powerful global brand.

We will endeavor to create a new SEGA that consistently meets the expectations of our shareholders and other stakeholders.

August 2008

Okitane Usui

President, Representative Director, and COO,
SEGA CORPORATION

Being able to select one of several different gear ratios.
At the right time, the right place...

SHIFTING GEARS

Business Segments

Bird's Eye View of SEGA SAMMY

SEGA SAMMY IN THE ENTERTAINMENT INDUSTRY (Fiscal 2008)

Millions of yen

Net Sales[1]		Market Capitalization[2]		Free Cash Flow[1]	
Nintendo	1,672,423	Nintendo	7,281,787	Nintendo	565,584
NAMCO BANDAI	460,473	SANKYO	577,777	Heiwa	41,434
SEGA SAMMY	**458,977**	KONAMI	538,125	SANKYO	40,939
KONAMI	297,402	SQUARE ENIX	400,610	NAMCO BANDAI	20,020
SANKYO	280,511	NAMCO BANDAI	345,708	SQUARE ENIX	17,850
SQUARE ENIX	147,516	**SEGA SAMMY**	**298,807**	KONAMI	15,429
CAPCOM	83,097	CAPCOM	226,846	CAPCOM	4,078
Heiwa	62,462	Heiwa	137,797	**SEGA SAMMY**	**(36,278)**

%

Net Asset Ratio[2]		Price-to-Book Ratio[2]	
SANKYO	74.3	**SEGA SAMMY**	**1.0**
NAMCO BANDAI	69.4	Heiwa	1.0
SQUARE ENIX	69.3	NAMCO BANDAI	1.2
Nintendo	68.2	SANKYO	1.5
Heiwa	65.6	SQUARE ENIX	2.7
CAPCOM	57.3	KONAMI	2.8
KONAMI	57.2	CAPCOM	3.9
SEGA SAMMY	**55.3**	Nintendo	5.3

%

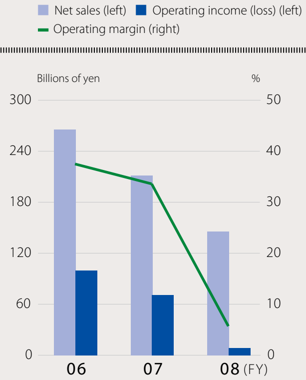
Share of Annual Pachislot Machine Sales[3]		Share of Annual Pachinko Machine Sales[3]	
Sammy	**21.8**	Company S	25.9
Company A	11.0	Company S	22.9
Company S	9.7	Company K	16.1
Company D	8.7	Company N	6.4
Company Y	8.7	Company D	5.3
		Sammy	**3.4**

1 Source: Publicly available materials from each company. Free cash flow = net cash provided by operating activities + net cash used in investing activities.
2 Source: Calculations based on the closing price on the stock exchange on March 31, 2008.
3 2007, source: Yano Research Institute, Ltd.

FEATURES AND STRENGTHS OF EACH SEGMENT

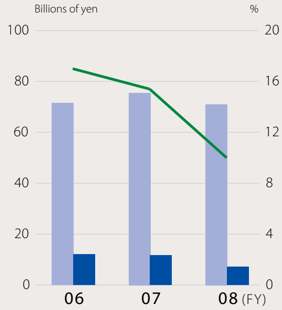
Pachislot and Pachinko Machine Business

This segment, which is a key source of revenue and profit for the Group, comprises the pachislot machine business, in which we continue to maintain the top market share, and the pachinko machine business, which we are working to develop into our next growth driver through focused application of management resources. The market environment is becoming increasingly difficult due to regulatory revisions, and to overcome the resulting challenges we will further enhance our strong development capabilities, and leverage Group synergies to bolster our revenue and profit structure.



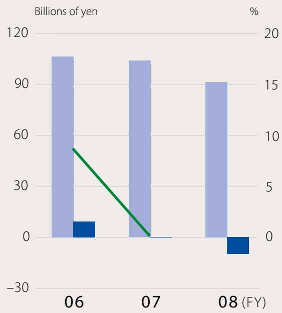
Amusement Machine Sales Business

This is one of the core businesses of SEGA, which maintains a position of leadership with original, innovative products. In large-scale, high-value-added products, such as network-enabled trading card games, SEGA is far ahead of its rivals. Another one of SEGA's key strengths is its full lineup of products that appeal to a wide range of players. Through cooperation with the Amusement Center Operations segment, the segment will strive to implement development that provides highly precise responses to market needs.



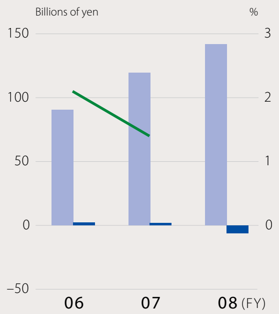
Amusement Center Operations

Through cooperation with the Amusement Machine Sales Business segment, this segment can offer in-house products that meet the needs of a wide range of players, ranging from adults to children and from frequent players to casual players. This ability is one of the segment's key strengths. As shown by the success of *Print Club*, *UFO Catcher*, and *MUSHIKING: The King of Beetles*, SEGA has established a system that enables it to rapidly grasp emerging market needs and create products that meet them. Currently, we are implementing restructuring measures to increase efficiency in center management.



Consumer Business

In home video game software, our unique product lineup has been highly evaluated, and we have built a distinct position. To steadily convert the global expansion of home video game software markets into growth for the Company's own businesses, we are establishing and bolstering local development bases, centered on Europe and the U.S. In addition, subsidiaries are active in such businesses as content for mobile phones, toys, and animation-related products.



Business Segments

Pachislot and Pachinko Machine Business

As the Group's core segment, the Pachislot and Pachinko Machine Business supports the operational development of the SEGA SAMMY Group. Currently, the segment is implementing decisive reforms targeting the establishment of an operational structure that responds flexibly to fluctuations in the market environment.

Pachislot Momotaro Dentetsu
© HUDSON SOFT
© Akira Sakuma
© Takayuki Doi
© Sammy

Operational Characteristics

The Pachislot and Pachinko Machine Business segment is the Group's core segment. In the fiscal year ended March 2008, the segment contributed 31.7% of the Group's consolidated net sales and the largest share of the Group's operating income. Sammy, the segment's core company, entered the pachislot machine market in 1982. Since that time, in accordance with its corporate declaration of "always proactive, always pioneering," Sammy has continually provided machines with unprecedented entertainment value and has driven the market forward. Sammy has maintained the top share of the pachislot machine market since 2001, and in 2007 Sammy maintained its position of leadership, securing a market share of 21.8% of units sold. Sammy, which entered the pachinko machine market in 1995, is aggressively taking steps to bolster its development capabilities in order to increase its market share.

In this business segment, we are working to generate synergies among Group businesses, such as implementing multifaceted development of content with other segments and utilizing the development resources of other segments in pachinko and pachislot machines. We made RODEO Co., Ltd., a consolidated subsidiary in 2000 and GINZA CORPORATION a consolidated subsidiary in 2006, and now we are implementing a multibrand strategy targeting the generation of synergies in such areas as branding, sales channels, and development among our three brands – Sammy, RODEO, and GINZA. In 2007, to further reinforce this strategic foundation, we made TAIYO ELEC Co., Ltd., a consolidated subsidiary.

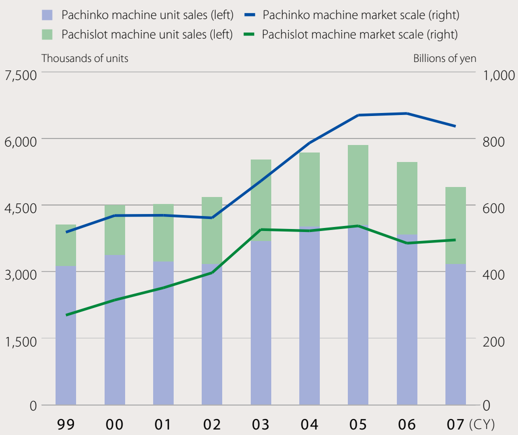
Overview of the Year under Review

* Please see pages 8 to 11 for information about the market environment.

In the pachislot machine market, the deadline for replacement of old-format machines, as stipulated by the July 2004 revision of the regulations pertaining to the Entertainment Establishments Control Law of Japan, was reached at the end of June 2007. The transition from old-format machines to new-format machines was expected to generate substantial replacement demand. However, due to such factors as concerns about losing players due to a dramatic change in entertainment value and a decline in capital investment capacity, pachinko hall operators reevaluated the amount of space allocated to pachislot machines in their halls. As a result, contrary to expectations, replacement demand was sluggish. Although *Pachislot Hokuto No Ken 2 Ranse Haoden Tenha No Sho* was a hit, with unit sales of more than 100,000 units, overall the Group's pachislot machine business recorded poor results, with total unit sales of about 380,000 units, a decline of 143,000 units year on year. Consequently, sales in the pachislot machine business were down 40.3%, to ¥103.7 billion. As an industrywide cooperative initiative intended to support pachinko hall operators as they made the transition to new-format pachislot machines, we offered limited-time rental plans for new-format pachislot machines through October 2007. These plans had an adverse effect on profitability.

In a market characterized by demand for pachinko machines to replace pachislot machines, market conditions in the pachinko machine business were firm. However, against the backdrop of pachinko hall operators' cautious approach to

Annual Unit Sales and Market Scale of Pachinko and Pachislot



Source: Yano Research Institute Ltd.

Pachislot Hokuto No Ken 2 Next Zone
© 1983 Buronson & Tetsuo Hara
© 2007 NSP, Approved No. SAD-304
© Sammy

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

capital investment, which resulted in a focus on the hit machines of the top manufacturers, we failed to provide machines that earned sufficient support from the marketplace. Accordingly, we postponed the launch of certain key titles to the next fiscal year to improve product quality. As a result, total sales of pachinko machines in fiscal 2008 were about 108,000 units, a decline of 25,000 units year on year. Consequently, sales in the pachinko machine business were down 0.7%, to ¥28.1 billion. TAIYO ELEC was made a consolidated subsidiary in December 2007, and its results of operations were consolidated from that point.

As a result, sales in this segment were down 31.2%, to ¥145.6 billion, and operating income declined 88.1%, to ¥8.4 billion. The operating margin declined 27.8 percentage points, to 5.8%.

The Challenges and Measures to Overcome Them

To achieve sustained growth, the SEGA SAMMY Group must improve revenue and profit in the Pachislot and Pachinko Machine Business segment. Accordingly, we will completely reevaluate our revenue and profit structures and organizational system in this segment, centered on Sammy. In the pachislot machine market, we will strive to maintain a top share through the continued development and provision of strategic titles. By positioning the pachinko machine business as a medium-to-long-term growth field, we will predominantly allocate the Group's management resources to the pachinko machine business.

In strengthening its operations in the pachinko machine market, the Group must bolster its development system. We have been unable to secure an adequate level of acceptance in the marketplace. One reason is that we did not sufficiently utilize market feedback in our development process. Another is that our development system was previously centered on the number of certifications of prototype testing from certain authorities. Accordingly, since September 2007 we have been moving forward with development activities that aggressively incorporate market preferences, without regard for the number of certifications. By enhancing the effectiveness of this new development system, we will strive to provide machines that are readily accepted by the marketplace, and in conjunction with the launch of new products, we will implement effective marketing and PR strategies. Also, we will also pursue synergies with TAIYO ELEC, which has been made a consolidated subsidiary. Further, we will strive to generate multifaceted synergies in such areas as product lineup, parts procurement, production, distribution, and sales channels, and we will work to link those synergies to growth in unit sales of pachinko machines.

In fiscal 2009, TAIYO ELEC will make a full-year contribution to consolidated results. In addition, we plan to introduce multiple major titles that have been refined to meet market needs through the new development system. Accordingly, our plans for the pachinko machine business call for increases in unit sales of 172,000 units, to 280,000 units, and in net sales of 175.1%, to ¥77.3 billion.

In consideration of the current difficult market environment in the pachislot machine business, we do not plan to introduce major titles during the current fiscal year. Instead, we will concentrate on increasing profitability. To that end, as the leader in the market, we will work to develop strategic titles, and at the same time, we will take steps to reduce costs, such as using common cabinets and parts and expanding the range of items that are reused. In fiscal 2009, we forecast unit sales of 248,000 units, a decline of 133,000 units year on year, and net sales of ¥70.1 billion, a decline of 32.4%.

We anticipate a major increase in sales of pachinko machines in fiscal 2009, and for the Pachislot and Pachinko Machine Business segment overall, we forecast sales of ¥160.0 billion, an increase of 10.0% from a year earlier. In operating income, the adverse effects of the pachislot machine rental plans will no longer be a factor, and, as a result of such factors, we forecast operating income of ¥13.0 billion, an increase of 54.8%, for an operating margin of 8.1%, a gain of 2.3 percentage points.

Business Segments

Amusement Machine Sales Business

"Creativity and advanced development capabilities that deliver surprise and excitement." By further enhancing this corporate DNA, SEGA will further expand the possibilities of amusement machines.

Operational Characteristics

The Amusement Machine Sales Business segment has been SEGA's core business since its establishment.

SEGA has one of the longest histories in the domestic amusement arcade machine market. The history of SEGA amusement machines is the history of the amusement machine market itself, which is characterized by the continual creation of new forms of entertainment. SEGA has launched numerous products that have leveraged advanced technologies to open up new game genres. These include *Hang On*, the first game ever to incorporate force feedback control; *After Burner*, which became the engine driving the global spread of force-feedback games; and *Virtua Fighter*, the world's first 3D computer graphics fighting game. SEGA has been a consistent leader in providing machines that have attracted new groups of customers, such as *UFO Catcher* and *Print Club*.

In the second half of the 1990s, the amusement arcade machine market began to contract due to such factors as competition from home video games. In this setting, SEGA activated the market by introducing forms of entertainment that cannot be enjoyed at home, only in amusement centers. These games included products in the *SANGOKUSHI TAISEN* series and other network-enabled trading card game machines.

Moreover, SEGA's ability to lead the industry is derived from its advanced applied technological capabilities, which enable the company to use leading-edge technologies to give concrete form to new entertainment, as shown in the development of multipurpose 3D computer graphics boards for amusement arcade machines and the development of *ALL.Net*, the technological foundation that links games and centers.

Currently, SEGA maintains a solid position as a leading company in the domestic market. In particular, SEGA has a dominant presence in trading card game machines and in network-enabled multi-satellite video game machines. One of SEGA's competitive advantages is its ability to provide a lineup of products that includes not only these high-value-added offerings but also products that meet the needs of a wide range of players, including families and children.

Overview of the Year under Review

* Please see page 12 for information about the market environment.

The amusement arcade machine market recorded five continuous years of expansion, with growth led by such large-scale game machines as multi-satellite video game machines and medal game machines. In the fiscal year ended March 2008, however, SEGA had a shortage of titles that led the market, and our sales in this business declined.

In the domestic market, robust sales were recorded by new products introduced in the year under review – *SEGA Network Taisen Mahjong MJ4*, an online mahjong game, and *SANGOKUSHI TAISEN 3*, the third installment in the popular network-enabled card action game machine series. On the other hand, the postponement of the introduction of certain key titles to fiscal 2009 had an influence, and domestic sales were down 7.6%, to ¥60.7 billion.

Overseas, sales were up 7.2%, to ¥10.4 billion. In the year under review, we revised our overseas strategy. In North America, where there is substantial room for growth, we strengthened our operational development, and for sales in Asia, we switched to a system of direct sales from Japan.

Consequently, the segment's net sales were down 5.8%, to ¥71.1 billion. Due to such factors as the decline in domestic sales, operating income was down 38.8%, to ¥7.2 billion, and the operating margin decreased 5.4 percentage points, to 10.1%.

GALILEO FACTORY

WORLD CLUB Champion Football Intercontinental Clubs 2006–2007

The Challenges and Measures to Overcome Them

In the Amusement Machine Sales Business segment, we will further refine our industry-leading development capabilities to build an extensive product lineup and launch products that appeal to a wide range of players. Moreover, aiming to establish a profit structure that can sustain our current profit margins even while we offer appealing products at more moderate prices, we will thoroughly reevaluate our production costs. In addition, to respond to market needs with high precision, we will also further bolster our cooperation with other segments, such as the Amusement Center Operations segment.

In the fiscal year ending March 2009, we are forecasting net sales of ¥76.0 billion, an increase of 7.0% year on year. In the domestic market, we are forecasting growth in net sales of 5.4%, to ¥64.0 billion, as a result of the introduction in stages of major titles whose launches were postponed from the previous fiscal year – *WORLD CLUB Champion Football Intercontinental Clubs 2006–2007*, a large-scale trading card game machine, and *GALILEO FACTORY*, a large-scale medal game.

Overseas, we will work to increase profitability by enhancing operational efficiency through the establishment of a system for direct sales to Asian markets from Japan and by strengthening our local development system in North America. We are forecasting sales of ¥12.0 billion in the fiscal year ending March 2009, an increase of 15.4%.

We forecast a decline in operating income of 22.5%, to ¥5.5 billion, and an operating margin of 7.2%, down 2.3 percentage points.

Business Segments

Amusement Center Operations

Through such measures as the closure and sale of unprofitable centers, increased efficiency in center management, and a reevaluation of head office functions, we will advance fundamental reforms in our operational system and achieve substantial improvements in profitability.

Operational Characteristics

A key strength of this segment, which is centered on SEGA, is its ability to offer a wide range of products – developed in-house through cooperation with the Amusement Machine Sales Business segment– that extends from products for casual players to those for frequent players. SEGA entered this market early in the history of the amusement center industry, and the Company has been a leader in the fostering of market growth through the development of large machines, such as force-feedback machines. Subsequently, SEGA introduced many highly innovative products. In recent years, through such products as *MUSHIKING: The King of Beetles*, the Company successfully developed new groups of customers, such as children, families, and women. As a result, SEGA led the progress from "amusement centers" to "comprehensive entertainment spaces" that people consider to be familiar and comfortable. Currently, the Company is meeting needs specific to regions and locations by developing facilities based on different concepts – such as *JOYPOLIS*, *SEGA WORLD*, and *CLUB SEGA*.

Overview of the Year under Review

* Please see page 13 for information about the market environment.

In the amusement center operations market, against the backdrop of a trend toward larger centers opened under scrap-and-build initiatives by major operators in recent years, the scale of the market has increased, but sales at existing centers have peaked, and the number of centers is declining.

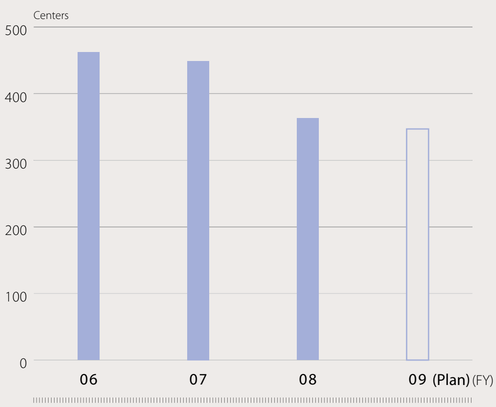
In this environment, sales at SEGA's existing centers have been down year on year from the third quarter of fiscal 2007, and in the year under review, sales at existing centers declined 11.0% from a year earlier.

In kid's card games, *Dinosaur King* recorded strong sales due to synergies with an animated TV series. However, the popularity of these games has waned, and the market has become saturated. Consequently, we sold 105 million cards in the year under review, down from 216 million in the previous year.

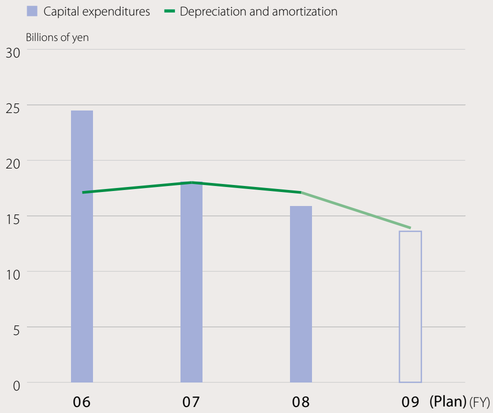
In the year under review, we closed or sold 92 centers in Japan, principally centers with low profitability or future potential, and we opened 12 new centers. As a result, the number of centers at the fiscal year-end totaled 363 centers. Further, we have taken to steps to focus our management resources on our core businesses, such as canceling the development of an entertainment complex in the Minato Mirai 21 Central District in the City of Yokohama, Kanagawa Prefecture.

Consequently, net sales in this segment were down 12.2%, to ¥91.2 billion. Sales at overseas centers were up 19.4%, to ¥11.7 billion. The segment recorded an operating loss of ¥9.8 billion, compared with operating income of ¥0.1 billion in the previous fiscal year. Due to the decline in the number of centers, capital investment was down 12.2%, to ¥15.9 billion, and depreciation and amortization decreased 5.0%, to ¥17.2 billion.

Number of SEGA's Domestic Amusement Centers



Amusement Center Operations' Capital Expenditures / Depreciation and Amortization



The Challenges and Measures to Overcome Them

The segment's core challenge is to improve profitability. In particular, the improvement of profitability at existing centers, where performance has continued to decline year on year, is a major issue. Accordingly, in the year under review, SEGA made progress with plans for the sale or closure of about 110 centers with low growth potential and profitability, and sold or closed the majority of those centers by the end of the fiscal year. In the fiscal year ending March 2009, the remaining stores that are slated for closure or sale will be closed or sold, and we will continue to focus on profitability. Also, as a means to improve profitability, we will thoroughly reevaluate head office functions and pursue reasonable administrative costs and efficient operational administration. At the same time, to increase revenues, we will formulate and implement clear strategies for each product category – video games, medal games, and prize games.

Through these initiatives, in fiscal 2009 we plan to open 12 centers and close 28, for a net reduction of 16 centers and a year-end total of 347 centers. In this way, we will work to improve the profitability of existing centers.

For the fiscal year ending March 2009, we forecast net sales in this business of ¥78.0 billion, a decrease of 14.5%, including overseas sales of ¥10.3 billion, down 12.0%. Operating loss is expected to improve from ¥9.8 billion to ¥1.5 billion.

Plans call for capital investment in the fiscal year ending March 2009 of ¥13.6 billion, down 14.5%, and depreciation and amortization of ¥13.9 billion, down 18.7%.

Business Segments

Consumer Business

By changing our lineup strategy, we will reinforce our foothold in the domestic market and strengthen our global development system, thereby steadily realize growth in the global market.

Ryu Ga Gotoku Kenzan!

Operational Characteristics

SEGA's home video game software operations, which constitute the core of this segment, are opening up new fields of business based on a spirit of taking on challenges. By continually launching innovative game software, SEGA has earned the support of a broad range of consumers. Since withdrawing from the market for home video game consoles in 2001, SEGA has implemented a multi-platform strategy of providing software for a wide range of consoles. In this way, SEGA has established a unique position.

Since the management integration, SEGA has enhanced its overseas development bases through M&A activities with overseas development studios, such as Sports Interactive Ltd., the creator of the *Football Manager* series, which is highly popular in Europe. With overseas markets showing notable growth, our global development system, which can precisely meet preferences that differ by region, is a major competitive advantage.

Overview of the Year under Review

* Please see pages 14 to 15 for information about the market environment.

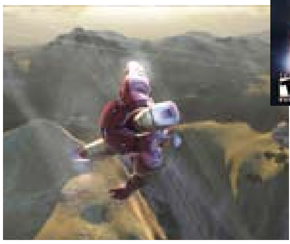
Due to the rapid penetration of next-generation game consoles, the home video game software market is showing strong growth in Japan and overseas. On the other hand, against a background of an increase in the number of new companies entering the market accompanying market growth and of rising development costs, software companies, including the Company, need to create more-cautious lineup strategies.

In Japan, the Group's home video game software operations launched a total of 37 titles for a broad range of consoles in the year under review. *Ryu Ga Gotoku Kenzan!*, for the PLAYSTATION®3, was a major hit, but overall unit sales in Japan were down 54.9%, to 2.64 million units. Overseas, however, products such as *Mario & Sonic at the Olympic Games*, which is themed on the Beijing Olympics, recorded favorable sales. And, sales in the U.S. and Europe increased substantially, sales in the U.S. of 12.1 million units and sales in Europe of 12.3 million units.

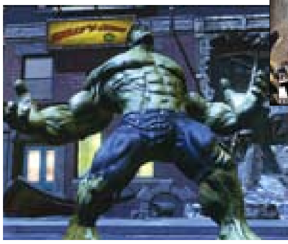
Consequently, total unit sales rose 26.9%, to 27.0 million units.

The toy operations handled by subsidiary SEGA TOYS, LTD., were sluggish in Japan due to difficult conditions during the Christmas period, but overseas sales were favorable. Moreover, the content operations handled by Sammy NetWorks Co., Ltd., recorded higher revenues, with growth recorded by a pachislot game site for PCs. The animation operations handled by TMS ENTERTAINMENT, LTD., recorded sluggish sales due principally to decreased sales overseas.

Consequently, the segment's net sales were up 18.6%, to ¥141.8 billion. This included video game software sales of ¥94.8 billion, an increase of 24.6%, and network games and other business sales of ¥46.9 billion, an increase of 8.1%. R&D expenditures rose 39.5% year on year, to ¥37.1 billion. As a result, operating loss was ¥6.0 billion, compared with operating income in the previous fiscal year of ¥1.7 billion.

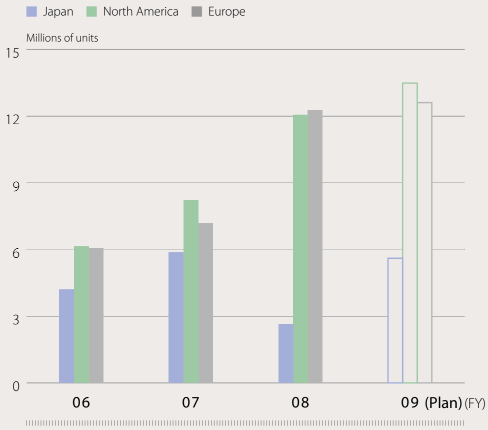



IRON MAN™

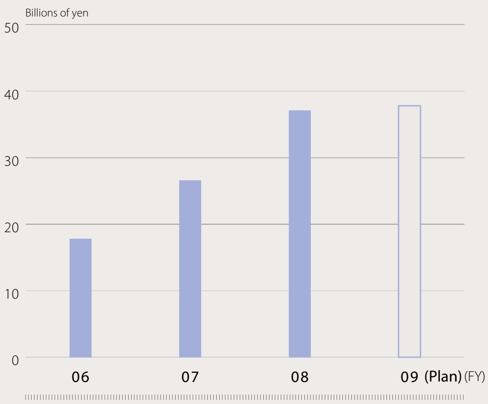



THE INCREDIBLE HULK™

SEGA's Unit Sales of Home Video Game Software in Major Markets



Consumer Business's R&D Expenses



The Challenges and Measures to Overcome Them

The largest challenge faced by the segment is the improvement of profitability in the domestic home video game software business, the segment's core business. Following the sluggish unit sales in the year under review, in fiscal 2009, the segment will work to effectively expand sales by substantially reevaluating its software lineup strategy. Moreover, we will take steps to build a development system that can generate hit products, by such initiatives as introducing the producer system and using talented outside staff. At the same time, by rigorously controlling development costs, we will work to establish a strong profit structure.

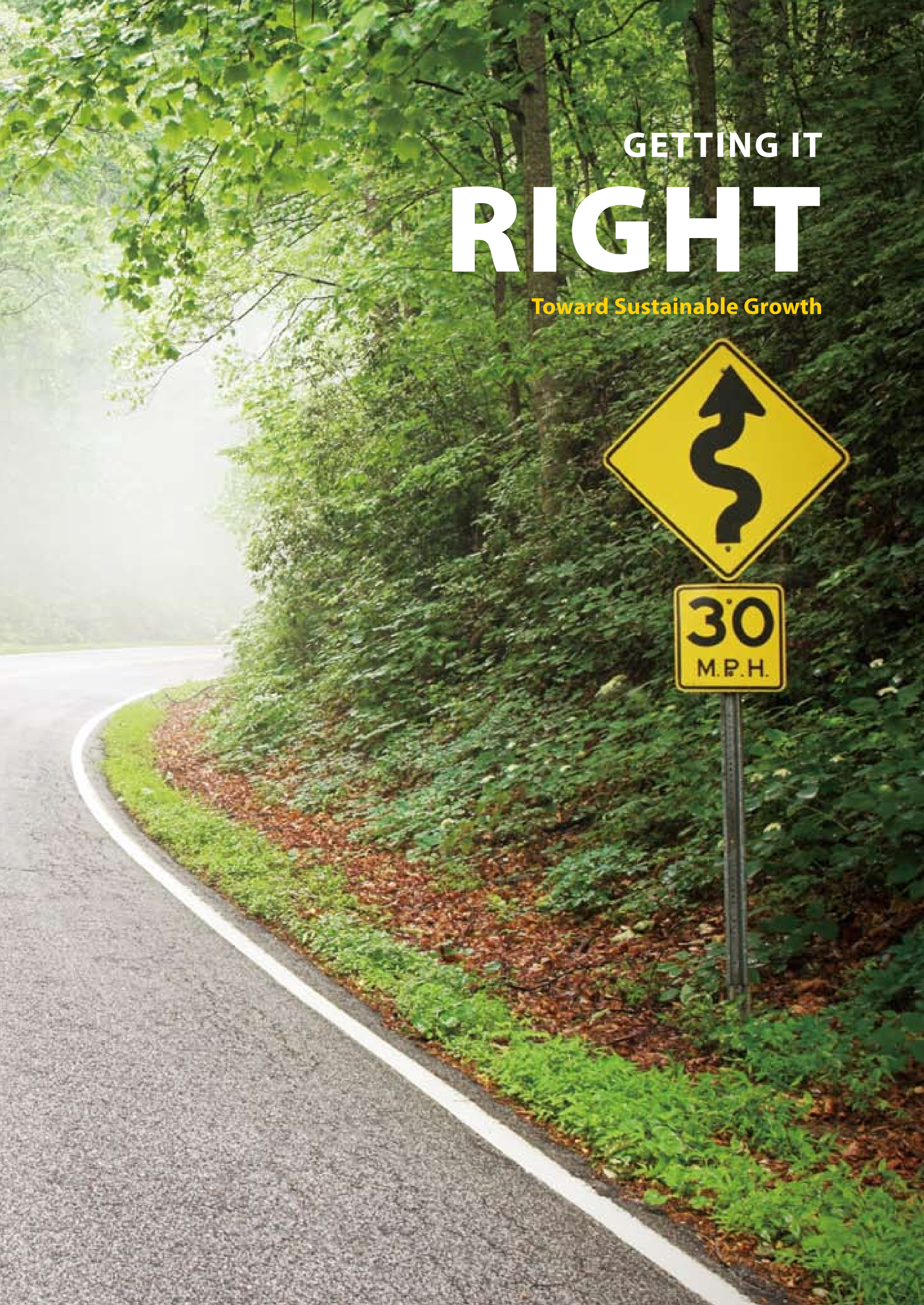
Our plans call for an increase of 112.5% in domestic unit sales of home video game software, to 5.61 million units. Overseas, we plan to launch major titles, including titles coordinated with popular movies, and we expect unit sales to follow up the gain in the year under review with another increase. We are planning sales of 13.5 million units in the U.S., up 11.9% year on year, and 12.6 million units in Europe, a gain of 2.8%. Overall, we are planning sales of 144 titles, an increase of 6 titles, and total unit sales of 31.7 million units, a gain of 17.5%.

In fiscal 2009, the segment's net sales are forecast to rise 8.0%, to ¥153.0 billion, including video game software sales of ¥103.0 billion, up 8.6%, network games and other business sales of ¥50.0 billion, up 6.6%. We expect the segment to return to profitability with operating income of ¥3.3 billion. R&D expenditures are planned to be up 1.9%, to ¥37.8 billion.

Keep running and improving mileage...

GETTING IT RIGHT

Toward Sustainable Growth



Corporate Governance

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

Basic Stance on Corporate Governance

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

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

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

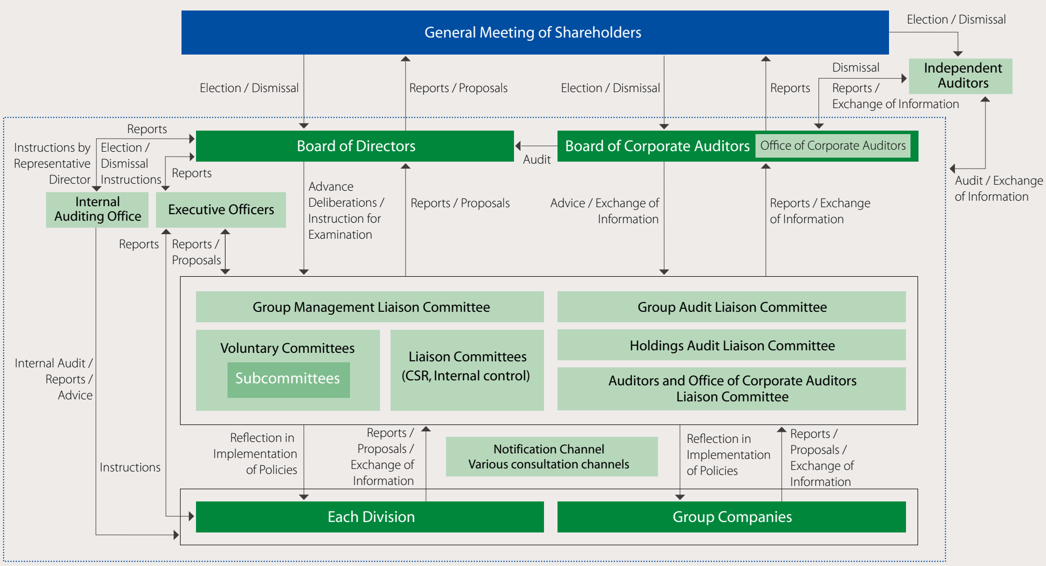
Enhancing Transparency: In light of the growing importance of disclosure by companies, the Group will increase management transparency by fulfilling its responsibility to explain corporate actions to shareholders and other stakeholders and by realizing enhanced disclosure through proactive investor relations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

Corporate Governance System

The Group has adopted a corporate auditor system in consideration of its objective of enabling directors, who have abundant knowledge and experience of industry, market trends, products, merchandise, and services, to make quick and optimal management decisions in a rapidly changing management environment. At the same time, we have appointed outside directors and strengthened our executive officer and internal control systems, reinforcing our corporate governance organization from the aspects of business execution and organizational oversight.

Moreover, the Company and the Group believe that CSR activities are important for the realization of both sustained value creation for the Group and sustained development for stakeholders. To respond to the wide-ranging demands of society as a good corporate citizen, for the Group's CSR activities, we have established the CSR Liaison Committee, which handles communication and coordination, and have assigned

Corporate Governance System



CSR officers in the Group Internal Control and CSR Promotion Office, a specialized office. We have formulated the Group Management Philosophy, the Group CSR Charter, and the Group Code of Conduct, which together provide the foundation for our CSR activities. In addition, we have prepared a variety of in-house guidelines and manuals that directly cover specific operations, and to build strong relationships with stakeholders, the entire Group is taking an autonomous approach to the implementation of CSR activities.

Administrative Systems Related to Management Decision-making, Execution, and Supervision

Institutional relationships and organizational administration

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

Corporate Auditors: Two of the Company's four corporate auditors are outside corporate auditors. The outside corporate auditors conduct audits and provide frank guidance and advice based on their external viewpoints, which differ from those of inside corporate auditors, and on their abundant experience and specialized knowledge, thereby contributing to enhancing efficiency, securing a sound corporate organization, and enhancing transparency in the Company's management. In addition, the Company has established the Office of Corporate Auditors, which reports directly to the Board of Corporate Auditors. The staff of the Office of Corporate Auditors assists the corporate auditors in their duties in accordance with guidance and instruction from the corporate auditors.

Functioning of Boards and Committees

Board of Directors: Comprising six directors, the Board of Directors convenes once a month and additionally as required and implements responsive management. Further, the Board of Directors and other bodies of the Company undertake decision making and reporting for certain significant management issues of Group companies.

Board of Corporate Auditors: The Board of Corporate Auditors, consisting of four corporate auditors, meets once a month and additionally as required to conduct deliberations and thoroughly analyze specific issues.

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

Holdings Audit Liaison Committee: The Holdings Audit Liaison Committee consists of standing corporate auditors from the Company, SEGA, and Sammy; responsible directors from accounting divisions; and representatives of the Company's independent auditors, KPMG AZSA & Co. At monthly meetings, committee members exchange opinions from their respective standpoints and seek to enhance accounting compliance.

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

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

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

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

Positioning and Roles of Individual Committees

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

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

Basic Policies for Strengthening Internal Control Systems

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

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

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

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

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

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

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

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

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

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

1) We have delegated supervisory functions concerning compliance to the Group Internal Control and CSR Promotion Office, which has general responsibility for the CSR activities of the Company and the Group. We have instituted the Group CSR Charter and Group Code of Conduct as rules and behavioral standards to ensure that all officers and employees act in compliance with laws, regulations, the Articles of Incorporation, and other internal rules as well as social norms. We endeavor to foster a thorough understanding of and ensure strict compliance with the Group CSR Charter and Group Code of Conduct.

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

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

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

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

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

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

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

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

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

1) If directors or employees become aware of any material violation of laws, regulations, or the Articles of Incorporation, of any misconduct with regard to the performance of duties, or of any fact that may cause material damage to the Company, they must report the situation to the Board of Corporate Auditors without delay.
2) Directors and employees must report any decisions that could have a material effect on business or the organization and the results of any internal audits to the Board of Corporate Auditors without delay.

(10) Other systems to ensure effective audits by corporate auditors
1) The representative directors must meet with the corporate auditors periodically to exchange opinions on the administration of the Company, in addition to reports on operations, and must otherwise work to foster mutual communication.
2) The Board of Directors must ensure that corporate auditors attend business execution meetings as needed to ensure appropriate operations.
3) Whenever necessary, the Board of Corporate Auditors must be given opportunities to receive advice on their duties by independently engaging attorneys, certified public accountants, and other third-party advisors.

Basic Stance On and Preparations for Dealing with Antisocial Forces

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

Progress with Business Information Disclosure (IR Activities)

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

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

For overseas investors, we offer an IR road show once a year, visiting investors in Europe, the U.S., and Asia, and we participate in conferences sponsored by securities companies.

For our individual shareholders and investors, we implement a variety of initiatives to encourage a deeper understanding of our corporate activities. These include a results presentation held once a year and an IR web site specifically designed for individual investors that offers a wide range of useful information.

Other Initiatives

Stance on Hostile Takeovers

The Company believes that endeavoring to enhance efficiency, secure a sound corporate organization, enhance transparency, and meet the expectations of stakeholders will lead to the maximization of corporate value and greater market capitalization and, consequently, will be the best takeover defense policy.

Basic Stance on Corporate Governance System

To bolster the corporate governance of the Company and the Group, we have established the Group Internal Control Liaison Committee, which coordinates the Group's internal control activities; the Group CSR Liaison Committee, which coordinates the Group's CSR activities, and the Group Internal Control and CSR Promotion Office, a specialized office. These bodies discuss and confirm problem areas and progress in the establishment of the Group's internal control systems and work to support and enhance those systems.

Representative examples of items that have been considered include the establishment of a framework for evaluating and reporting on internal control systems in response to the system for evaluation and auditing standards for internal control for financial reports as stipulated by the Financial Instruments and Exchange Law, which is commonly known as J-SOX. The Group internal control system project was launched in fiscal 2006, and we have worked to build the internal control system for the corporate group. By the end of March 2008, the process of evaluating the effectiveness of each Group company's development progress had basically been completed, and in regard to issues that had been uncovered through the evaluation of development progress or through the implementation of trials of the evaluation of operational effectiveness, appropriate improvement and resolution initiatives were implemented. We have prepared the foundation for evaluating and reporting on internal control systems related to financial reports that will be required under J-SOX, which will take effect from the fiscal 2009.

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

Corporate Social Responsibility

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

Overview of the SEGA SAMMY Group's Approach to CSR

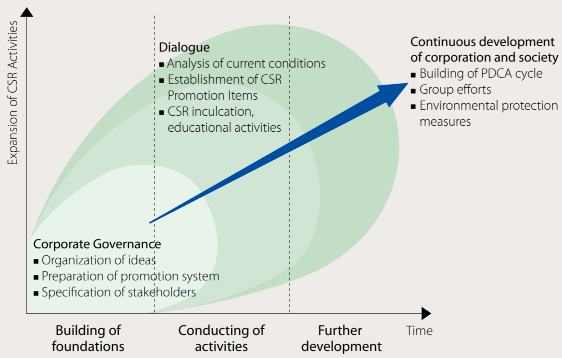
In accordance with our Group management philosophy – By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture – since 2005, we have moved forward in three phases, building foundations, conducting activities, and further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

1. Sound management

2. Further deepen the relationship with our stakeholders

3. Continuous development of corporation and society

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

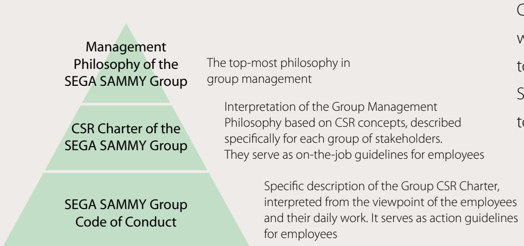


Implementation of CSR Activities to Date

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

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

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



CSR Promotion System

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

In realizing sound management, which is the foundation for the promotion of CSR activities, to enhance corporate governance, compliance, and risk management, the Company established the Group CSR Liaison Committee and the Group Internal Control Liaison Committee. These committees coordinate the Group's CSR activities and internal control activities.

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

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

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

Relationships With Stakeholders

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

With Customers

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

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

With Partners

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

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

With Shareholders and Investors

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

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

With Employees

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

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

With Society

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

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

Green Power WATER | Green Power BIOMASS | Green Power WIND

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

* Since fiscal 2006, SEGA has been annually purchasing 1-million kWh "Green Power Certificates." These certificates are based on the Green Power Certification System of the Japan Natural Energy Company Limited, with which SEGA has concluded a contract for their purchase. By using this clean energy system, SEGA is reducing its environmental impact from energy use. Since April 2007, moreover, SEGA has been participating in the Yokohama City Wind- Power Electrical Generation Project as a project supporter (Y-Green Partner).

The Company issued a CSR report in August 2008.
For details of CSR activities, please see the CSR page on the Company's website:
http://www.segasammy.co.jp/japanese/pr/corp/csr_report.html

Directors, Corporate Auditors, and Executive Officers

As of August 1, 2008

Hajime Satomi
Chairman of the Board and
Chief Executive Officer

Keishi Nakayama
Executive Vice President and
Representative Director

Okitane Usui
Director

Hisao Oguchi
Director and CCO
(Chief Creative Officer)

Yuji Iwanaga
Director

Takeshi Natsuno
Director

Standing Corporate Auditor

Kazutada Ieda

Corporate Auditors

Toshio Hirakawa
Hisashi Miyazaki
Mineo Enomoto

Senior Executive Officers

Hideo Yoshizawa
Koichi Fukazawa

Executive Officers

Tetsushi Ikeda
Takatoshi Akiba

FINANCIAL SECTION

Contents

Overview of Pachinko and Pachislot Market

Japan's Original Popular Entertainment – Pachinko and Pachislot

Pachinko, which was imported to Japan in the 1920s, is played with machines that are similar to pinball machines, except that pachinko machines are vertical. With a diameter of 11 mm, pachinko balls are smaller than pinballs, which have a diameter of about 25 mm. When the balls fall into the tulip-shaped devices and the jackpot mouth, additional pachinko balls are won from the jackpot. This is a distinctive aspect of the entertainment value of pachinko. In recent years, pachinko machines have become high-technology products that incorporate a variety of electronic components, such as large-scale LCDs.

Slot machines were introduced to Japan from the U.S. in the 1960s. Pachinko machines had already penetrated the market, and when slot machines were installed in pachinko halls, they were converted to the same size cabinet as pachinko machines. The result was an original form of entertainment available only in Japan – pachislot. Another important difference from the original slot machines is the use of stop buttons to enable the player to stop the rotating reel.

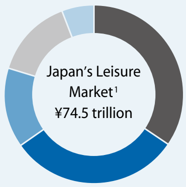
Currently, the market for the rental of balls from hall operators to players accounts for about 31% of Japan's leisure market, which itself has a scale of about ¥75 trillion a year. Pachinko and pachislot have established a dominant position in popular entertainment in Japan.

Pachinko and Pachislot Machine Market

The pachinko and pachislot market, which comprises the rental of balls by pachinko halls to players, has spread its base of support not only to the pachinko and pachislot machine market but also, due to the growing use of advanced technology in pachinko and pachislot machines in recent years, to the markets for such parts as LCD panels, LEDs, semiconductors, and sensors. The pachinko and pachislot machine market, which has a market scale of about ¥1,330.0 billion, included 27[1] pachinko machine manufacturers and 27[2] pachislot machine manufacturers. A distinctive feature of the market is the high market shares held by the top companies.

1 As of the end of June 2008, Nikkoso member companies
2 As of the end of June 2008, Nichidenkyo member companies

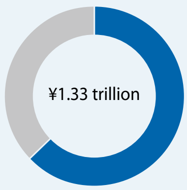
Share of Pachinko and Pachislot in Japan's Leisure Market



Games / Publicly Operated Sports / Eating and Drinking	¥25.7 trillion	34.5%
Pachinko and Pachislot[2]	**¥23.0 trillion**	**30.8%**
Hobbies	¥10.7 trillion	14.5%
Tourism	¥10.7 trillion	14.4%
Sports	¥4.3 trillion	5.8%

Source: *White Paper on Leisure Industry 2008*
1 2007
2 Total ball and token sales in pachinko and pachislot halls in 2007

Pachinko and Pachislot Machine Market Scale*

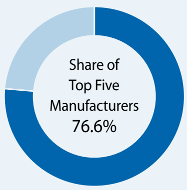


Pachinko machine market scale	¥836.4 billion
Pachislot machine market scale	¥495.2 billion

Source: Yano Research Institute Ltd.
*2007

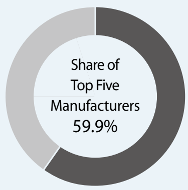
Market Share of Top Manufacturers*

Pachinko Machines



Top pachinko machine manufacturers	
Company S	25.9%
Company S	22.9%
Company K	16.1%
Company N	6.4%
Company D	5.3%
Sammy	**3.4%**

Pachislot Machines



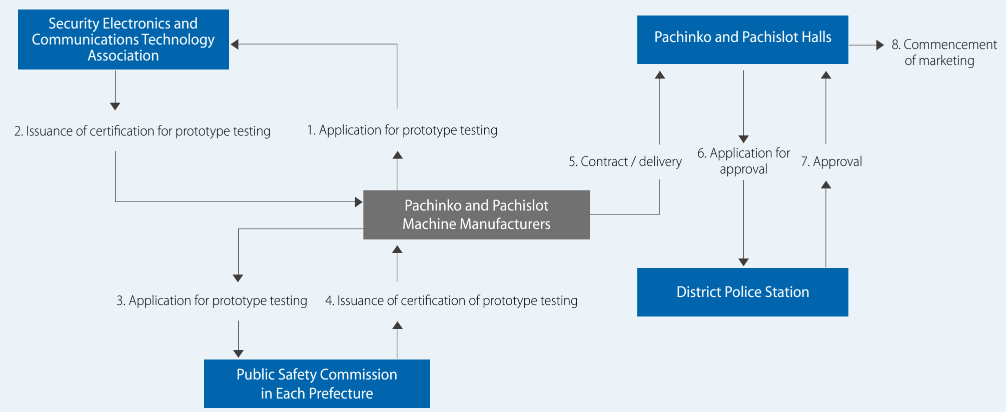
Top pachislot machine manufacturers	
Sammy	**21.8%**
Company A	11.0%
Company S	9.7%
Company D	8.7%
Company Y	8.7%

Source: Yano Research Institute Ltd.
*2007

Overview of Pachinko and Pachislot Machine Market Regulatory Environment

Machines newly developed by pachinko and pachislot machine manufacturers must clear multiple approval stages before they are introduced to the market. First, the manufacturers must file applications for prototype testing with the Security Electronics and Communications Technology Association. After the acquisition of certification that such elements as materials and functions are in conformance with current regulations, the machines are verified by the Public Safety Commission in each prefecture. Then they are supplied to pachinko halls. The Pachinko halls must apply for approval of the machines from the district police station, and after testing is completed, the new machines can be used in operations.

Approval Process for Pachinko and Pachislot Machines



These approval procedures have been revised many times in the past. Most recently, in July 2004, the regulations pertaining to the Entertainment Establishments Control Law were revised with an emphasis on controlling the gambling aspect, which had become too strong, and on eliminating unfairness. Key points were as follows.

Pachislot Machines – Control Gambling Element

The point of the revisions was to promote a shift of the emphasis in machine development from the gambling element to entertainment value that can be enjoyed by a wide range of users for long periods of time for small amounts of money.

Pachinko Machines – Eliminate Machine Types and Enhance the Entertainment Value

The barriers separating the previous three types of machines were eliminated, and the special features of each type of machine were combined, making possible the creation of entirely new types of machines.

Market Data

NUMBER OF PACHINKO HALLS

Number of halls

(CY)	2003	2004	2005	2006	2007
Number of pachinko halls with pachinko machines installed	14,695	13,844	13,163	12,588	12,039
Number of pachinko halls with pachislot machines installed	1,381	1,773	2,002	2,086	1,546
Total	16,076	15,617	15,165	14,674	13,585

Source: National Police Agency
Number of pachinko halls with pachinko machines installed includes halls that combine installations of pachinko machines, pachislot machines, arrange-ball machines, and other machines.

PACHISLOT MACHINE AND PACHINKO MACHINE SALES, INSTALLED, AND MARKET SCALE

(CY)		2003	2004	2005	2006	2007
Pachislot machines	Machine sales (units)	1,842,392	1,672,049	1,786,292	1,647,853	1,744,876
	Machines installed (units)	1,660,839	1,887,239	1,936,470	2,003,482	1,635,860
	Market scale (millions of yen)	526,354	522,582	536,539	487,304	495,226
Pachinko machines	Machine sales (units)	3,686,677	4,013,153	4,047,999	3,831,211	3,166,039
	Machines installed (units)	3,227,239	3,077,537	2,960,939	2,932,952	2,954,386
	Market scale (millions of yen)	672,055	786,535	869,940	875,009	836,436

Sources: National Police Agency (machines installed) and Yano Research Institute Ltd. (machine sales and market scale)

SHARE OF ANNUAL PACHISLOT MACHINE SALES

(CY)	2003		2004		2005		2006		2007	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	**Sammy**	**32.1%**	**Sammy**	**40.5%**	**Sammy**	**34.0%**	**Sammy**	**32.0%**	**Sammy**	**21.8%**
2	Company O	18.5%	Company O	16.4%	Company D	13.2%	Company D	12.1%	Company A	11.0%
3	Company A	13.6%	Company Y	9.0%	Company H•O	10.5%	Company Y	10.5%	Company S	9.7%
4	Company Y	11.9%	Company D	7.9%	Company Y	8.4%	Company H•O	10.9%	Company D	8.7%
5	Company D	4.9%	Company A	4.7%	Company S	6.3%	Company K	9.4%	Company Y	8.7%

Source: Yano Research Institute Ltd.

SHARE OF ANNUAL PACHINKO MACHINE SALES

(CY)	2003		2004		2005		2006		2007	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Company S	25.2%	Company S	22.9%	Company S	24.7%	Company S	23.2%	Company S	25.9%
2	Company S	16.4%	Company S	21.2%	Company S	18.3%	Company K	21.0%	Company S	22.9%
3	Company D	9.5%	Company H	8.7%	Company K	9.6%	Company S	16.6%	Company K	16.1%
4	Company H	7.1%	Company D	7.7%	Company N	7.9%	Company N	6.6%	Company N	6.4%
5	**Sammy**	**6.7%**	Company N	6.9%	**Sammy**	**7.1%**	Company D	5.1%	Company D	5.3%
			Sammy	**5.8%**			**Sammy**	**3.5%**	**Sammy**	**3.4%**

Source: Yano Research Institute Ltd.

AMUSEMENT MACHINE AND AMUSEMENT CENTER OPERATIONS MARKETS

Millions of yen

(FY)	2002	2003	2004	2005	2006
Net sales of amusement machines	154,528	177,889	180,550	199,227	223,357
Net sales from amusement center operations	605,521	637,744	649,223	682,458	702,857
Number of amusement centers	11,499	10,759	10,109	9,515	9,091
Year-on-year comparison of sales at existing amusement centers (%)	101.5	101.1	96.0	98.7	97.8

Source: JAMMA, AOU, and NSA, *Amusement Industry Survey 2007*. Sales figures for 2007 are not disclosed by the survey organizations.

HOME VIDEO GAME MARKET SCALE

Millions of yen

(CY)	2003	2004	2005	2006	2007
Hardware shipments	704,513	440,702	872,740	958,129	2,087,795
Software shipments	429,850	468,412	487,110	674,174	846,650

Source: *2008 CESA Games White Paper*

MOBILE PHONE CONTENT MARKET SCALE

Billions of yen

(CY)	2003 (estimated)	2004 (estimated)	2005 (estimated)	2006 (estimated)	2007 (estimated)
Mobile phone content	275.8	321.7	396.9	439.2	526.6
Visual content	27.4	31.4	58.9	73.1	103.3
Music content	112.9	136.8	161.0	160.2	163.3
Game content	27.0	41.2	58.9	74.8	84.8
Textual content	108.5	112.3	118.1	131.1	175.2

Source: Based on *Digital Content White Paper 2008*

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

Billions of yen

(CY)	2002	2003	2004	2005	2006
Domestic shipments	702.7	698.8	662.9	737.0	886.7
Domestic retail sales	947.9	941.7	920.8	1,005.5	1,189.3

Source: Yano Research Institute Ltd.

DOMESTIC VISUAL CONTENT MARKET SCALE

Billions of yen

(CY)	2001 (estimated)	2002 (estimated)	2003 (estimated)	2004 (estimated)	2005 (estimated)	2006 (estimated)	2007 (estimated)
Packaged visual content	268.2	326.1	406.2	494.8	606.7	604.2	642.0
Network visual content	1.0	3.9	14.7	17.3	29.2	36.8	44.4

Source: Based on *Digital Content White Paper 2008*

Management's Discussion and Analysis

Operating Environment

In 2007, Japan's leisure market declined 5.8% year on year, to ¥74.5 trillion, from ¥79.2 trillion in the previous year. The decline in pachinko ball and pachislot token sales, which account for a large share of the leisure market, has had a major effect on the decline in the leisure market in recent years. After peaking in 1996, the number of pachinko players has fluctuated in a narrow range. As a result of the complete removal of old-format pachislot machines (Reg. 4 machines) following the revision of regulations pertaining to the Entertainment Establishments Control Law, in 2007, the population declined by 2.1 million players year on year, to 14.5 million. In the fiscal year ended March 2008, accompanying this decline in the player population, the management environment faced by pachinko hall operators worsened, with an impact on the pachinko and pachislot machine market. In the pachislot machine market, prior to the deadline for the complete removal of old-format machines, which was made mandatory under the revision of regulations pertaining to the Entertainment Establishments Control Law, there was a conversion from old-format machines to new-format machines in a limited period of time. As a result, the scale of the market in 2007 increased to ¥495.2 billion, from ¥487.3 billion in the previous fiscal year. However, due to a trend among pachinko hall operators toward the reevaluation of the installation of pachislot machines versus pachinko machines, the number of installed units declined. On the other hand, pachinko machines recorded an increase in installed units, but pachinko hall operators faced an investment burden stemming from the replacement of old-format pachislot machines with new-format machines, and against this background, the scale of the market declined to ¥836.4 billion in 2007 from ¥875.0 billion in the previous fiscal year.

In the domestic market demand for amusement machines was firm, with growth continued to be driven by large-scale, network-enabled machines.

The amusement center operations market was affected by sluggish consumer spending stemming from rising prices for crude oil and food, and sales at existing centers were down year on year.

In the market for home video game software, the accelerating penetration of handheld game platforms and new game platforms worldwide have provided a tailwind for market growth, with especially strong growth overseas. In Japan, the U.S., and Europe, shipments of home video game software totaled ¥2,240.7 billion, an increase of 30.4%.

Analysis of Operating Results

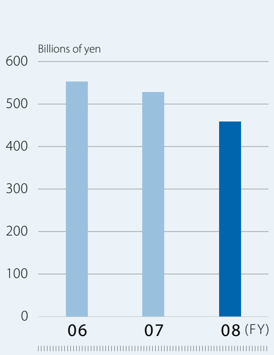
Results of Operations

Net Sales In the fiscal year ended March 31, 2008, net sales declined 13.1%, to ¥459.0 billion. The Consumer Business segment recorded higher sales on account of favorable overseas results, but the Pachislot and Pachinko Machine Business segment and the Amusement Center Operations segment registered declines in sales. The performance of the Pachislot and Pachinko Machine Business segment had an influence on our results. This segment, which accounts for about 30% of consolidated net sales, recorded a year-on-year decline in sales of 31.2% due in part to a decrease in unit sales of pachislot machines.

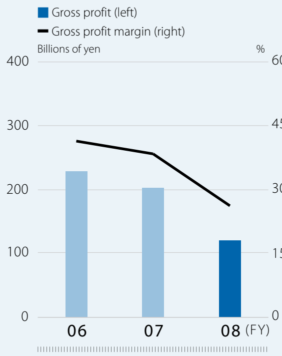
For more information, please see the following Overview by Segment section.

Operating Income (Loss) Operating loss was ¥5.8 billion, compared with operating income of ¥76.5 billion in the previous fiscal year. Key reasons for this decline included the following. In the mainstay

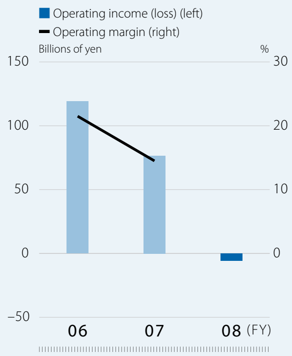
Net Sales



Gross Profit /
Gross Profit Margin



Operating Income (Loss) /
Operating Margin



Pachislot and Pachinko Machine Business segment, both pachislot machines and pachinko machines recorded year on year declines in sales. In addition, in the pachislot machine business, our profit margin was adversely affected by the implementation of limited-time rental plans. Moreover, operating losses were recorded in the Amusement Center Operations segment and the Consumer Business segment.

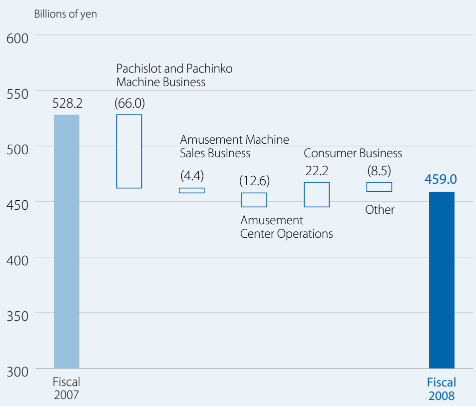
Net Other Income (Expenses) Net other expense was ¥34.3 billion, compared with net other income of ¥0.9 billion in the previous fiscal year. From the sale of stock in FIELDS CORPORATION and others, gain on sale of investment securities was ¥4.4 billion. Loss on revaluation of investment securities, for Sanrio Co., Ltd. and others, was ¥12.4 billion, impairment loss on amusement facilities and China-related operations was ¥9.2 billion, and loss on cancellation of amusement center under development, for Minato Mirai 21, was ¥5.6 billion. Premium allowance of retirement, for SEGA's voluntary early retirement program, was ¥2.8 billion, and cost of product recall was ¥2.2 billion.

Net Income (Loss) Loss before income taxes and minority interests was ¥40.1 billion, compared with income before income taxes and minority interests of ¥77.4 billion in the previous fiscal year. After income taxes and minority interests, net loss was ¥52.5 billion, compared with net income of ¥43.5 billion in the previous fiscal year. Cash dividends per share were ¥45.00, compared with ¥60.00 per share in the previous fiscal year.

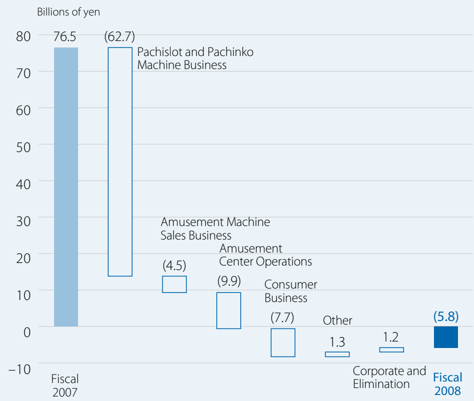
Overview by Segment

Pachislot and Pachinko Machine Business Segment In the pachislot machine business, *Pachislot Hokuto No Ken 2 Ranse Haoden Tenha No Sho* recorded growth in unit sales. On the other hand, replacement demand for new-format machines, which had been expected in the period prior to the deadline for the removal of old-format machines, which was made mandatory under the revision of regulations pertaining to the Entertainment Establishments Control Law, was unexpectedly sluggish. Unit sales were down substantially year on year, and net sales declined 40.3%, to ¥103.7 billion. In the pachinko machine business, we continued working to bolster our development process, but we failed to provide titles that earned the support of the marketplace, and sales were down 0.7%, to ¥28.1 billion. TAIYO ELEC Co., Ltd., was made a consolidated subsidiary in December 2007. Its results of operations were consolidated in the results of the Pachislot and Pachinko Machine Business segment from the second half of the fiscal year under review.

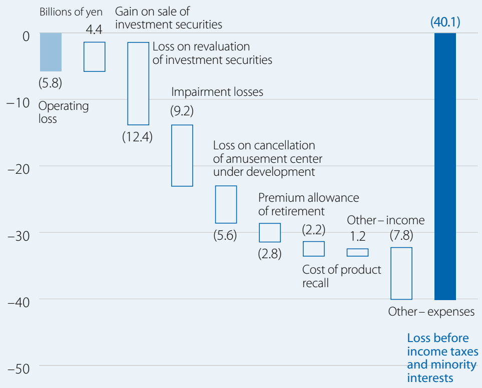
Net Sales



Breakdown of Operating Income (Loss) by Segment



Breakdown of Other Income (Expenses)



Consequently, the segment's net sales were down 31.2%, to ¥145.6 billion.

In addition to the decrease in net sales, the Pachislot and Pachinko Machine Business segment's operating income was influenced by the provision of limited-time rental plans through October 2007, and the segment's operating income was down 88.1%, to ¥8.4 billion. As a component of pachislot machine sales, rental plan sales amounted to ¥24.2 billion, or about 23% of sales of pachislot machines. The segment's operating margin was 5.8%, compared with 33.6% in the previous fiscal year.

Amusement Machine Sales Business Segment In the domestic market, robust sales were recorded by large-scale games, such as *SEGA Network Taisen Mahjong MJ 4* and *SANGOKUSHI TAISEN 3*, a popular network-enabled card action game machine. However, we postponed sales of certain major titles to the next period, and sales were down 7.6% year on year, to ¥60.7 billion. Overseas sales were up 7.2%, to ¥10.4 billion.

As a result, sales in this segment were down 5.8%, to ¥71.1 billion, and operating income declined 38.8%, to ¥7.2 billion. The operating margin was down 5.4 percentage points, to 10.1%.

Amusement Center Operations Segment Sales at existing centers declined 11.0% year on year. In kid's card games, sales of *Dinosaur King* were favorable due to synergies with an animated TV series. However, the popularity of other kid's card games waned, and total unit sales of cards were 105 million in the year under review, down from 216 million in the previous fiscal year.

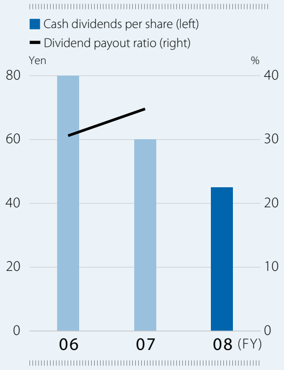
Net sales in this segment were down 12.2%, to ¥91.2 billion, and the operating loss was ¥9.8 billion, compared with operating income of ¥0.1 billion a year earlier. In the year under review, with the objective of increasing the efficiency of center management, we thoroughly evaluated profitability and future potential, and we closed or sold 92 centers. On the other hand, we opened 12 new centers, and as a result, we had 363 centers at fiscal year-end. To focus on the Group's core business, we withdrew from the development of the entertainment complex in the Minato Mirai 21 Central District.

Consumer Business Segment In home video game software, the mainstay of the Consumer Business segment, the *Ryu Ga Gotoku Kenzan!* title in the popular *Ryu Ga Gotoku* series became a hit product, but overall domestic sales of home video game software declined year on year. However, thanks to favorable sales of *Mario & Sonic at the Olympic Games*, which is themed on the Beijing Olympics, overseas sales of video game software increased year on year. As a result, we recorded home video game software sales of 2.57 million units in Japan, 12.06 million units in the United States, 12.27 million units in Europe, and 70 thousand units in other regions, for a total of 26.99 million units, an increase of 5.72 million units year on year.

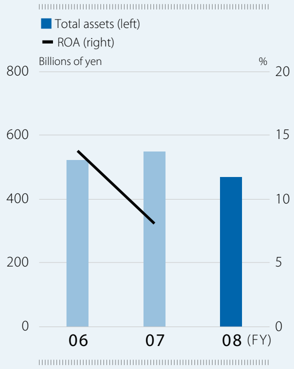
In toy sales operations, sales were weak in Japan, but overseas sales of such products as *BAKUGAN* were favorable. In addition, content for mobile phones recorded a solid performance, but overseas sales of animated videos were sluggish.

Net sales in this segment were up 18.6%, to ¥141.8 billion, due to favorable overseas results. However, domestic sales were sluggish, and R&D expenses, principally for the development of home video game software for new game consoles, were up 39.5%, to ¥37.1 billion. As a result, operating loss was ¥6.0 billion, compared with operating income of ¥1.7 billion in the previous fiscal year.

Cash Dividends per Share / Dividend Payout Ratio



Total Assets / ROA



Other This segment comprises the planning, design, management, and construction of commercial facilities and information provision services. Net sales in this segment were down 47.7%, to ¥9.3 billion, and the operating loss was ¥75 million, compared with an operating loss of ¥1.3 billion a year earlier.

Financial Position and Liquidity

Financial Position Total assets as of March 31, 2008, were ¥469.6 billion, a decrease of ¥80.3 billion from a year earlier. This decline was primarily attributable to declines in cash and cash equivalents and to write-downs of investments in securities.

Current assets were down ¥37.1 billion, to ¥275.0 billion. This decline was principally due to decreases in cash and cash equivalents and in notes and accounts receivable. Current liabilities were down ¥20.2 billion, to ¥132.9 billion. This was primarily the result of a decrease in notes and accounts payable-trade. Consequently, the Company continued to maintain a high level of liquidity, with the current ratio standing at 2.07 times, higher than the level of 2.04 times at the end of the previous fiscal year.

Property, plant and equipment was down ¥7.9 billion, to ¥104.0 billion, due to declines in buildings and structures, and amusement machines and facilities. On the other hand, long-term liabilities increased ¥17.1 billion, to ¥55.2 billion, due principally to an increase in long-term debt.

Net assets were down ¥77.2 billion, to ¥281.6 billion. This decrease was primarily attributable to the net loss of ¥52.5 billion and to the payment of dividends.

As a result, the total net assets ratio decreased 6.2 percentage points, to 55.3%. Net assets per share were ¥1,030.09.

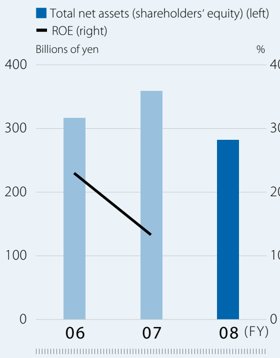
Capital Expenditures and Depreciation and Amortization Expense In the year under review, capital expenditures totaled ¥50.4 billion, compared with ¥59.3 billion in the previous fiscal year. Capital expenditures in pachislot and pachinko machine operations increased from ¥8.8 billion in the previous fiscal year to ¥23.8 billion in the year under review, due to such factors as an increase in rental assets in pachislot machine operations. Capital expenditures in the Amusement Center Operations segment declined substantially, from ¥40.8 billion a year earlier, when we acquired sites for the development of an entertainment complex in the Minato Mirai 21 Central District, to ¥15.9 billion in the year under review.

Depreciation and amortization expense rose by a substantial margin, from ¥28.0 billion to ¥45.6 billion. This gain was principally due to the recording of depreciation and amortization on rental assets in pachislot and pachinko machine operations.

Cash Flows Net cash used in operating activities was ¥25.9 billion, compared with net cash provided by operating activities of ¥60.6 billion in the previous fiscal year. This was primarily the result of the loss before income taxes and minority interests, an increase in the amount of transfer of equipment by pachislot and pachinko rental business, and a decrease in notes and accounts payable-trade.

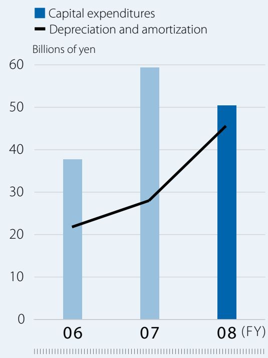
Net cash used in investing activities decreased ¥65.0 billion from the previous fiscal year, to ¥10.4 billion. The principal reasons for this decline included decreases in payment for purchase of property, plant and equipment and in payment for purchase of

Total Net Assets (Shareholders' Equity)* / ROE

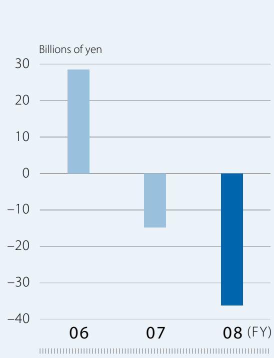


* Following the enactment of the new Japanese Corporate Law in 2006, the Company presents total net assets for fiscal 2008 and fiscal 2007, which represents the shareholders' equity figure used in previous years plus minority interests and share subscription rights.

Capital Expenditures / Depreciation and Amortization



Free Cash Flow



investment securities in comparison with the previous year, when we acquired sites for the development of a comprehensive entertainment complex in the Minato Mirai 21 Central District and shares of Sanrio.

Net cash used in financing activities increased ¥5.9 billion from a year earlier, to ¥7.6 billion. While on one hand we recorded proceeds from issuance of long-term debt, on the other hand we recorded payment for redemption of bonds and cash dividends payment, and the result was the increase in net cash used in financing activities.

Consequently, cash and cash equivalents at the end of year, were ¥100.0 billion, a decrease of ¥44.9 billion from the previous fiscal year-end.

Outlook for the Current Fiscal Year

For the fiscal year ending March 2009, we are forecasting net sales of ¥470.0 billion, an increase of 2.4%, due in part to higher sales in the pachinko machine business. We are forecasting operating income of ¥15.0 billion, compared with an operating loss of ¥5.8 billion in the year under review, on account of increased sales in the Pachislot and Pachinko Machine Business segment, improved profitability in the Amusement Center Operations and the Consumer Business segments; and net income of ¥5.0 billion, compared with a net loss of ¥52.5 billion in the year under review.

These forecasts are based on assumed exchange rates of US$1=¥100 and €1=¥150.

Results of Operations of Listed Subsidiaries

SEGA TOYS, LTD. During the key Christmas period, sales were sluggish in girls' character products and products associated with the New Content Business that combines education and entertainment, and domestic sales were down year on year. Overseas, however, *BAKUGAN* became a hit in South Korea and Canada, and sales were favorable. Nonetheless, due to the sluggish sales in Japan, where profit margins are higher, and to the recording of inventory disposal expenses, profits declined by a substantial margin.

Consequently, SEGA TOYS recorded a 10.6% increase in net sales, to ¥16.8 billion, an operating loss of ¥0.7 billion, compared with operating income of ¥0.3 billion in the previous fiscal year, and a net loss of ¥0.8 billion, compared with net income of ¥0.1 billion in the previous fiscal year.

TMS ENTERTAINMENT, LTD. In the mainstay animation operations, the number of theatrical releases declined and overseas sales and video sales were down, consequently sales declined. Due to increased product amortization and advertising expenses, profits declined by a substantial margin. In amusement operations, the company closed unprofitable stores, with an emphasis on the profitability of individual stores, and reduced new store openings. The company invested in machines linked to revenue and profits and in the aggressive renovation of stores from which a return on the investment could be expected.

Consequently, TMS ENTERTAINMENT recorded a 4.0% decline in net sales, to ¥15.0 billion, a 45.1% decrease in operating income, to ¥0.9 billion, and a 61.9% decrease in net income, to ¥0.5 billion.

Sammy NetWorks Co., Ltd. In its core content operations, the company worked to expand and maintain its existing businesses, such as pachinko and pachislot games for mobile phones and PCs. In addition, the company undertook aggressive system development for the deployment of new service content distribution and for content distribution to platforms other than mobile phones. Overseas, the company withdrew from China, and as a result recorded a loss.

Consequently, Sammy NetWorks recorded a 4.9% gain in net sales, to ¥11.1 billion, a 32.9% decline in operating income to ¥1.7 billion, and a 74.3% decrease in net income to ¥0.4 billion.

TAIYO ELEC Co., Ltd. In the pachinko machine business, additional orders were received for popular machines and sales of new machines were favorable, as a result the number of units sold increased substantially. In the pachislot machine business, which the Company entered in earnest from the year under review, sales of two new machines were strong.

Consequently, TAIYO ELEC recorded an 87.4% gain in net sales, to ¥25.3 billion, operating income of ¥1.7 billion, compared with an operating loss of ¥1.5 billion in the previous fiscal year, and net income of ¥1.4 billion, compared with a net loss of ¥1.7 billion in the previous fiscal year.

Operational Risks

Risks that could affect the performance or operations of the SEGA SAMMY Group are given below. Further, these risks are not a comprehensive list of the operational risks faced by the Group. However, based on an awareness of the following risks, the Group implements measures to prevent the occurrence of incidents arising from those risks and to respond to such incidents in the event of their occurrence. In addition, forward-looking statements in the following text are the judgments of the Group as of March 31, 2007.

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

Also, in July 2004 revisions were enacted to regulations pertaining to the Entertainment Establishments Control Law that mainly curb the volatility characteristics and prevent the improper use of pachislot and pachinko machines.

Such regulatory revisions, the progress of new-machine development, the requirements of format examinations and official licenses, product malfunctions, user preferences, and the sales trends of competitors' products could have a significant impact on the Group's performance or operations.

Shortness of Product Life Cycles: Due to the short time required for the production of pachislot and pachinko machines, the Group usually produces machines in response to order trends. Because the marketing period is generally short, product shipments are concentrated in the initial period after product launches. Accordingly, the Group procures certain raw materials in advance. However, the Group may not be able to procure sufficient raw materials for production in response to large order volumes in the initial period after product launches. Comparatively, the time required for the production of amusement machines is long. Consequently, the Group produces those machines based on demand estimates. However, demand for products could change due to shifts in user preferences. Home video game software is susceptible to changes in seasonal demand, which focuses on such periods as the year-end shopping season. If the Group is unable to supply new products during such selling periods, surplus inventory could result. To mitigate risks associated with such inventories, the Group takes measures that include the use of common components, the shortening of lead times for component procurement, and the strengthening of inventory asset management. However, losses stemming from the disposal of inventory assets could result due to sales results that fall short of projections.

SBUs Recording Operating Losses: In regard to the operating results of the Group's SBUs, the Amusement Center Operations segment and the Consumer Business segment recorded substantial operating losses.

The Amusement Center Operations segment will continue to implement countermeasures, such as advancing the closure or sale of centers with low profitability or future potential and thoroughly reevaluating head office functions. However, due to such factors as the status of the introduction of amusement machines that meet diverse user needs, some time could be required for revenue/profits to improve.

The Consumer Business segment faces a continual need for substantial up-front R&D expenses and advertising expenses, and according to the unit sales of video game software, etc., some time could be required for revenue/profits to improve.

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

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

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

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

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

Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2008**	2007	**2008**
Current assets:			
Cash and cash equivalents	¥ 99,975	¥ 144,869	$ 997,854
Time deposits (Note 4)	2,263	2,276	22,587
Trade receivables:			
Notes and accounts receivable (Note 4)	72,541	83,493	724,034
Allowance for doubtful accounts	(571)	(571)	(5,699)
Marketable securities (Note 11)	1,797	497	17,936
Inventories (Note 3)	51,435	40,118	513,375
Income taxes refundable (Note 10)	9,562	5,594	95,439
Deferred income taxes (Note 10)	5,998	6,905	59,866
Other	32,038	28,994	319,772
Total current assets	275,038	312,175	2,745,164
Property, plant and equipment:			
Land (Notes 4 and 9)	48,811	46,029	487,184
Buildings and structures (Note 4)	57,716	59,463	576,065
Amusement machines and facilities	65,799	67,790	656,742
Construction in progress	1,026	1,566	10,241
Other	43,323	38,340	432,409
	216,675	213,188	2,162,641
Accumulated depreciation	(112,646)	(101,291)	(1,124,324)
Net property, plant and equipment	104,029	111,897	1,038,317
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	4,212	7,664	42,040
Investments in securities (Notes 11 and 12)	31,396	55,808	313,365
Goodwill (Note 21)	13,524	18,524	134,984
Lease deposits	21,971	23,326	219,293
Deferred income taxes (Note 10)	3,689	3,198	36,820
Other	23,214	25,070	231,700
Allowance for doubtful accounts	(7,430)	(7,722)	(74,159)
Total investments and other assets	90,576	125,868	904,043
	¥ 469,643	¥ 549,940	$ 4,687,524

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term bank loans and current portion of long-term debt (Note 4)	¥ 33,441	¥ 37,170	$ 333,776
Notes and accounts payable – trade (Note 4)	49,496	71,414	494,021
Income taxes payable (Note 10)	3,180	12,059	31,740
Accrued employees' bonuses	2,792	1,731	27,867
Accrued directors' and corporate auditors' bonuses	130	490	1,298
Allowance for game points earned by customers	130	119	1,298
Other (Note 4)	43,694	30,038	436,110
Total current liabilities	132,863	153,021	1,326,110
Long-term liabilities:			
Long-term debt (Note 4)	33,200	16,806	331,370
Retirement benefits for employees (Note 6)	9,270	8,429	92,524
Retirement benefits for directors and corporate auditors	2,094	1,294	20,900
Deferred income taxes (Note 10)	1,396	1,881	13,934
Other	9,192	9,651	91,747
Total long-term liabilities	55,152	38,061	550,475
Commitments and contingent liabilities (Note 7)			
Net assets (Note 8)**:**			
Shareholders' equity (Note 18)**:**			
Common stock	29,953	29,953	298,962
Authorized – 800,000,000 shares			
Issued – 283,229,476 shares			
Capital surplus	171,093	171,097	1,707,685
Retained earnings	150,888	221,172	1,506,019
Treasury stock, at cost	(73,681)	(73,656)	(735,413)
Total shareholders' equity	278,253	348,566	2,777,253
Accumulated losses from revaluation and translation adjustments:			
Unrealized gains on securities, net of taxes	598	4,779	5,969
Unrealized losses on hedging derivatives, net of taxes	(2)	(18)	(20)
Land revaluation difference, net of taxes (Note 9)	(6,981)	(7,505)	(69,678)
Foreign currency translation adjustments	(12,348)	(7,753)	(123,246)
Total accumulated losses from revaluation and translation adjustments	(18,733)	(10,497)	(186,975)
Share subscription rights (Note 5)	1,070	455	10,680
Minority interests	21,038	20,334	209,981
Total net assets	281,628	358,858	2,810,939
	¥469,643	¥549,940	$4,687,524

Consolidated Statements of Operations

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2008, 2007, and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Net sales	¥458,977	¥528,238	¥553,241	$4,581,066
Cost of sales	338,574	325,159	324,229	3,379,319
Gross profit	120,403	203,079	229,012	1,201,747
Selling, general and administrative expenses (Note 13)	126,232	126,549	109,868	1,259,926
Operating income (loss)	(5,829)	76,530	119,144	(58,179)
Other income (expenses):				
Interest and dividend income	1,132	1,407	1,101	11,299
Interest expenses	(627)	(625)	(634)	(6,258)
Equity in earnings (losses) of affiliated companies	(293)	12	(230)	(2,924)
Gain on investments in partnership–net	16	4,160	889	160
(Loss) gain on sale of property, plant and equipment–net	(84)	98	(28)	(839)
Loss on disposal of property, plant and equipment	(1,471)	(861)	(818)	(14,682)
Loss on revaluation of investment securities	(12,356)	(1,052)	(854)	(123,326)
Gain on change in equity of consolidated subsidiaries	14	5	1,066	139
Impairment losses (Note 15)	(9,218)	(1,706)	(7,195)	(92,005)
Loss on business reorganization (Note 14)	–	–	(318)	–
Liquidation dividend from investment	–	3,206	–	–
Amortization of goodwill	(929)	(2,335)	–	(9,272)
Loss on cancellation of amusement center under development	(5,581)	–	–	(55,704)
Premium allowance of retirement	(2,762)	–	–	(27,568)
Cost of product recall	(2,246)	–	–	(22,417)
Gain on sale of investment securities (Note 1)	4,441	119	400	44,326
Other–net	(4,348)	(1,541)	(599)	(43,399)
	(34,312)	887	(7,220)	(342,470)
Income (loss) before income taxes and minority interests	(40,141)	77,417	111,924	(400,649)
Income taxes (Note 10)**:**				
Current	9,903	33,698	46,796	98,842
Deferred	2,640	(1,149)	(3,018)	26,350
	12,543	32,549	43,778	125,192
Income (loss) before minority interests	(52,684)	44,868	68,146	(525,841)
Minority interests	(213)	1,412	1,924	(2,126)
Net income (loss)	¥ (52,471)	¥ 43,456	¥ 66,222	$ (523,715)

	Yen			U.S. dollars (Note 1)
Per share of common stock (Note 22)**:**				
Net income (loss)	¥(208.26)	¥172.47	¥261.06	$(2.08)
Diluted net income	–	172.35	260.35	–
Cash dividends applicable to the year	45.00	60.00	80.00	0.45

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2008 and 2007

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

	Thousands of U.S. dollars (Note 1)										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Share subscription rights	Minority interests	Total net assets
Net assets at March 31, 2007	$298,962	$1,707,725	$2,207,526	$(735,163)	$ 47,699	$(180)	$(74,908)	$ (77,383)	$ 4,542	$202,954	$3,581,774
Net income			(523,715)								(523,715)
Cash dividends paid			(150,883)								(150,883)
Effect from change of accounting policies of foreign subsidiaries			(8,604)								(8,604)
Acquisition of treasury stock				(379)							(379)
Sale of treasury stock		(40)		129							89
Effect from changes of consolidated subsidiaries and affiliates accounted for under the equity method and others			(13,075)								(13,075)
Unrealized losses on hedging derivatives, net of taxes						160					160
Changes in unrealized gains on securities, net of taxes					(41,730)						(41,730)
Changes in revaluation reserve for land, net of taxes			(5,230)				5,230				–
Changes in foreign currency translation adjustments								(45,863)			(45,863)
Changes in share subscription rights									6,138		6,138
Changes in minority interests										7,027	7,027
Balance at March 31, 2008	$298,962	$1,707,685	$1,506,019	$(735,413)	$ 5,969	$ (20)	$(69,678)	$(123,246)	$10,680	$209,981	$2,810,939

See accompanying notes.

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

See accompanying notes.

Consolidated Statement of Shareholders' Equity

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES

Year Ended March 31, 2006

	Millions of yen							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Total shareholders' equity
Balance at March 31, 2005	¥27,291	¥176,302	¥133,761	¥(73,226)	¥10,793	¥(6,542)	¥(9,425)	¥258,954
Increase in capital stock	2,662	2,660						5,322
Net income			66,222					66,222
Cash dividends paid		(7,498)	(6,278)					(13,776)
Bonuses to directors and corporate auditors		(180)	(373)					(553)
Transfer of capital surplus to retained earnings		(220)	220					–
Effect from changes of consolidated subsidiaries and affiliates accounted for under the equity method and others			167					167
Acquisition of treasury stock				(378)				(378)
Sale of treasury stock				55				55
Changes in unrealized gains on securities, net of taxes					964			964
Reversal of land revaluation difference			2			(964)		(962)
Gain on sale of treasury stock		7						7
Changes in foreign currency translation adjustments							658	658
Balance at March 31, 2006	¥29,953	¥171,071	¥193,721	¥(73,549)	¥11,757	¥(7,506)	¥(8,767)	¥316,680

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2008, 2007, and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ (40,141)	¥ 77,417	¥111,924	$ (400,649)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash (used in) provided by operating activities:				
Depreciation and amortization	45,611	28,048	21,855	455,245
Interest and dividend income	(1,132)	(1,407)	(1,101)	(11,299)
Amortization of goodwill	3,785	4,831	1,782	37,778
Interest expenses	627	625	634	6,258
Loss on disposal and sale of property, plant and equipment–net	1,554	763	846	15,511
Loss (gain) on change in equity of subsidiaries–net	27	36	(779)	269
Impairment losses	9,218	1,706	7,195	92,005
Loss on sale and revaluation of investment securities–net	7,936	933	470	79,210
Gain on investments in partnership–net	(16)	(4,160)	(889)	(160)
Loss on business reorganization	–	–	318	–
Liquidation dividend from investment	–	(3,206)	–	–
Equity in losses (earnings) of affiliates	293	(12)	230	2,924
Increase (decrease) in allowance for doubtful accounts	551	(1,647)	(1,016)	5,500
Increase (decrease) in accrued employees' bonuses	1,170	(142)	333	11,678
(Decrease) increase in accrued directors' and corporate auditors' bonuses	(350)	490	–	(3,493)
Increase in retirement benefits for employees	819	935	1,128	8,174
Increase in retirement benefits for directors and corporate auditors	112	17	9	1,118
(Decrease) increase in allowance for sales return	(180)	225	–	(1,797)
Increase in allowance for game points earned by customers	10	8	–	100
Decrease (increase) in notes and accounts receivable	5,731	14,321	(14,806)	57,201
(Increase) decrease in inventories	(9,837)	(7,538)	1,690	(98,183)
(Decrease) increase in notes and accounts payable–trade	(22,011)	8,779	1,237	(219,693)
Amount of transfer of equipment by amusement center operations business	(8,623)	(8,096)	(11,817)	(86,066)
Amount of transfer of equipment by Pachislot and Pachinko rental business	(16,319)	(2,275)	–	(162,881)
Others–net	16,675	(10,123)	4,109	166,435
Sub total	(4,490)	100,528	123,352	(44,815)
Receipts of interest and dividend income	1,235	1,236	1,315	12,327
Payment of interest expenses	(514)	(309)	(672)	(5,130)
Payment of income taxes	(28,421)	(56,614)	(46,438)	(283,671)
Refund of income taxes	6,311	15,782	671	62,990
Refund of deposit for lawsuit	–	–	5,000	–
Net cash (used in) provided by operating activities	(25,879)	60,623	83,228	(258,299)
Cash flows from investing activities:				
Payment for purchase of property, plant and equipment	(22,041)	(49,345)	(26,332)	(219,992)
Proceeds from sales of property, plant and equipment	196	1,543	345	1,956
Payment for purchase of securities	(1,794)	–	(3,498)	(17,906)
Payment for purchase of investment securities	(623)	(33,180)	(2,242)	(6,218)
Proceeds from sale of investment securities	5,872	4,343	1,253	58,609
Payment for investment in partnerships	(2,967)	(9,803)	(24,711)	(29,614)
Proceeds from distribution of investment in partnerships	6,359	24,624	8,818	63,469
Proceeds from liquidation dividend from investment	–	3,431	–	–
Proceeds from (payment for) acquisition of consolidated subsidiaries–net	6,188	(9,213)	6,001	61,763
(Payment for) proceeds from sales of consolidated subsidiaries–net	(1,025)	300	(240)	(10,231)
Payment for acquisition of affiliated companies	(305)	(4,676)	(6,803)	(3,044)
(Increase) decrease in loan receivables–net	(978)	(1,565)	1,137	(9,761)
Proceeds from (payment for) acquisition of operations	203	(1,051)	(2,850)	2,026
Decrease (increase) in time deposits–net	860	(1,549)	367	8,584
Others–net	(344)	746	(5,951)	(3,434)
Net cash used in investing activities	(10,399)	(75,395)	(54,706)	(103,793)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	7,185	200	3,106	71,714
Repayment of long-term debt	(5,333)	(5,821)	(9,778)	(53,229)
(Decrease) increase in short-term bank loans	(1,245)	21,371	(557)	(12,426)
Proceeds from issuance of bonds	15,434	–	195	154,047
Payment for redemption of bonds	(7,925)	(2,001)	(3,239)	(79,100)
Cash dividends paid	(15,074)	(15,094)	(13,776)	(150,454)
Payment for purchase of treasury stock	(38)	(107)	(378)	(379)
Others–net	(584)	(261)	3,274	(5,829)
Net cash used in financing activities	(7,580)	(1,713)	(21,153)	(75,656)
Effect of exchange rate changes on cash and cash equivalents	(1,777)	755	686	(17,737)
Net change in cash and cash equivalents	(45,635)	(15,730)	8,055	(455,485)
Cash and cash equivalents at beginning of year	144,869	160,094	151,253	1,445,943
Net increase in cash and cash equivalents due to consolidation scope change	741	505	463	7,396
Net increase in cash and cash equivalents due to merger	–	–	323	–
Cash and cash equivalents at end of year	¥ 99,975	¥144,869	¥160,094	$ 997,854

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2008, 2007, and 2006

NOTE 1

Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, as described in Note 2 (w), necessary adjustments are made upon consolidation. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the consolidated statement of shareholders' equity for 2006) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2007 and 2006 consolidated financial statements to conform to the classifications used in 2008. These changes had no impact on previously reported results of operations or shareholders' equity.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

NOTE 2

Summary of Significant Accounting Policies

(a) Business combinations

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

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant intercompany balances, transactions and unrealized profits have been eliminated. The number of consolidated subsidiaries was 77, 87 and 72 in 2008, 2007 and 2006, respectively.

(c) Equity method

Investments in affiliated companies over which the Company has the ability to exercise significant influence over their operations and financial policies are accounted for using the equity method. The number of companies accounted for under the equity method was 9, 9 and 8 in 2008, 2007 and 2006, respectively.

(d) Consolidated statements of cash flows

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

(e) Allowance for doubtful accounts

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

(f) Investment securities

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

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

Available-for-sale securities with available fair market values are stated at fair market value at the end of each fiscal year. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets / shareholders' equity. Available-for-sale securities with no available fair market values are stated at moving-average cost. Realized gains and losses on the sale of such securities are computed using moving-average cost.

Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under Article 2-2 of the Financial Instruments and Exchange Law of Japan, is calculated based on the relevant financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

The Company and its consolidated subsidiaries did not have trading securities in the years ended March 31, 2008 and 2007.

(g) Inventories

Inventories are stated at cost determined by the gross-average method.

(h) Property, plant and equipment and depreciation

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

Following the amendments of the Corporation Tax Law of Japan, effective April 1, 2007, the method of depreciation applied to the property, plant and equipment acquired on or after April 1, 2007 has been changed. Due to this change, gross profit decreased by ¥2,553 million ($25,482 thousand) and the operating loss and loss before income taxes and minority interests increased by ¥2,681 million ($26,759 thousand) and ¥2,686 million ($26,809 thousand), respectively, compared with the amounts that would have been reported if the depreciation method prior to the change had been applied.

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

The impact of this change was minor.

(i) Amortization

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

(j) Goodwill

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

The Company regularly reviews the carrying amount of goodwill for re-evaluation whenever events or circumstances indicate that the carrying amounts may not be recoverable. Insignificant amounts of such intangible assets are charged to income when incurred.

Goodwill that is on the balance sheet of certain foreign subsidiaries has not been amortized until the year ended March 31, 2007. Impairment loss is recognized if necessary according to generally accepted accounting standards of the United States.

(k) Impairment of fixed assets

Effective April 1, 2005, the Company and its domestic subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). As a result of this change, income before income taxes and minority interests for the year ended March 31, 2006 decreased ¥7,195 million compared with what would have been recorded under the previous accounting policy.

(l) Accounting for certain lease transactions

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

(m) Allowance for employees' bonuses

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

(n) Allowance for directors' and auditors' bonuses

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

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

(o) Allowance for sales return

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

(p) 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 provided.

(q) Retirement benefits for employees

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

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

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

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

(r) Retirement benefits for directors and corporate auditors

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

(s) Income taxes

Income taxes comprise corporation, enterprise, and inhabitants taxes.

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

(t) Derivative financial instruments

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

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

Also, if interest rate swap contracts are used for hedging purposes and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

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

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

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, have not been restated to the new presentation rules of 2007.

(v) Stock option

Effective from the year ended March 31, 2007, the Company and its subsidiaries adopted the new accounting standard, "Accounting Standard for Share-based Payment" (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 and income before income taxes and minority interests each decreased by ¥454 million.

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

From the fiscal year ended March 31, 2008, the Company adopted early "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18, issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006). In principle, the Company unified accounting standards for foreign subsidiaries and makes necessary adjustments upon consolidation.

As a result of this change, the operating loss, and loss before income taxes and minority interests increased by ¥643 million ($6,418 thousand) respectively.

Retained earnings at April 1, 2007 decreased by ¥862 million ($8,604 thousand) and accordingly retained earnings decreased by the same amount at March 31, 2008.

(x) Per share data

Net income per share is computed by dividing income available to common stockholders by the weighted-average number of common stock outstanding during the period. Dividing income available to common stockholders computed net income minus director's bonus for the year ended March 31, 2006. Diluted net income per share is similar to net income per share except that the weighted-average number of common stock outstanding is increased by the number of additional common stock that would have been outstanding if the potential common stock had been issued.

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

(y) Foreign currency transactions

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

NOTE 3

Inventories

Inventories as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Merchandise	¥ 2,383	¥ 2,727	$ 23,785
Finished products	11,344	8,870	113,225
Raw materials	33,435	23,068	333,716
Work in process	3,181	3,775	31,750
Supplies	1,092	1,678	10,899
	¥51,435	¥40,118	$513,375

NOTE 4

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

Short-term bank loans outstanding are generally represented, with interest at rates ranging from 1.06% to 2.38% and 0.88% to 5.02% as of March 31, 2008 and 2007, respectively.

Long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Bonds:			
0.41%–1.06% debenture due in FY 2008	¥ –	¥ 7,925	$ –
0.61%–1.24% debenture due in FY 2009	5,716	5,485	57,052
1.30% debenture due in FY 2010	–	70	–
0.92%–1.30% debenture due in FY 2010	301	–	3,004
0.41%–1.47% debenture due in FY 2011	10,378	10,140	103,583
1.22%–1.34% debenture due in FY 2013	15,000	–	149,716
Long-term loans, principally due from banks with interest at 1.80% to 7.29% and 0.90% to 7.29% as of March 31, 2008 and 2007:			
Secured	2,992	356	29,863
Unsecured	4,412	5,693	44,036
Other	802	–	8,005
	39,601	29,669	395,259
Less: current portion	(6,401)	(12,863)	(63,889)
	¥33,200	¥ 16,806	$331,370

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Years ending March 31,		
2010	¥ 725	$ 7,236
2011	11,787	117,646
2012	2,492	24,873
2013	18,148	181,136
2014 and thereafter	48	479

A summary of assets pledged as collateral for short-term loans, long-term debt, accounts payable–trade accrued expenses, and other current liabilities at March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Time deposits	¥ 25	¥ 20	$ 250
Notes receivable	389	279	3,882
Land	2,426	419	24,214
Buildings and structures	1,526	67	15,231
	¥4,366	¥785	$43,577

NOTE 5

Stock Option Plan

The following tables summarize contents of stock options as of March 31, 2008:

Company name	Date of the annual shareholders' meeting	Position and number of grantees	Class and number of stock	Date of issue	Condition of settlement of rights	Period grantees provide service in return for stock options	Period subscription rights are to be exercised
The Company	June 24, 2005	The Company's employees and subsidiaries' employees: 944	Common stock 2,534,000	July 29, 2005	Continue to work from July 29, 2005 to July 30, 2007	From July 29, 2005 to July 30, 2007	From July 31, 2007 to July 30, 2009
The Company	June 20, 2006	The Company's directors: 4	Common stock 43,000	August 14, 2006	Continue to work from August 14, 2006 to August 14, 2008	From August 14, 2006 to August 14, 2008	From August 15, 2008 to July 30, 2010
The Company	June 20, 2006	The Company's employees and subsidiaries' directors and employees: 1,086	Common stock 2,701,500	August 14, 2006	Continue to work from August 14, 2006 to August 14, 2008	From August 14, 2006 to August 14, 2008	From August 15, 2008 to August 13, 2010
The Company	June 20, 2006	The Company's employees and subsidiaries' directors and employees: 1	Common stock 10,000	September 4, 2006	Continue to work from September 4, 2006 to September 4, 2008	From September 4, 2006 to September 4, 2008	From September 5, 2008 to September 4, 2010
Sammy NetWorks Co., Ltd.	July 30, 2003	Sammy NetWorks Co., Ltd.'s directors: 4 Sammy NetWorks Co., Ltd.'s employees: 25	Common stock 1,596	December 22, 2003	Continue to work through exercise of right	From December 22, 2003 to July 30, 2005	From July 31, 2005 to July 30, 2007
Sammy NetWorks Co., Ltd.	July 30, 2003	Sammy NetWorks Co., Ltd.'s directors: 4	Common stock 960	March 22, 2004	Continue to work through exercise of right	From March 22, 2004 to July 30, 2005	From July 31, 2005 to July 30, 2007
Sammy NetWorks Co., Ltd.	June 22, 2005	Sammy NetWorks Co., Ltd.'s employees: 18	Common stock 18	August 30, 2005	Continue to work through exercise of right	From August 30, 2005 to July 30, 2007	From July 31, 2007 to July 30, 2012

Company name	Date of the annual shareholders' meeting	Position and number of grantees	Class and number of stock	Date of issue	Condition of settlement of rights	Period grantees provide service in return for stock options	Period sub-scription rights are to be exercised
Sammy NetWorks Co., Ltd.	June 22, 2005	Sammy NetWorks Co., Ltd.'s directors: 5 Sammy NetWorks Co., Ltd.'s corporate auditors: 1 Sammy NetWorks Co., Ltd.'s employees: 77	Common stock 353	April 28, 2006	Continue to work through exercise of right	From April 28, 2006 to July 30, 2007	From July 31, 2007 to July 30, 2012
Media-Trust Co., Ltd.	December 12, 2005	Media-Trust Co., Ltd.'s directors: 5 Media-Trust Co., Ltd.'s corporate auditors: 3 Media-Trust Co., Ltd.'s employees: 44	Common stock 3,050	December 12, 2005	Listed company. Continue to work through exercise of right	From December 12, 2005 to December 12, 2007	From December 13, 2007 to December 12, 2015
SEGA TOYS CO., LTD.	June 26, 2002	SEGA TOYS CO., LTD.'s directors: 3 SEGA TOYS CO., LTD.'s corporate auditors: 2 SEGA TOYS CO., LTD.'s employees: 32	Common stock 456,000	July 1, 2002	Continue to work through exercise of right	From July 1, 2002 to June 30, 2004	From July 1, 2004 to June 30, 2008
SEGA TOYS CO., LTD.	June 29, 2004	SEGA TOYS CO., LTD.'s directors: 8 SEGA TOYS CO., LTD.'s corporate auditors: 3 SEGA TOYS CO., LTD.'s employees: 105	Common stock 894,600	August 9, 2004	Continue to work through exercise of right	From August 9, 2004 to June 30, 2005	From July 1, 2005 to June 30, 2008
TMS ENTERTAINMENT, LTD.	June 27, 2003	TMS ENTERTAINMENT, LTD.'s directors: 12 TMS ENTERTAINMENT, LTD.'s employees and subsidiaries' directors: 118	Common stock 458,000	August 1, 2003	Continue to work from August 1, 2003 to June 30, 2005	From August 1, 2003 to June 30, 2005	From July 1, 2005 to June 30, 2008
TMS ENTERTAINMENT, LTD.	June 28, 2006	TMS ENTERTAINMENT, LTD.'s directors: 6 TMS ENTERTAINMENT, LTD.'s employees and subsidiaries' directors: 93	Common stock 598,000	August 21, 2006	Continue to work from August 21, 2006 to June 30, 2008	From August 21, 2006 to June 30, 2008	From July 1, 2008 to June 30, 2011

The following tables summarize scale and movement of stock as of March 31, 2008:

Company name	The Company	The Company	The Company	The Company	Sammy NetWorks Co., Ltd.	Sammy NetWorks Co., Ltd.	Sammy NetWorks Co., Ltd.
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006	June 20, 2006	July 30, 2003	July 30, 2003	June 22, 2005
Not exercisable stock options							
Stock options outstanding at April 1, 2007	2,439,200	43,000	2,647,800	10,000	–	–	12
Stock options granted	–	–	–	–	–	–	–
Forfeitures	6,000	–	252,500	10,000	–	–	–
Conversion to exercisable stock options	2,433,200	–	–	–	–	–	12
Stock options outstanding at March 31, 2008	–	43,000	2,395,300	–	–	–	–
Exercisable stock options							
Stock options outstanding at April 1, 2007	–	–	–	–	180	504	–
Stock options granted	2,433,200	–	–	–	–	–	12
Conversion to exercisable stock options	–	–	–	–	180	504	–
Forfeitures	199,000	–	–	–	–	–	2
Stock options outstanding at March 31, 2008	2,234,200	–	–	–	–	–	10

Company name	Sammy NetWorks Co., Ltd.	Media-Trust Co., Ltd.	SEGA TOYS CO., LTD.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 22, 2005	December 12, 2005	June 26, 2002	June 29, 2004	June 27, 2003	June 28, 2006
Not exercisable stock options						
Stock options outstanding at April 1, 2007	346	2,830	–	–	–	573,000
Stock options granted	–	–	–	–	–	–
Forfeitures	36	330	–	–	–	7,000
Conversion to exercisable stock options	310	–	–	–	–	–
Stock options outstanding at March 31, 2008	–	2,500	–	–	–	566,000
Exercisable stock options						
Stock options outstanding at April 1, 2007	–	–	69,000	281,700	139,000	–
Stock options granted	310	–	–	–	–	–
Conversion to exercisable stock options	–	–	–	8,700	–	–
Forfeitures	10	–	–	–	3,000	–
Stock options outstanding at March 31, 2008	300	–	69,000	273,000	136,000	–

The following tables summarize price information of stock options as of March 31, 2008:

Yen

Company name	The Company	The Company	The Company	The Company	Sammy NetWorks Co., Ltd.	Sammy NetWorks Co., Ltd.	Sammy NetWorks Co., Ltd.
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006	June 20, 2006	July 30, 2003	July 30, 2003	June 22, 2005
Exercise price	¥3,470	¥4,235	¥4,235	¥4,068	¥ 70,834	¥ 70,834	¥1,700,000
Average market price of the stock at the time of exercise	–	–	–	–	477,429	482,461	–
Fair value of the stock option at the date of issue	–	510	509	620	–	–	–

Yen

Company name	Sammy NetWorks Co., Ltd.	Media-Trust Co., Ltd.	SEGA TOYS CO., LTD.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 22, 2005	December 12, 2005	June 26, 2002	June 29, 2004	June 27, 2003	June 28, 2006
Exercise price	¥1,053,914	¥50,000	¥255	¥ 288	¥413	¥472
Average market price of the stock at the time of exercise	–	–	–	360	–	–
Fair value of the stock option at the date of issue	–	–	–	–	–	126

U.S. dollars (Note 1)

Company name	The Company	The Company	The Company	The Company	Sammy NetWorks Co., Ltd.	Sammy NetWorks Co., Ltd.	Sammy NetWorks Co., Ltd.
Date of the annual shareholders' meeting	June 24, 2005	June 20, 2006	June 20, 2006	June 20, 2006	July 30, 2003	July 30, 2003	June 22, 2005
Exercise price	$35	$42	$42	$41	$ 707	$ 707	$16,968
Average market price of the stock at the time of exercise	–	–	–	–	4,765	4,815	–
Fair value of the stock option at the date of issue	–	5	5	6	–	–	–

U.S. dollars (Note 1)

Company name	Sammy NetWorks Co., Ltd.	Media-Trust Co., Ltd.	SEGA TOYS CO., LTD.	SEGA TOYS CO., LTD.	TMS ENTERTAINMENT, LTD.	TMS ENTERTAINMENT, LTD.
Date of the annual shareholders' meeting	June 22, 2005	December 12, 2005	June 26, 2002	June 29, 2004	June 27, 2003	June 28, 2006
Exercise price	$10,519	$499	$3	$3	$4	$5
Average market price of the stock at the time of exercise	–	–	–	4	–	–
Fair value of the stock option at the date of issue	–	–	–	–	–	1

NOTE 6

Retirement Benefits for Employees

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

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Projected benefit obligation	¥ 24,831	¥ 22,870	$ 247,839
Unrecognized actuarial differences	(3,403)	(2,157)	(33,965)
Unrecognized prior service cost	273	363	2,724
Prepaid pension cost	–	–	–
Less: fair value of pension assets	(12,431)	(12,647)	(124,074)
Liability for severance and retirement benefits	¥ 9,270	¥ 8,429	$ 92,524

Included in the consolidated statements of operations for the years ended March 31, 2008, 2007 and 2006, severance and retirement benefit expenses comprised the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Service costs – benefits earned during the year	¥2,452	¥2,203	¥2,095	$24,474
Interest cost on projected benefit obligation	454	393	340	4,531
Expected return on plan assets	(312)	(255)	(177)	(3,114)
Amortization of actuarial difference	415	407	554	4,142
Amortization of prior service cost	(91)	(91)	(91)	(908)
Additional interim benefit	2,773	149	–	27,677
Other	357	359	175	3,563
Severance and retirement benefit expenses	¥6,048	¥3,165	¥2,896	$60,365

	2008	2007	2006
Discount rate	2.0–2.5%	2.0–2.5%	2.0–2.5%
Rate of expected return on plan assets	1.0–2.5	1.0–2.5	1.0–2.5

NOTE 7

Contingent Liabilities

The consolidated subsidiaries of the Company have contingent liabilities as of March 31, 2008 and 2007, as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
	Description	**2008**	2007	**2008**
Dimps Corporation	Guarantee due to bank loan	¥400	¥400	$3,992
Orix Premium Ltd.	Lease obligation	182	218	1,817
Electronic Approval System Council	Lease obligation	33	66	329
FIELDS CORPORATION	Joint and several guarantee due to joining a union	10	10	100
Sega Shanghai & Co., Ltd.	Joint and several guarantee due to bank loan	43	–	429
Sega (Shanghai) Software Co., Ltd.	Joint and several guarantee due to bank loan	–	100	–

NOTE 8

Net Assets

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

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

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

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

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

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

At the Board of Directors' meeting held on May 15, 2008, the directors approved cash dividends amounting to ¥3,779 million ($37,718 thousand). Such cash dividends have not been accrued in the consolidated financial statements as of March 31, 2008. Such cash dividends are recognized in the period in which they are approved by the Board of Directors.

NOTE 9

Revaluation Reserve for Land

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

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

Date of Revaluation: March 31, 2002

NOTE 10

Income Taxes

The Company and its subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.7% for the years ended March 31, 2008, 2007 and 2006.

The difference between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2008, 2007 and 2006 is not shown because the net loss is recorded in 2008, and because it was not significant in 2007 and 2006.

The Company's and its consolidated subsidiaries' significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 8,861	¥ 4,917	$ 88,442
Loss on devaluation of inventories	2,815	4,306	28,096
Accrued employees' bonuses	1,761	1,333	17,577
Retirement benefits for employees	3,760	3,419	37,529
Depreciation expense	20,831	12,201	207,915
Loss on devaluation of investments	8,980	3,647	89,630
Impairment losses	2,464	2,929	24,593
Loss on cancellation of amusement center under development	2,271	–	22,667
Tax loss carry forward	32,190	21,805	321,290
Others	19,606	18,298	195,687
Deferred tax assets (Subtotal)	103,539	72,855	$1,033,426
Valuation allowance	(93,825)	(59,723)	(936,470)
Total deferred tax assets	9,714	13,132	96,956
Deferred tax liabilities:			
Net unrealized gains on securities	(587)	(3,541)	(5,859)
Other	(836)	(1,369)	(8,345)
Total deferred tax liabilities	(1,423)	(4,910)	(14,204)
Net deferred tax assets	¥ 8,291	¥ 8,222	$ 82,752

NOTE 11

Market Value Information of Securities

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

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

	Thousands of U.S. dollars (Note 1)		
	Balance sheet amount	Fair value	Valuation gains (losses)
Securities whose market value exceeds the balance sheet amount:			
Bonds	$11,927	$11,927	$0

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

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

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Balance sheet amount	Valuation gains (losses)
Securities whose market value exceeds the balance sheet amount:			
Stocks	$ 5,749	$ 14,842	$ 9,093
Bonds and debentures	19,972	20,002	30
Other	5,050	5,050	0
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	117,607	116,259	(1,348)
Bonds and debentures	34,944	30,392	(4,552)

Available-for-sale securities sold in the year ended March 31, 2008 amounted to ¥5,872 million ($58,609 thousand), and the related gain amounted to ¥4,441 million ($44,326 thousand) and the related loss amounted to ¥21 million ($210 thousand).

Balance sheet amounts, fair values and valuation gains or losses of held-to-maturity debt securities with available fair values as of March 31, 2007 were as follows:

	Millions of yen		
	Balance sheet amount	Fair value	Valuation gains (losses)
Securities whose market value exceeds the balance sheet amount:			
Bonds	¥497	¥497	¥ 0
Securities whose market value is equal to or lower than the balance sheet amount:			
Bonds	500	499	(1)

Acquisition costs, balance sheet amounts, and valuation gains or losses of available-for-sale securities with available fair values as of March 31, 2007 were as follows:

	Millions of yen		
	Acquisition cost	Balance sheet amount	Valuation gains (losses)
Securities whose market value exceeds the balance sheet amount:			
Stocks	¥ 1,501	¥ 9,257	¥7,756
Bonds and debentures	2,501	2,531	30
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	22,861	22,486	(375)
Bonds and debentures	4,008	3,765	(243)

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

Available-for-sale securities sold in the year ended March 31, 2006 amounted to ¥1,253 million and the related gains and losses amounted to ¥400 million and ¥16 million, respectively.

NOTE 12

Loan Receivable in Securities

Loan receivable in securities of ¥249 million ($2,485 thousand) and ¥723 million were included in investment securities as of March 31, 2008 and 2007, respectively.

NOTE 13

Research and Development Expenses

Expenses relating to research and development activities have been charged to income as incurred and amounted to ¥65,385 million ($652,610 thousand), ¥52,107 million, and ¥36,338 million for the years ended March 31, 2008, 2007 and 2006, respectively.

NOTE 14

Loss on Business Reorganization

Loss on business reorganization was recognized in the business reorganization between Sammy Corporation and SEGA CORPORATION for the year ended March 31, 2006.

NOTE 15

Impairment Losses

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

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

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

Use	Location	Impairment loss		
		Type	Millions of yen	Thousands of U.S. dollars (Note 1)
Amusement facilities	Chuo-ku, Chiba	Buildings and structures	¥1,414	$14,113
		Other tangible fixed assets	47	469
		Other intangible fixed assets	0	0
	Minato-ku, Tokyo	Buildings and structures	253	2,525
		Other tangible fixed assets	518	5,170
		Other intangible fixed assets	1	10
	Higashi-ku, Sapporo	Buildings and structures	333	3,324
		Other tangible fixed assets	79	789
		Other intangible fixed assets	1	10
	Motosu-shi, Gifu	Buildings and structures	273	2,725
		Other tangible fixed assets	20	200
		Other intangible fixed assets	3	30
	Chuo-ku, Osaka	Buildings and structures	132	1,317
		Other tangible fixed assets	1	10
		Other intangible fixed assets	0	0
	China	Buildings and structures	468	4,671
		Amusement game machines	771	7,695
		Other tangible fixed assets	100	998
	U.S.	Goodwill	468	4,671
		Other intangible fixed assets	491	4,901
	Okayama-shi, Okayama and 26 other locations	Buildings and structures	756	7,546
		Amusement game machines	18	180
		Other tangible fixed assets	255	2,545
		Other intangible fixed assets	1	10
Pachislot and Pachinko business	Hiroshima-shi, Hiroshima, etc.	Buildings and structures	100	998
		Goodwill	511	5,100
		Other tangible fixed assets	164	1,637
		Other intangible fixed assets	302	3,014
		Lease assets	133	1,327
Consumer business	China	Goodwill	1,078	10,760
		Other tangible fixed assets	28	279
		Other investment and other assets	0	0
Assets for business	Ota-ku, Tokyo and 4 other locations	Buildings and structures	182	1,817
		Amusement game machines	7	70
		Other tangible fixed assets	263	2,625
		Other intangible fixed assets	32	319
		Lease assets	15	150
Total			¥9,218	$92,005

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

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

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

Impairment losses for the year ended March 31, 2006 consisted of the following:

Use	Location	Impairment loss	
		Type	Millions of yen
Amusement facilities	Chuo-ku, Osaka	Land	¥4,576
		Buildings and structures	1,880
		Other tangible fixed assets	208
		Other intangible fixed assets	43
	Tokushima-shi, Tokushima	Buildings and structures	100
	Takatsuki-shi, Osaka	Buildings and structures	2
Assets for lease	Sakaiminato-shi, Tottori; Bunkyo-ku, Tokyo; and 3 other locations	Land	119
		Buildings and structures	37
Idle assets	Karuizawa-cho, Nagano and 5 other locations	Land	42
	Kawagoe-shi, Saitama	Other tangible fixed assets	188
Total			¥7,195

The recoverable value of amusement facilities (Tokushima-shi, Tokushima and Takatsuki-shi, Osaka) and assets for lease are assessed using their value in use, which is the present value of projected cash flows generated by these assets using a discount rate between 2.2% and 6.0%. The recoverable value of amusement facilities (Chuo-ku, Osaka) and idle assets are calculated using the fair value less cost to sell based on the real estate appraisal value or the assessed value of fixed assets for property tax purpose.

NOTE 16

Information for Certain Leases

A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment losses, and net book value for the years ended March 31, 2008 and 2007 with respect to the finance leases accounted for in the same manner as operating leases was as follows:

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

	Thousands of U.S. dollars (Note 1)			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
March 31, 2008:				
Structures	$ 2,795	$ 1,278	$ –	$ 1,517
Amusement machines	18,165	9,931	–	8,234
Tools, furniture and fixtures	21,998	11,867	689	9,442
Machinery and equipment	5,540	3,394	–	2,146
Software	5,040	2,095	60	2,885
Total	$53,538	$28,565	$749	$24,224

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
March 31, 2007:				
Structures	¥ 280	¥ 88	¥ –	¥ 192
Amusement machines	2,087	915	–	1,172
Tools, furniture and fixtures	2,783	1,488	28	1,267
Machinery and equipment	555	260	–	295
Software	823	436	44	343
Total	¥6,528	¥3,187	¥72	¥3,269

Future lease payments under the finance leases that were accounted for in the same manner as operating leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Due within one year	¥1,306	¥1,626	$13,035
Due after one year	1,300	1,833	12,975
Total	¥2,606	¥3,459	$26,010
Liability of impairment loss for lease assets	¥ 75	¥ 72	$ 749

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

A summary of assumed amounts of lease payments, reversal liability of impairment loss for lease assets, depreciation, impairment losses, and interest expense for the years ended March 31, 2008, 2007, and 2006 with respect to the finance leases accounted for in the same manner as operating leases were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Lease payments	¥1,765	¥1,970	¥1,478	$17,617
Reversal liability of impairment loss for lease assets	72	–	–	719
Depreciation	1,669	1,882	1,460	16,658
Impairment losses	75	72	–	749
Interest expense	88	99	85	878

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

NOTE 17

Derivative Transactions

To avoid the adverse effects of fluctuation of the market risk associated with financial activities and fluctuation in exchange rates, the Company and its consolidated subsidiaries use interest rate swap contracts and foreign exchange contracts. The Company and its consolidated subsidiaries use derivative financial instruments only for hedging purposes and do not use them for speculative trading purposes.

The interest rate swap contracts and foreign exchange contracts are executed with creditworthy financial institutions, and the Company and its consolidated subsidiaries believe the risk of default by counterparties is currently low.

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

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

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

Market values of derivative transactions as of March 31, 2006 were as follows (except the derivative transaction hedged):

	Millions of yen		
	Contract value	Fair value	Unrealized gains (losses)
Forward exchange contracts:			
Buying			
U.S. dollars	¥304	¥297	¥(7)

NOTE 18

Shareholders' Equity

Changes in the number of shares issued and outstanding during the years ended March 31, 2008 and 2007 are as follows:

Common stock outstanding:

	2008	2007
Balance at beginning of the year	283,229,476	283,229,476
Increase due to exercise of convertible bonds with stock acquisition rights	–	–
Increase due to stock split	–	–
Balance at end of the year	283,229,476	283,229,476

Treasury stock outstanding:

	2008	2007
Balance at beginning of the year	31,276,992	31,254,693
Increase due to purchase from subsidiaries	–	–
Increase due to stock split	–	–
Increase due to purchase of odd stock	20,735	29,441
Decrease due to sale of odd stock	5,720	7,142
Balance at end of the year	31,292,007	31,276,992

NOTE 19

Segment Information

A. Industry segment information

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

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

Thousands of U.S. dollars (Note 1)	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and elimination	Consolidated
Net sales:								
(1) Outside customers	$1,453,069	$709,272	$ 910,540	$1,415,221	$ 92,964	$4,581,066	$ –	$4,581,066
(2) Inter-segment	8,823	43,318	70	4,741	14,802	71,754	(71,754)	–
Total	1,461,892	752,590	910,610	1,419,962	107,766	4,652,820	(71,754)	4,581,066
Cost of sales and operating expense	1,377,612	681,206	1,008,494	1,479,738	108,514	4,655,564	(16,319)	4,639,245
Operating income (loss)	$ 84,280	$ 71,384	$ (97,884)	$ (59,776)	$ (748)	$ (2,744)	$ (55,435)	$ (58,179)
Total assets	$1,277,852	$428,226	$ 856,822	$1,145,244	$ 32,948	$3,741,092	$946,432	$4,687,524
Depreciation and amortization	$ 213,005	$ 30,562	$ 171,285	$ 44,685	$ 2,954	$ 462,491	$ (7,246)	$ 455,245
Impairment losses	$ 12,077	$ 1,218	$ 63,919	$ 14,592	$ 199	$ 92,005	–	$ 92,005
Capital expenditures	$ 237,838	$ 22,527	$ 158,798	$ 43,827	$ 34,076	$ 497,066	$ 6,198	$ 503,264

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

2. Main products and line of business by segment:

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

3. General corporate expenses of ¥5,760 million ($57,491 thousand), which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination."

4. Corporate assets of ¥94,945 million ($947,649 thousand), which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and elimination."

5. Following the amendments of the Corporation Tax Law of Japan, effective April 1, 2007, the method of depreciation applied to the property, plant and equipment acquired on or after April 1, 2007 has been changed. Due to this change, operating income decreased by ¥425 million ($4,242 thousand) for Pachislot and Pachinko business, ¥213 million ($2,126 thousand) for Amusement Machine Sales, and the operating losses increased by ¥1,706 million ($17,028 thousand) for Amusement Center Operations, ¥310 million ($3,094 thousand) for Consumer Business, and ¥27 million ($269 thousand) for Others, respectively.

6. From the fiscal year ended March 31, 2008, the Company early adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18, issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006). In principle, the Company unified accounting standards for foreign subsidiaries and makes necessary adjustments upon consolidation.

As a result of this change, the operating expenses increased by ¥260 million, ($2,595 thousand) for Amusement Center Operations, and ¥383 million, ($3,823 thousand) for Consumer Business, and accordingly operating losses increased by the same amounts respectively.

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

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

Notes: 1. The Company has five operating segments based on its management control structure and the nature of products and markets.
2. Main products and line of business by segment:
(1) Pachislot Pachinko — Development, manufacture and sale of pachinko and pachislot machines and design parlors
(2) Amusement Machine Sales — Development, manufacture and sale of game machines used in amusement arcades
(3) Amusement Center Operations — Development, operation, rent and maintenance of amusement centers
(4) Consumer Business — Development and sale of home video game software; development, manufacture, and sale of toy; planning and production of entertainment contents for cellular phones, etc., planning, production and sale of animated movies
(5) Others — Planning, design, management and construction of commercial establishments, etc.
3. General corporate expenses of ¥7,014 million, which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination."
4. Corporate assets of ¥157,478 million, which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and elimination".

Industry segment information for the year ended March 31, 2006 is as follows:

	Millions of yen							
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Others	Total	Corporate and elimination	Consolidated
Net sales:								
(1) Outside customers	¥265,632	¥71,513	¥106,246	¥90,353	¥19,497	¥553,241	¥ –	¥553,241
(2) Inter-segment	1,182	5,757	12	376	1,334	8,661	(8,661)	–
Total	266,814	77,270	106,258	90,729	20,831	561,902	(8,661)	553,241
Cost of sales and operating expense	166,966	65,093	97,014	88,752	22,544	440,369	(6,272)	434,097
Operating income (loss)	¥ 99,848	¥12,177	¥ 9,244	¥ 1,977	¥ (1,713)	¥121,533	¥ (2,389)	¥119,144
Total assets	¥121,843	¥41,777	¥ 91,099	¥89,599	¥13,425	¥357,743	¥165,171	¥522,914
Depreciation and amortization	¥ 2,482	¥ 1,505	¥ 17,148	¥ 2,411	¥ 717	¥ 24,263	¥ (2,408)	¥ 21,855
Impairment losses	¥ 329	–	¥ 6,808	–	¥ 55	¥ 7,192	¥ 3	¥ 7,195
Capital expenditures	¥ 6,944	¥ 1,467	¥ 24,577	¥ 3,502	¥ 929	¥ 37,419	¥ 231	¥ 37,650

Notes: 1. The Company has five operating segments based on its management control structure and the nature of products and markets.
2. Main products and line of business by segment:
(1) Pachislot Pachinko — Development, manufacture and sale of pachinko and pachislot machines and design parlors
(2) Amusement Machine Sales — Development, manufacture and sale of game machines used in amusement arcades
(3) Amusement Center Operations — Development, operation, rent and maintenance of amusement centers
(4) Consumer Business — Development and sale of home video game software; development, manufacture, and sale of toy; planning and production of entertainment contents for cellular phones, etc., planning, production and sale of animated movies
(5) Others — Planning, design, management and construction of commercial establishments, etc.
3. General corporate expenses of ¥4,915 million, which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination."
4. Corporate assets of ¥170,929 million, which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and elimination."

B. Geographical segment information

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

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

	Thousands of U.S. dollars (Note 1)						
	Japan	North America	Europe	Others	Total	Corporate and elimination	Consolidated
Net sales:							
(1) Outside customers	$3,654,746	$449,446	$430,712	$46,162	$4,581,066	$ –	$4,581,066
(2) Inter-segment	266,873	59,956	42,120	7,925	376,874	(376,874)	–
Total	3,921,619	509,402	472,832	54,087	4,957,940	(376,874)	4,581,066
Cost of sales and operating expense	4,066,653	476,295	408,784	46,831	4,998,563	(359,318)	4,639,245
Operating income (loss)	$ (145,034)	$ 33,107	$ 64,048	$ 7,256	$ (40,623)	$ (17,556)	$ (58,179)
Total assets	$4,567,681	$237,968	$273,969	$32,649	$5,112,267	$(424,743)	$4,687,524

Notes:
1. Segmentation of countries and regions is based on geographical proximity.
2. Major countries and regions are as follows.
   (1) North America … United States, etc.
   (2) Europe … United Kingdom, France, Germany, etc.
   (3) Others … Australia, Taiwan, Singapore, etc.
3. General corporate expenses of ¥5,760 million ($57,491 thousand), which mainly consist of expenses incurred by the Company's administrative department, are included in "Corporate and elimination."
4. Corporate assets of ¥94,945 million ($947,649 thousand), which mainly consist of cash and cash equivalents of SEGA CORPORATION and Sammy Corporation and the Company's assets, are included in "Corporate and elimination."

Geographical segment information is not presented as the sales and assets of consolidated domestic subsidiaries for the years ended March 31, 2007 and 2006 exceeded 90% of consolidated net sales and assets.

C. Overseas sales

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

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

	Thousands of U.S. dollars (Note 1)			
	North America	Europe	Others	Total
Total overseas sales	$499,221	$475,776	$102,296	$1,077,293
Consolidated net sales				$4,581,066
Percentage of overseas sales to consolidated net sales	10.9%	10.4%	2.2%	23.5%

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

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

Overseas sales for the year ended March 31, 2006 are not presented as the overseas sales of the Company and its consolidated subsidiaries were less than 10% of consolidated net sales.

NOTE 20

Related-Party Transactions

Material transactions of the Company with related individuals and companies for the year ended March 31, 2008 are as follows:

		Millions of yen			
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	**2008**	Account	**2008**
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	¥302	–	¥–
FSC Co., Ltd.	Nonlife insurance agent	Payment of insurance and outsourcing fee	26	Prepaid expense Accrued expense	5 0

		Thousands of U.S. dollars (Note 1)			
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	**2008**	Account	**2008**
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	$3,014	–	$ –
FSC Co., Ltd.	Nonlife insurance agent	Payment of insurance and outsourcing fee	260	Prepaid expense Accrued expense	50 0

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% shares directly of FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's-length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

Material transactions of the Company with related individuals and companies for the year ended March 31, 2007 are as follows:

		Millions of yen			
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	2007	Account	2007
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	¥250	–	¥–
FSC Co., Ltd.	Nonlife insurance agent	Payment of insurance and outsourcing fee	26	Prepaid expense Accrued expense	7 0

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% shares directly of FSC Co., Ltd.
2. The terms and conditions of the above transactions are on an arm's-length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

Material transactions of the Company with related individuals and companies for the year ended March 31, 2006 are as follows:

		Millions of yen			
		Transactions		End of period account balance	
Name of related individual and company	Position and principal business	Description of the Company's transaction	2006	Account	2006
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet	¥349	–	¥ –
FSC Co., Ltd.	Nonlife insurance agent	Payment of insurance and outsourcing fee	22	Prepaid expense	6

Notes: 1. The Company paid the lease fee to ITC-Aerospace, Inc., which operated the business jet owned by Hajime Satomi, Chairman of the Board and Chief Executive Officer.
2. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% shares directly of FSC Co., Ltd.
3. The terms and conditions of the above transactions are on an arm's-length basis. The above amounts exclude consumption taxes, but consumption taxes are included in the end of period account balance.

NOTE 21

Business Combinations

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

1. Sports Interactive Ltd.

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

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

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

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

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

(v) Percentage of voting rights acquired: 100%

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

(3) Cost of acquisition of business and its details

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

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

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

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

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

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

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

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

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

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

(ii) Accounting methods implemented after the current fiscal year

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

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

No material effect on the consolidated statement of income.

2. Secret Level, Inc.

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

(i) Trade name and main business: Secret Level, Inc. Development of consumer games and game engines

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

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

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

(v) Percentage of voting rights acquired: 100%

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

From April 4, 2006 to March 31, 2007

(3) Cost of acquisition of business and its details

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

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

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

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

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

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

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

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

No material effect on the consolidated statement of income.

3. Sega Amusement Works, LLC

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

(i) Trade name and main business:
Sunshine Entertainment Holdings, LLC
Management of amusement machines

(ii) Purpose of business combination: To extend the sales opportunities of the Company's amusement business in the American market

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

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

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

(2) Period for which the performance of the new subsidiary is reflected in the consolidated financial statements
From December 1, 2006 to March 31, 2007

(3) Cost of acquisition of business and its details

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

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

(i) Amount of goodwill: ¥537 million

(ii) Reason: The fair value at the time of the business combination.

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

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

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

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

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

The estimated amounts are calculated based on the monthly average amounts included in the income statement.

NOTE 22

Per Share Data

Per share data is as follows:

	Yen			U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Per share data:				
Net assets per share	¥1,030.09	¥1,341.80	¥1,254.14	$10.28
Net income (loss) per share	(208.26)	172.47	261.06	(2.08)
Net income per share (diluted)	–	172.35	260.35	–

Diluted net income per share is not disclosed, because a net loss is recorded.

On November 18, 2005, the Company split its common stock into two for one. Per share data would have been as follows if the stock split had been performed at the beginning of the previous period.

	Yen
Per share data:	
Equity per share	¥1,033.96
Net income per share	205.27
Net income per share (diluted)	200.48

Independent Auditors' Report

To the Shareholders and Board of Directors of
SEGA SAMMY HOLDINGS INC.:

We have audited the accompanying consolidated balance sheets of SEGA SAMMY HOLDINGS INC. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income for each of the three years in the period ended March 31, 2008, the consolidated statement of net assets for the years ended March 31, 2008 and 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SEGA SAMMY HOLDINGS INC. and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, SEGA SAMMY HOLDINGS INC. and consolidated domestic subsidiaries adopted the new accounting standards for impairment of fixed assets.

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

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

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 18, 2008

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