SEGA CORPORATION

Annual Report 2004

the excitement company

play it again

www.sega.co.jp

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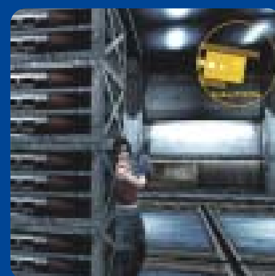
Contents

Cautionary Statements

This annual report contains forecasts of business results, statements regarding business plans and other forward-looking statements. These statements are based on management's assumptions regarding the economic environment and the Company's operating environment as of the date of publication and involve various risks and uncertainties. Actual business results may differ materially from forecasts herein.



ent company,

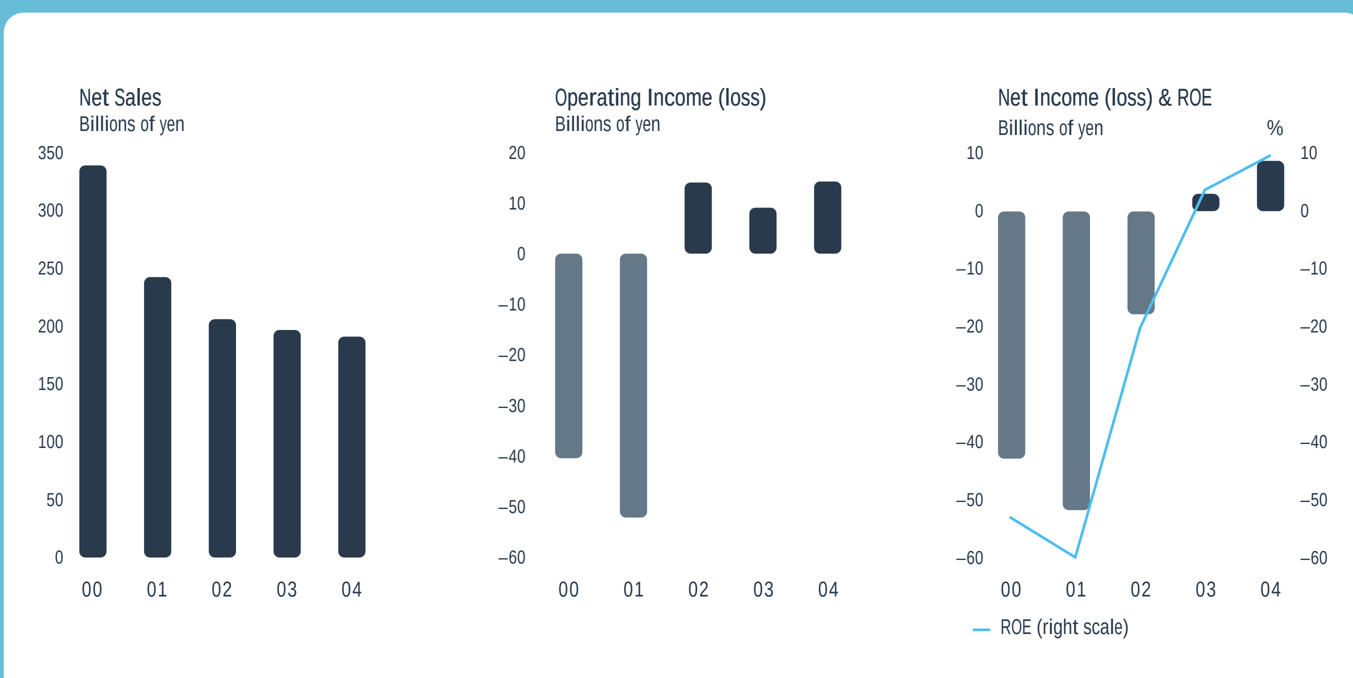
SEGA CORPORATION was established in 1951 and incorporated in 1960. Three pillars support SEGA's all-round entertainment business – Amusement Machine Sales, Amusement Center Operations, and Consumer Business – which operates in markets the world over. Our core competence lies in our ability to develop a diverse range of products in those three business segments. Consequently, SEGA has debuted an array of first-ever products. By offering a steady flow of such leading-edge goods, the Company has consistently led markets. Thanks to those extensive software assets, SEGA has become one of only a handful of blue-chip game manufacturers recognized by game players worldwide.

consolidated financial highlights

SEGA CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

	Millions of yen			Thousands of U.S. dollars (Note)	% Change
	2002	2003	2004	2004	2003 vs 2004
For the year:					
Net Sales:					
Amusement Machine Sales	¥ 52,664	¥ 61,344	¥ 60,366	$ 571,161	–1.6%
Amusement Center Operations	68,534	69,331	69,860	660,990	0.8
Consumer Business	85,136	66,549	61,032	577,462	–8.3
Total	¥206,334	¥197,224	¥191,258	$1,809,613	–3.0
Costs of Sales	¥144,717	¥144,162	¥138,687	$1,312,205	–3.8
Gross Profit	61,617	53,062	52,571	497,408	–0.9
Selling, General and Administrative Expenses	47,416	43,765	38,091	360,404	–13.0
Operating Income	14,201	9,297	14,480	137,004	55.7
Net Income (Loss)	(17,829)	3,054	8,761	82,893	186.9
Return on equity	—	3.6%	9.5%	9.5%	163.9
At year-end:					
Total Assets	243,910	222,067	189,056	1,788,779	–14.9
Total Shareholders' Equity	83,570	86,886	97,963	926,890	12.7
		Yen		U.S. dollars (Note)	% Change
Per share:					
Net Income (Loss)—basic	¥(119.2)	¥19.7	¥56.0	$0.53	184.3%
Cash Dividends	—	—	—	—	

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥105.69 to U.S.$1, the exchange rate prevailing at March 31, 2004.



a message from the management

Hajime Satomi
Chairman

Hisao Oguchi
President

Since its establishment, SEGA has marketed a series of innovative hit products in amusement related markets based on its continuous development of new technologies. The SEGA brand has been built on outstanding product development capabilities and a willingness to take on challenges in new fields. Furthermore, SEGA's Consumer Business has established a powerful brand image worldwide by offering highly popular home-use game software titles, such as the flagship *Sonic Series* products. Despite today's volatile business conditions, we will increase profitability by strengthening the hallmarks of the SEGA brand – product development capabilities, bold innovation in new fields, and global brand power.

FISCAL 2004 PERFORMANCE

In the fiscal year ended March 31, 2004, the Japanese economy showed promising signs of an upturn, with recoveries in corporate earnings and share prices. However, consumer spending remained flat due to minimal improvements in employment and personal income.

Against that backdrop, the Amusement Machine Sales segment posted brisk mainstay product sales, including *UFO Catcher 7* and *Star Horse*, due to demand generated by aggressive amusement center openings in the amusement industry. Meanwhile, the performance of Amusement Center Operations fell short of expectations. Although a new business, *The King of Beetle Mushiking*, substantially outperformed sales projections, existing businesses were adversely affected by the absence of launches of industry-leading, large-scale products during the year under review and by a series of large-format amusement center openings by competitors. The Consumer Business segment also posted results below targets. While certain titles significantly exceeded sales forecasts worldwide, sales of sports and other titles in North America were sluggish.

As a result of such factors, SEGA recorded consolidated net sales of ¥191.3 billion, operating income of ¥14.5 billion, and net income of ¥8.8 billion. Despite a decrease in net sales, we were able to post substantial increases in earnings.

MANAGEMENT INTEGRATION

In October 2004, a share-for-share exchange between SEGA and Sammy Corporation will result in the establishment of a holding company, SEGA SAMMY HOLDINGS INC., which will become the parent company of both companies. In May 2004, meetings of the boards of directors of both companies decided to establish the holding company under which the companies' managements will be integrated and concluded a stock-for-stock exchange agreement. Following management integration on October 1, 2004, both companies will work to maximize the corporate value of the new company and establish a strong position as a global, comprehensive entertainment company by seeking optimal synergies and enhanced efficiency in the companies' operations in Japan and overseas.

CORPORATE GOVERNANCE

SEGA regards corporate governance as one of the most important management issues. Accordingly, SEGA will upgrade management systems and implement required measures to enhance governance functions and to realize its fundamental management policy of continuously heightening corporate value through profitable growth.

Specifically, in June 1998 SEGA introduced a corporate officer system in order to separate its management and implementation functions, to expedite decision making, and to clarify responsibility for operational implementation. SEGA's board of directors comprises six members that decide important management and compliance issues and continuously supervise operational implementation.

Further, SEGA utilizes an auditor system that enables the strict monitoring of management activities. Auditors attend meetings of the board of directors and the management implementation committee and conduct timely and appropriate auditing of the Company. Two statutory auditors conduct audits to ensure the maintenance of appropriate operational activities. Moreover, two outside auditors audit SEGA from an objective standpoint.

In the fiscal year under review, 28 meetings of the board of directors were convened to decide important compliance and management issues and to supervise operational implementation. Also, the management implementation committee met 32 times and the board of auditors met 17 times during the year.

Aiming to heighten the transparency of its management, SEGA will redouble efforts to disclose adequate and timely information to its shareholders and other investors.

TOWARD ENHANCED CORPORATE VALUE

SEGA aspires to be a corporate group that earns the strong endorsement and trust of customers. Our goal is to become the interactive entertainment and amusement industries' leading company by taking on the challenge of extending the conventional limits of game software based on our key "connection" concept. Also, we intend to enhance profitability and reinforce our financial position. To those ends, in Amusement Machine Sales, SEGA will work to revitalize Japan's amusement related markets and win substantial market shares worldwide; in Amusement Center Operations, the Company will create and grow new markets; and in Consumer Business, SEGA will establish a highly profitable structure. We are convinced that, founded on profitable growth, those initiatives will continue to heighten corporate value and generate returns for our shareholders. Following the management integration of SEGA and Sammy under a holding company on October 1, 2004, the companies will maximize corporate value by leveraging their respective strengths. To enable the new company to take a significant leap forward as a global, comprehensive entertainment company, both companies will reduce costs and improve profitability by pursuing synergies through the optimal allocation of management resources and by enhancing management efficiency.

In closing, we would like to ask our shareholders for their continued support as we advance toward a turning point in our history.

July 2004

Hajime Satomi

Hajime Satomi, Chairman and CEO

小口久雄

Hisao Oguchi, President and COO

new holding company

Following resolutions at meetings of the boards of directors of both companies on May 18, 2004, SEGA CORPORATION (SEGA) and Sammy Corporation (Sammy) concluded an agreement to establish SEGA SAMMY HOLDINGS INC. (SEGA SAMMY or the Holding Company) through a share-for-share exchange. That agreement was premised on the approval of each company's ordinary general meeting of shareholders and of relevant governmental agencies. The management of both companies will be integrated under SEGA SAMMY, which will become the parent company of SEGA and Sammy.

Subsequent to the conclusion of the abovementioned agreement, Sammy and SEGA received approval for the integration from their ordinary general meetings of shareholders held on June 25, 2004, and June 29, 2004, respectively. Permission from relevant governmental agencies has also been received.

aims

- Strengthen position as a global, comprehensive entertainment company
- Benefit from the complementarity of the operations of SEGA and Sammy
- Step up the pace of global operational expansion by enhancing efficiency and realizing synergies between SEGA and Sammy
- Reinforce the SEGA SAMMY Group's financial position and management platform to achieve growth strategies

integration benefits

EXPANSION OF EARNINGS THROUGH EFFICIENT MANAGEMENT, COMPLEMENTARY DOVETAILING OF BUSINESS AREAS

SEGA's Amusement Machine Sales and Amusement Center Operations and Sammy's pachislot and pachinko businesses account for an increasingly large portion of each company's operations. Given that there are very few business areas in which the two companies compete with each other or in which they have common business partners, we believe that it will be possible to achieve a mutually complementary operational structure by integrating the managements of the companies. In the medium term, the SEGA SAMMY Group will work to reduce costs and increase profits through the construction of a lean, well-balanced, and efficient management structure. The Holding Company will achieve those goals by optimally leveraging the new Group's management resources and by reorganizing and consolidating both companies, including their subsidiaries in Japan and overseas. Those restructuring efforts will focus on operations with small-scale earnings that overlap with SEGA's operations, such as Sammy's amusement arcade operations.

OPERATIONAL SYNERGY

The SEGA SAMMY Group will pursue synergy benefits among Group operations by strategically deploying both companies' management resources. We expect that fully exploiting such synergy benefits will grow sales and enhance profit margins.

ENHANCED MANAGEMENT EFFICIENCY UNDER THE HOLDING COMPANY

The Holding Company will maximize the efficiency of overall Group management by centralizing planning, operational, and administrative functions and by swiftly and flexibly formulating plans for cash flow allocation and capital expenditures.

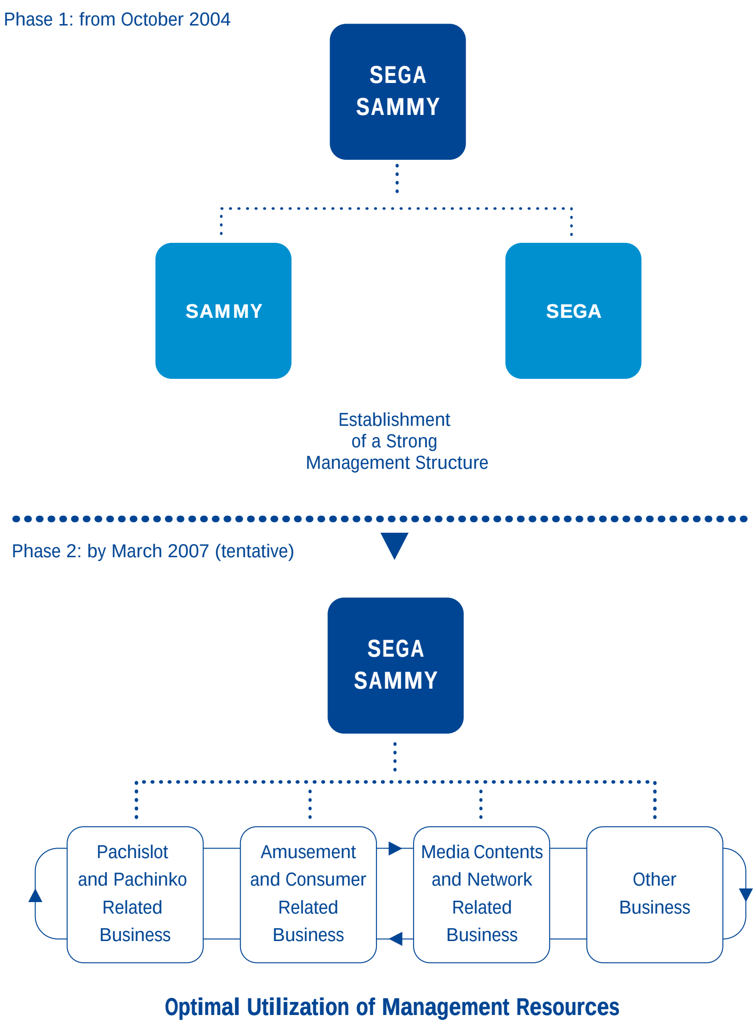
ESTABLISHMENT OF A STABLE MANAGEMENT STRUCTURE

We believe that the pursuit of enhanced management efficiency and optimal synergies among the companies' business areas following the integration will mitigate both companies' current reliance on relatively narrow business areas and lead to the rapid establishment of a management structure with long-term stability.

overview

- On October 1, 2004, SEGA and Sammy will jointly establish the Holding Company and become its wholly owned subsidiaries through a share-for-share exchange.
- The integration of the companies' businesses under the Holding Company and the formation of new entities based on business segments are expected to be completed by March 2007.

operational reorganization plan



holding company

Company name

SEGA SAMMY HOLDINGS INC.

Headquarters location

Minato-ku, Tokyo

Representative

Hajime Satomi,

Chairman, President and Representative Director

Paid-in capital ¥10 billion

Fiscal year-end March 31

Number of shares constituting one full unit of stock 100 shares

Auditing firm KMPG Azsa & Co.

Functions

- Undertake planning, operations, and management to optimize the Group as a whole.
- Coordinate overall Group management and manage and oversee operational implementation after clarifying each company's areas of authority and responsibility.
- Formulate and execute management strategies focused on fully leveraging management resources, promoting profitable growth, and realizing integration benefits at an early stage.

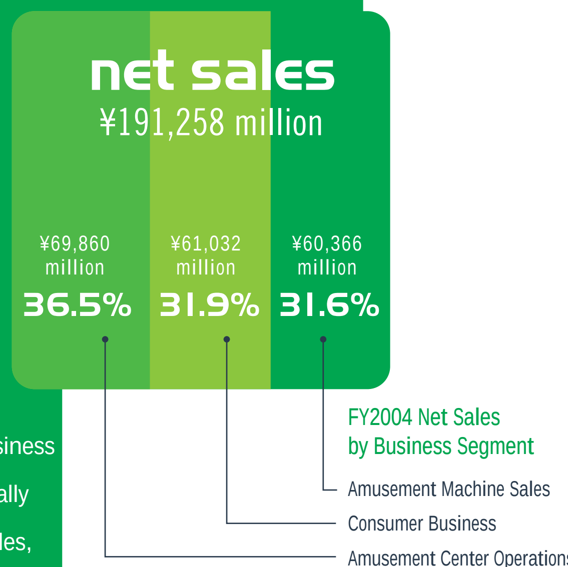
logo

The new company's logo is a design based on the letter "S," the initial letter of both companies' names. The strong synergy benefits generated by the integration of the two companies are represented by a combination of blue and green, which are the companies' corporate colors. Further, the logo expresses the dynamism, strength, and novelty of the SEGA SAMMY Group.

In the logo, a curved line that suggests the horizon linking the words SEGA and SAMMY symbolizes the companies' collaboration. The horizon represents the SEGA SAMMY Group's determination to develop globally.

review of operations

SEGA CORPORATION and its consolidated subsidiaries continued to perform steadily as leaders in the interactive entertainment and amusement industries.



Amusement Machine Sales surpassed initial projections due to demand resulting from stepped-up amusement center openings by amusement center operators, the segment's mainstay customers. Meanwhile, Amusement Center Operations failed to meet targets because the Company did not market any industry-leading, large-scale products and because of gradual change in the composition of existing amusement centers stemming from the closure of small centers and the opening of large-format centers. Also, Consumer Business fell short of sales forecasts. Worldwide sales of certain titles substantially exceeded projections but were unable to offset weak sales of other titles, including sports titles in North America.

As a result, SEGA recorded a 3.0% year-on-year decrease in consolidated net sales, to ¥191.3 billion. Furthermore, net sales from domestic operations edged up 0.3%, to ¥164.0 billion, while overseas sales were down 19.3%, to ¥27.3 billion. However, operating income climbed 55.7%, to ¥14.5 billion.

In other income (expenses), SEGA accounted for other income associated with gain on sales of investments in securities of ¥0.6 billion, gain on redemption of convertible bond of ¥0.5 billion, and gain on sales of property and equipment of ¥1.0 billion.

Meanwhile, the Company recorded other expenses that included loss on valuation of investments in securities of ¥1.5 billion, amortization of goodwill of ¥1.2 billion, and loss on disposal of inventories of ¥0.8 billion. As a result, total other expenses, net, were ¥4.1 billion. Income before income taxes and minority interest in earnings of consolidated subsidiaries amounted to ¥10.3 billion, and net income jumped 186.9% year on year, to ¥8.8 billion.

amusement machine sales

31.6%

¥60,366 million

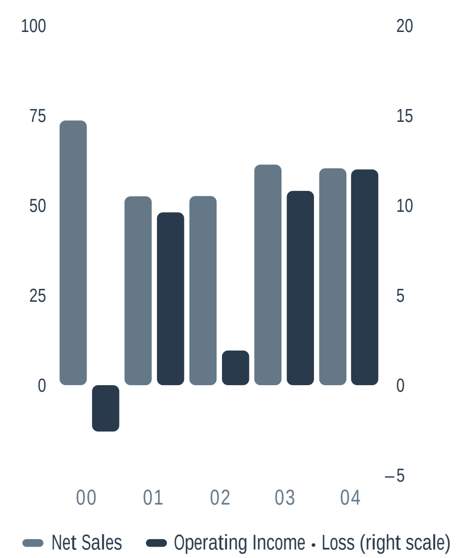
Net sales decreased 1.6% from the previous fiscal year, to ¥60.4 billion, while operating income amounted to ¥12.0 billion.

Domestic sales substantially exceeded our initial targets due to the aggressive opening of medium-to-large amusement centers, which generated heavy demand for the Company's popular mainstay products, such as *UFO Catcher 7* and *Star Horse*.

Further, new products posted higher earnings than expected thanks to brisk sales of products that showcase SEGA's technology development capabilities, including *OutRun2* and *Star Horse Progress*. Also, sales of prize products were favorable due to strong demand resulting from higher sales of such popular mainstay products as *UFO Catcher 7* that accompanied stepped-up amusement center openings.

In overseas sales, SEGA sought to expand its markets by popularizing new playing concepts based on multiplayer games. However, SEGA was still in the process of implementing those initiatives during the year under review. As a consequence, results were lower than we initially hoped.

Amusement Machine Sales
Billions of yen



segment performance

36.5%

¥69,860 million

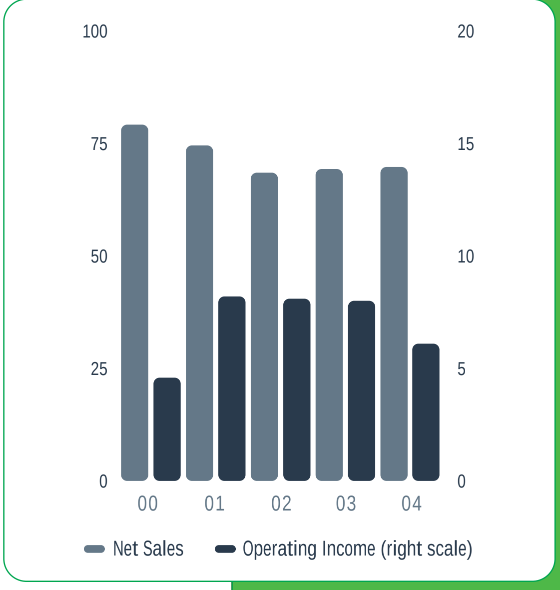
amusement center operations

Net sales edged up 0.8%, to ¥69.9 billion, and operating income amounted to ¥6.1 billion. The performance of existing amusement centers did not meet initial targets due to the absence of launches of industry-leading, large-scale products and the adverse effect of aggressive openings of large-format amusement centers by competitors. Our flagship amusement center, *Tokyo Joypolis*, continued to report favorable results thanks to the successive hosting of a wide variety of events and sales promotions.

Further, *The King of Beetle Mushiking*, a new business venture that combines equipment leasing and card sales, triggered a major boom among children and substantially outperformed our initial sales projections. The success of that new operation has established a new business model for equipment in standalone locations.

Aiming to strengthen the profitability of Amusement Center Operations, SEGA opened 16, mainly medium-to-large, amusement centers in the fiscal year under review. Meanwhile, we closed 40 amusement centers, giving a total of 473 amusement centers at fiscal year-end.

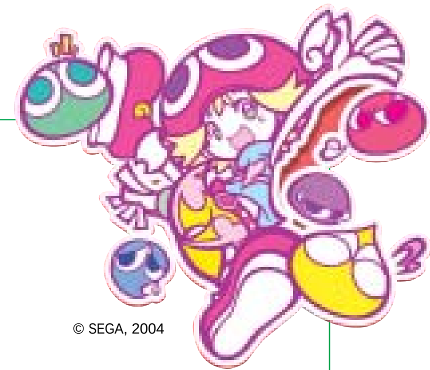
Amusement Center Operations
Billions of yen



consumer business

31.9%

¥61,032 million



Net sales decreased 8.3%, to ¥61.0 billion, and an operating loss of ¥2.8 billion was recorded.

In the fiscal year under review, the Consumer Business segment sold 8,560 thousand units of 71 SKUs of home-use game software, compared with a sales target of 9,380 thousand units of 78 SKUs. In Japan, we sold 2,770 thousand units of 27 SKUs, compared with sales plans of 3,230 thousand units of 30 SKUs. In North America, SEGA sold 4,210 thousand units of 22 SKUs, compared with sales plans of 4,230 thousand units of 24 SKUs. In Europe, we sold 1,580 thousand units of 22 SKUs, compared with sales plans of 1,920 thousand units of 24 SKUs.

Furthermore, marketing of *Blood Will Tell* and *Headhunter Redemption*, which had been slated for the fourth quarter of the fiscal year under review, was postponed to the current fiscal year to upgrade the quality of those titles.

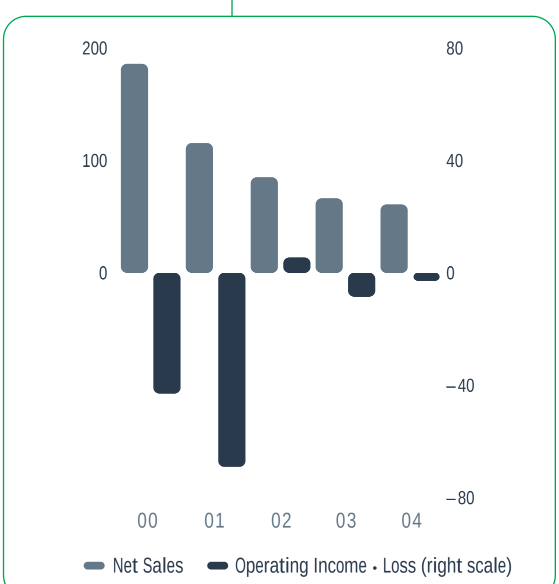
In Japan, various sports training simulation games contributed to solid earnings, including *Let's Make a Professional J. League Soccer Club! 3* (PS2); *Let's Make a Professional Baseball Team! 2003* (PS2); *Let's Train a Derby Horse!* (PS2, GC); the driving game *Initial D Special Stage* (PS2); and the puzzle game *Puyo Pop Fever* (PS2, NGC, DC).

In the North American market, overall sales did not meet the Company's initial projections. Sales of newly released entertainment titles, such as *Sonic Heroes* (PS2, NGC, XB), *Sonic Adventure DX* (NGC), *Sonic Adventure 2: Battle* (NGC), and *Virtua Fighter 4 Evolution* (PS2), and repeat orders for existing titles were higher than expected. However, this strong performance did not fully compensate for sales of sports titles, which were substantially lower than initial forecasts.

In Europe, sales exceeded projections thanks to robust orders for new entertainment titles, including *Sonic Heroes* (PS2, NGC, XB), *Virtua Fighter 4 Evolution* (PS2), and *Sonic Adventure DX* (NGC), and repeat orders for existing titles.

Furthermore, in the year under review SEGA sold 1,420 thousand units of *Sonic Heroes* worldwide, with Japan accounting for 150 thousand units; the United States, 850 thousand units; and Europe, 420 thousand units.

Consumer Business
Billions of yen



Based on a structural reform plan launched in April 2001, SEGA has pursued financial reform initiatives that aim to realize positive net cash management and improve the Company's financial position.

Compared with SEGA's financial position at the end of March 2001, at the end of March 2004 interest-bearing debt had decreased from ¥120.1 billion to ¥53.6 billion and cash and cash equivalents had increased from ¥37.6 billion to ¥71.9 billion. As a result, net cash (the year-end difference between cash and cash equivalents and interest-bearing debt) improved significantly to ¥18.3 billion, compared with a net cash deficit of ¥82.5 billion three years ago. Further, over that three-year period total assets decreased from ¥284.5 billion to ¥189.1 billion as a result of increasing the liquidity of assets and streamlining assets through sales of idle real estate, investments in securities not directly related to SEGA's business, and other measures. The shareholders' equity ratio improved from 32.2% at the end of March 2001 to 51.8%.

Our financial reform efforts have produced significant results. We plan to continue advancing cash flow management and Group management based on nine key management indicators and the simultaneous pursuit of profitability, shareholder value, efficiency, and safety.

results of financial reform

NINE MANAGEMENT INDICATORS	2001	2002	2003	2004
Return on equity	–60.0%	–20.3%	3.6%	9.5%
Shareholders' equity ratio	32.2%	34.3%	39.1%	51.8%
Current ratio	62.4%	125.9%	324.2%	219.1%
Fixed ratio	204.6%	156.7%	96.6%	84.5%
Operating income to total assets ratio	–15.8%	5.4%	4.0%	7.0%
Operating income margin	–21.4%	6.9%	4.7%	7.6%
Gross profit ratio	10.2%	29.9%	26.9%	27.5%
SG&A expenses to net sales ratio	31.6%	23.0%	22.2%	19.9%
Free cash flow margin	–27.2%	0.4%	24.5%	6.5%

Return on equity = Net income / yearly average of total shareholders' equity
Shareholders' equity ratio = Total shareholders' equity / total assets
Current ratio = Current assets / current liabilities
Fixed ratio = Fixed assets / total shareholders' equity
Operating income to total assets ratio = Operating income / yearly average of total assets
Operating income margin = Operating income / net sales
Gross profit ratio = Gross profit / net sales
SG&A expenses to net sales ratio = Selling, general and administrative expenses / net sales
Free cash flow margin = (Net cash provided by operating activities + Net cash provided by (used in) investing activities) / net sales

total interest-bearing debt to equity ratio* (Line graph)

%

150

120

90

60

30

0

2001 2002 2003 2004

THEME
- Positive net cash and improvement of financial position

TARGETS
- Streamline balance sheets (significant improvements in fixed ratio, current ratio, shareholders' equity ratio)
- Reduce interest-bearing debt
- Review interest-bearing debt
- Advance redemption of convertible bonds through purchases of convertible bonds

© SEGA

streamlined balance sheets

Millions of yen
As of March 31, 2001

Current Assets ¥96,853
Investments and Advances ¥88,374
Property and Equipment ¥66,998
Others ¥32,241
Total assets ¥284,466

Current Liabilities ¥155,107
Long-Term Liabilities ¥36,878
Others ¥794
Shareholders' Equity ¥91,687
Total liabilities, minority interest in consolidated subsidiaries and shareholders' equity ¥284,466

Millions of yen
As of March 31, 2004

Current Assets ¥106,156
Investments and Advances ¥21,667
Property and Equipment ¥40,596
Others ¥20,637
Total assets ¥189,056

Current Liabilities ¥48,455
Long-Term Liabilities ¥42,101
Others ¥537
Shareholders' Equity ¥97,963
Total liabilities, minority interest in consolidated subsidiaries and shareholders' equity ¥189,056

Millions of yen

As of March 31,	2001	2002	2003	2004
Short-term bank loans	¥38,306	¥29,208	¥ 1,510	¥ 725
Current portion of bond	–	–	2,450	2,950
Current portion of convertible bond	–	5,000	–	10,080
Current portion of long-term debt	52,232	1,741	4,939	4,988
Long-term debt	29,581	63,364	86,362	34,881
Total interest-bearing debt	¥120,119	¥99,313	¥ 95,261	¥ 53,624
Total interest-bearing debt to equity ratio*	131.0%	118.8%	109.6%	54.7%
Cash and cash equivalents	37,633	52,751	101,362	71,923
Net cash (Cash and cash equivalents – Interest-bearing debt)	(82,486)	(46,562)	6,101	18,299

financial section

five-year financial summary

SEGA CORPORATION and Consolidated Subsidiaries
For the years ended March 31

Millions of yen except per share data

	2000	2001	2002	2003	2004
For the year:					
Net sales	¥339,055	¥242,913	¥206,334	¥197,224	¥191,258
Costs of sales	290,492	218,235	144,717	144,162	138,687
% of net sales	85.7%	89.8%	70.1%	73.1%	72.5%
Selling, general and administrative expenses	88,917	76,697	47,416	43,765	38,091
% of net sales	26.2%	31.6%	23.0%	22.2%	19.9%
Operating income (loss)	(40,354)	(52,019)	14,201	9,297	14,480
% of net sales	–11.9%	–21.4%	6.9%	4.7%	7.6%
Net income (loss)	(42,880)	(51,730)	(17,829)	3,054	8,761
% of net sales	—	—	—	1.5%	4.6%
Return on equity	—	—	—	3.6%	9.5%
Return on assets	—	—	—	1.3%	4.3%
Per share data (yen):					
Net income (loss) – basic	¥(390.60)	¥(341.60)	¥(119.20)	¥19.70	¥56.00
Cash dividends	—	—	—	—	—
Research and development expenses	¥30,631	¥22,568	¥23,208	¥27,665	¥26,689
Capital expenditures	27,510	21,505	15,616	12,989	14,149
Depreciation and amortization	23,569	24,163	18,589	15,575	13,331
At year-end:					
Cash and cash equivalents	¥ 98,325	¥ 37,633	¥ 52,751	¥101,362	¥ 71,923
Total assets	375,341	284,466	243,910	222,067	189,056
Total shareholders' equity	80,725	91,687	83,570	86,886	97,963
Shareholders' equity ratio	21.5%	32.2%	34.3%	39.1%	51.8%

management's discussion and analysis

OVERVIEW

In the fiscal year ended March 31, 2004, there were positive signs of an upturn in the Japanese economy. However, consumer spending remained flat due to minimal improvements in employment and personal income levels. A leader in the interactive entertainment and amusement industries, SEGA CORPORATION and its consolidated subsidiaries continued to steadily advance their operations.

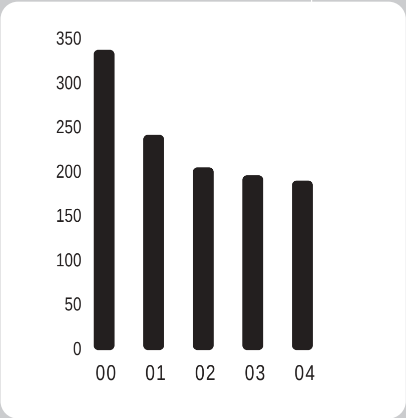
NET SALES

In the fiscal year under review, consolidated net sales decreased 3.0%, to ¥191.3 billion (US$1,809.6 million). Net sales from domestic operations edged up 0.3%, to ¥164.0 billion (US$1,551.6 million), while overseas sales decreased 19.3%, to ¥27.3 billion (US$258.0 million). Amusement Machine Sales outperformed our initial projections due to heavy demand stemming from aggressive opening of amusement centers. Meanwhile, Amusement Center Operations fell short of sales targets because the Company did not market any large, industry-leading products during the year and continued to change the composition of its amusement centers by closing small facilities and opening large facilities. Consumer Business also posted results below planned levels. Although worldwide sales of certain titles significantly exceeded our initial forecasts, this did not fully offset a downturn in sales of other titles, including sports titles in North America.

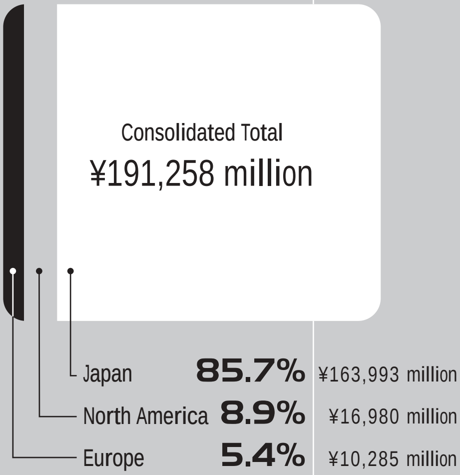
COSTS, EXPENSES, AND EARNINGS

A 3.8% decrease in costs of sales, to ¥138.7 billion (US$1,312.2 million), led to a 0.6-percentage-point improvement in the costs of sales ratio, to 72.5%. The enhancement of this ratio was made possible by SEGA's cost structure, which is able to respond flexibly to fluctuations in net sales. Meanwhile, gross profit edged down 0.9%, to ¥52.6 billion

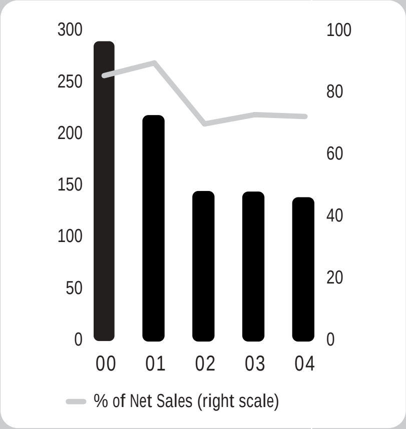
Net Sales
Billions of yen



Net Sales by Region



Costs of Sales
Billions of yen %



(US$497.4 million). Selling, general and administrative (SG&A) expenses fell 13.0%, to ¥38.1 billion (US$360.4 million), which was mainly attributable to decreases in R&D expenses of ¥1.0 billion and advertising expenses of ¥2.2 billion. As a result, the SG&A expenses ratio declined from 22.2% in the previous fiscal year to 19.9%.

Operating income climbed 55.7%, to ¥14.5 billion (US$137.0 million), while the operating income margin rose from 4.7% to 7.6% in the fiscal year under review.

Other income included gain on sales of investments in securities of ¥0.6 billion (US$5.4 million), gain on redemption of convertible bond of ¥0.5 billion (US$4.8 million), and gain on sales of property and equipment of ¥1.0 billion (US$9.6 million).

Other expenses included loss on valuation of investments in securities of ¥1.5 billion (US$14.4 million), amortization of goodwill of ¥1.2 billion (US$11.1 million), and loss on disposal of inventories of ¥0.8 billion (US$7.2 million).

As a consequence, the Company accounted for total other expenses, net, of ¥4.1 billion (US$39.2 million)

Due to the abovementioned factors, net income jumped 186.9%, to ¥8.8 billion (US$82.9 million), and net income per share increased from ¥19.7 to ¥56.0 ($0.53). Net income as a percentage of net sales rose from 1.5% to 4.6%, while ROA (calculated based on the average value of total assets during the fiscal year under review) improved from 1.3% to 4.3%. And, ROE was up from 3.6% to 9.5%.

FINANCIAL CONDITION

Financial Position

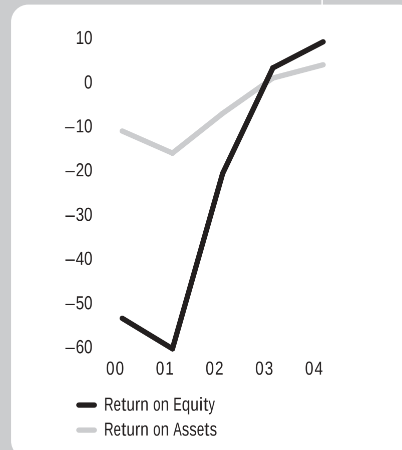
Total assets at fiscal year-end decreased ¥33.0 billion (US$312.3 million), to ¥189.1 billion (US$1,788.8 million). Current assets were down 22.7%, to ¥106.2 billion (US$1,004.4 million), due to a 29.0% reduction in cash and time deposits, mainly caused by the repayment and purchase of convertible bonds of ¥36.9 billion. Deferred charges and intangible assets decreased ¥0.7 billion, to ¥4.6 billion (US$44.0 million), which was mainly due to the amortization of goodwill of JPM International Ltd., a U.K. based subsidiary.

Current liabilities increased 14.3%, to ¥48.5 billion (US$458.5 million), as a result of recording ¥10.1 billion (US$95.4 million) as current portion of convertible bond, which was associated with convertible bonds due June 2004. Long-term liabilities decreased ¥49.6 billion compared with the previous fiscal year-end. This decline was mainly attributable to the redemption by purchase of convertible bonds of ¥34.9 billion (US$330.4 million) and to the transfer of convertible bonds due June 2004 to the current portion of convertible bond because they were due within one year.

As a result, working capital decreased 39.3% from the previous fiscal year-end, to ¥57.7 billion (US$545.9 million), and the current ratio declined from 324% to 219%.

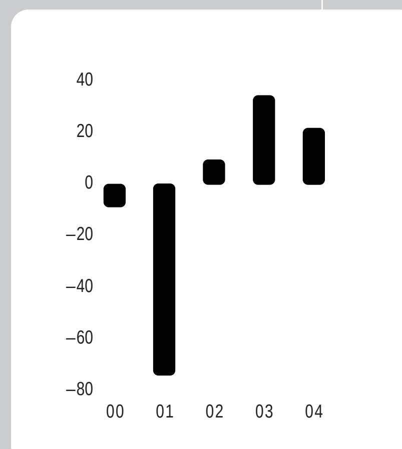
Return on Equity & Return on Assets

%



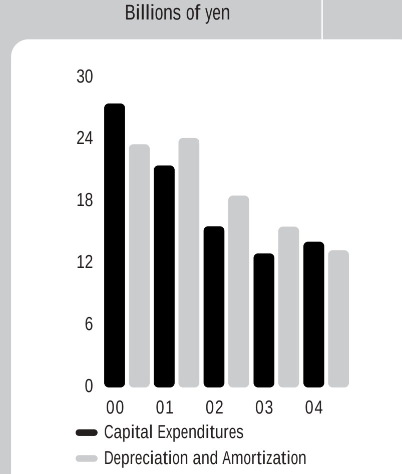
Net Cash Provided by (Used in) Operating Activities

Billions of yen



Capital Expenditures & Depreciation and Amortization

Billions of yen



The outstanding balance of interest-bearing debt decreased from ¥95.3 billion at the previous fiscal year-end to ¥53.6 billion (US$507.4 million). That reduction resulted from such factors as the retirement of ¥34.9 billion (US$330.4 million) of convertible bonds due June 2004 (amount issued: ¥50 billion) during the fiscal year under review. The abovementioned convertible bonds matured on June 18, 2004.

Total shareholders' equity increased ¥11.1 billion (US$104.8 million), to ¥98.0 billion (US$926.9 million). Consequently, the shareholders' equity ratio improved from 39.1% to 51.8%.

Cash Flows

Although income before income taxes and minority interest in earnings of consolidated subsidiaries rose ¥3.9 billion, to ¥10.3 billion, net cash provided by operating activities decreased ¥12.6 billion (US$119.7 million) from the previous fiscal year, to ¥21.6 billion (US$204.2 million), which was primarily because of a decline in depreciation and amortization and loss on settlement of donated assets from Mr. Okawa.

Net cash used in investing activities amounted to ¥9.1 billion (US$86.1 million) – compared with net cash provided by investing activities of ¥14.0 billion in the previous fiscal year – which was mainly attributable to payments for purchases of property and equipment. As a result, free cash flow – net cash used in investing activities subtracted from net cash provided by operating activities – totaled ¥12.5 billion (US$118.2 million).

Net cash used in financing activities was ¥41.4 billion (US$391.7 million), compared with net cash provided by financing activities of ¥1.0 billion in the previous fiscal year. That cash outflow was attributable to repayment of long-term debt and payment on redemption of convertible bonds.

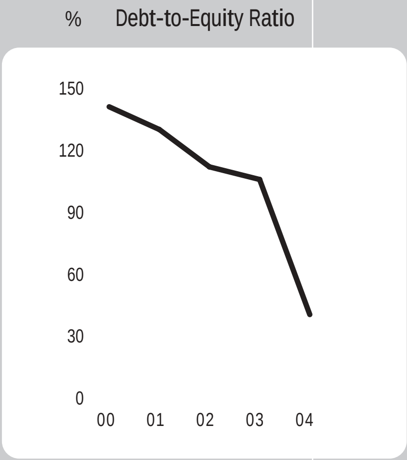
Cash and cash equivalents at end of year decreased ¥29.4 billion, to ¥71.9 billion (US$680.5 million).

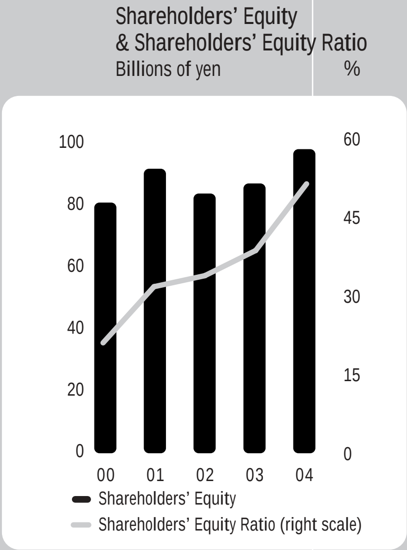
Moreover, thanks to financial reform plans implemented over a three-year period since April 2001, interest-bearing debt decreased to ¥53.6 billion (US$507.4 million). Consequently, net cash (the year-end difference between cash and cash equivalents and interest-bearing debt) improved dramatically to ¥18.3 billion (US$173.1 million), compared with a net cash deficit of ¥82.5 billion when financial reform plans were launched three years ago.

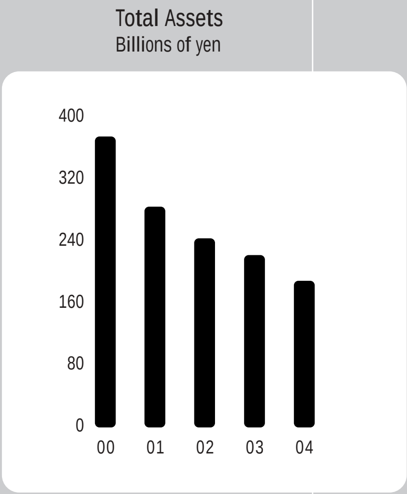
BASIC POLICY ON PROFIT SHARING

SEGA regards returning profits to its shareholders as a priority management issue. The Company's basic policy is to return profits to shareholders by securing adequate internal reserves for investments needed to enhance SEGA's growth and competitiveness and thereby continuously heighten corporate value. Also, SEGA is committed to returning benefits to shareholders that reflect its performance.

Regrettably, the Company did not pay dividends in the fiscal year under review.







consolidated balance sheets

SEGA CORPORATION and Consolidated Subsidiaries
March 31, 2003 and 2004

Assets	Millions of yen 2003	Millions of yen 2004	Thousands of U.S. dollars (Note 1.1) 2004
Current Assets:			
Cash and time deposits (Note 3)	¥101,367	¥ 71,928	$ 680,556
Notes and accounts receivable	17,515	19,436	183,896
Inventories (Note 4)	8,839	8,866	83,887
Prepaid expenses	2,456	1,386	13,114
Other current assets (Note 18)	8,603	5,962	56,410
Less allowance for doubtful accounts	(1,379)	(1,422)	(13,454)
Total current assets	137,401	106,156	1,004,409
Investments and Advances:			
Investments in securities (Notes 5 and 18)	12,431	13,359	126,398
Long-term loans receivable (Note 18)	2,547	2,746	25,982
Other investments and advances (Notes 9 and 18)	13,122	14,743	139,493
	28,100	30,848	291,873
Less allowance for doubtful accounts (Note 18)	(8,407)	(9,181)	(86,867)
Total investments and advances	19,693	21,667	205,006
Property and Equipment:			
Amusement machines and facilities	30,747	34,256	324,118
Buildings and structures (Note 18)	36,469	35,128	332,368
Other	14,578	13,567	128,366
	81,794	82,951	784,852
Less accumulated depreciation	(49,688)	(51,692)	(489,091)
	32,106	31,259	295,761
Land (Notes 6 and 18)	9,290	9,337	88,343
Total property and equipment	41,396	40,596	384,104
Fixed Leasehold Deposits (Note 7)	17,012	15,989	151,282
Deferred Charges and Intangible Assets	5,256	4,648	43,978
Excess Investment Costs over Net Assets of Consolidated Subsidiaries	1,309	—	—
Total assets	¥222,067	¥189,056	$1,788,779

The accompanying notes are an integral part of these statements.

Liabilities and Shareholders' Equity	Millions of yen 2003	Millions of yen 2004	Thousands of U.S. dollars (Note 1.1) 2004
Current Liabilities:			
Short-term bank loans (Note 18)	¥ 1,510	¥ 725	$ 6,860
Current portion of bond (Note 8)	2,450	2,950	27,912
Current portion of convertible bond (Note 8)	—	10,080	95,373
Current portion of long-term debt (Note 8)	4,939	4,988	47,195
Notes and accounts payable:			
Trade	14,763	14,373	135,992
Other	2,923	1,474	13,946
	17,686	15,847	149,938
Accrued expenses	9,982	10,051	95,099
Income taxes payable	1,194	1,187	11,231
Other current liabilities (Note 18)	4,618	2,627	24,856
Total current liabilities	42,379	48,455	458,464
Long-Term Liabilities:			
Long-term debt (Note 8)	86,362	34,881	330,031
Accrued employees' retirement benefits (Note 19)	3,680	4,541	42,965
Accrued retirement benefits for directors and corporate auditors	122	174	1,646
Deferred income taxes (Note 9)	330	1,349	12,764
Other	1,256	1,156	10,938
Total long-term liabilities	91,750	42,101	398,344
Minority Interest in Consolidated Subsidiaries	1,052	537	5,081
Contingent Liabilities (Note 16)	—	—	—
Shareholders' Equity (Note 20)**:**			
Common stock, no par value as of March 31, 2003 and 2004:			
Authorized — 600 million shares at March 31, 2003 and 2004 respectively			
Issued — 174,945,690 shares at March 31, 2003 and 2004, respectively	127,583	127,583	1,207,144
Additional paid-in capital	2,172	2,172	20,551
Retained earnings	6,816	15,459	146,267
Unrealized gain (loss) on other securities (Note 5)	(551)	1,489	14,088
Adjustment on revaluation of land (Note 6)	(6,265)	(6,265)	(59,277)
Translation adjustment (Note 2.2)	(9,228)	(8,826)	(83,508)
Treasury stock, at cost (Note 18)	(33,641)	(33,649)	(318,375)
Total shareholders' equity	86,886	97,963	926,890
Total liabilities, minority interest in consolidated subsidiaries and shareholders' equity	¥222,067	¥189,056	$1,788,779

consolidated statements of operations

SEGA CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1.1)
	2002	2003	2004	2004
Net Sales	¥206,334	¥197,224	¥191,258	$1,809,613
Costs of Sales (Note 10)	144,717	144,162	138,687	1,312,205
Gross profit	61,617	53,062	52,571	497,408
Selling, General and Administrative Expenses (Note 10)	47,416	43,765	38,091	360,404
Operating income	14,201	9,297	14,480	137,004
Other Income (Expenses):				
Interest and dividend income	678	268	111	1,050
Interest expense	(1,713)	(738)	(622)	(5,885)
Gain on sales of property and equipment (Note 12)	—	1,249	1,010	9,556
Loss on sales or disposal of property and equipment	(502)	(680)	(412)	(3,898)
Loss on valuation of investments in securities (Note 11)	(6,236)	(960)	(1,527)	(14,448)
Gain on donated assets from Mr. Okawa (Note 18)	1,667	—	—	—
Gain on sales of investments in securities	1,136	3,078	571	5,403
Net loss on foreign exchange	(5)	(114)	(887)	(8,392)
Value-added tax exempted	733	—	—	—
Amortization of bond and note issue expenses	(482)	(595)	(603)	(5,705)
Equity in gains (losses) of non-consolidated subsidiaries and affiliates	(828)	440	142	1,344
Provision for doubtful accounts	—	(1,161)	(11)	(104)
Impairment charge on goodwill	(4,378)	—	—	—
Amortization of goodwill (Note 13)	—	—	(1,174)	(11,108)
Loss on disposal of inventories (Note 14)	—	—	(760)	(7,191)
Gain on redemption of convertible bond	—	—	509	4,816
Loss on settlement of donated assets from Mr. Okawa (Note 18)	(16,725)	(2,717)	(197)	(1,864)
Other, net	(1,840)	(919)	(288)	(2,726)
Total other expenses, net	(28,495)	(2,849)	(4,138)	(39,152)
Income (loss) before income taxes and minority interest in earnings of consolidated subsidiaries	(14,294)	6,448	10,342	97,852
Income Taxes (Note 9)**:**				
Current	4,325	1,945	2,169	20,522
Deferred	(951)	1,395	(220)	(2,081)
	3,374	3,340	1,949	18,441
	(17,668)	3,108	8,393	79,411
Minority Interest in Earnings of Consolidated Subsidiaries	(161)	(54)	368	3,482
Net income (loss)	¥ (17,829)	¥ 3,054	¥ 8,761	$ 82,893

	Yen			U.S. dollars (Note 1.1)
	2002	2003	2004	2004
Per Share (Note 2.16)**:**				
Net income (loss)—basic	¥ (119.2)	¥ 19.7	¥ 56.0	$ 0.53
—diluted	—	18.7	50.7	0.48
Cash dividends	—	—	—	—
Weighted average number of shares (thousands)	149,633	154,784	155,039	155,039

The accompanying notes are an integral part of these statements.

consolidated statements of shareholders' equity

SEGA CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

		Millions of yen							
	Number of shares of common stock	Common stock	Additional paid-in capital	(Accumulated deficit) retained earnings	Adjustment on revaluation of land	Unrealized gain (loss) on other securities	Treasury stock	Translation adjustment	Total
Balance at March 31, 2001	162,398,464	¥117,919	¥ 117,440	¥(100,185)	¥ —	¥ 23	¥(33,647)	¥(9,863)	¥ 91,687
Net loss for the year ended March 31, 2002	—	—	—	(17,829)	—	—	—	—	(17,829)
Bonuses to directors and corporate auditors	—	—	—	(24)	—	—	—	—	(24)
Conversion of convertible bonds	9,681,513	7,320	7,309	—	—	—	—	—	14,629
Exercise of stock options	182,500	167	168	—	—	—	—	—	335
Unrealized holding gain arising during the period	—	—	—	—	—	2,563	—	—	2,563
Adjustment on revaluation of land during the period	—	—	—	—	(9,281)	—	—	—	(9,281)
Decrease of treasury stock	—	—	—	—	—	—	62	—	62
Increase in translation adjustment	—	—	—	—	—	—	—	1,428	1,428
Balance at March 31, 2002	172,262,477	125,406	124,917	(118,038)	(9,281)	2,586	(33,585)	(8,435)	83,570
Net income for the year ended March 31, 2003	—	—	—	3,054	—	—	—	—	3,054
Bonuses to directors and corporate auditors	—	—	—	(101)	—	—	—	—	(101)
Conversion of convertible bonds	2,059,613	1,553	1,549	—	—	—	—	—	3,102
Exercise of stock options	623,600	624	623	—	—	—	—	—	1,247
Transfer from additional paid-in capital to retained earnings	—	—	(124,917)	124,917	—	—	—	—	—
Unrealized holding loss arising during the period	—	—	—	—	—	(3,137)	—	—	(3,137)
Adjustment on revaluation of land during the period	—	—	—	(3,016)	3,016	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(56)	—	(56)
Increase in translation adjustment	—	—	—	—	—	—	—	(793)	(793)
Balance at March 31, 2003	174,945,690	127,583	2,172	6,816	(6,265)	(551)	(33,641)	(9,228)	86,886
Net income for the year ended March 31, 2004	—	—	—	8,761	—	—	—	—	8,761
Bonuses to directors and corporate auditors	—	—	—	(118)	—	—	—	—	(118)
Increase in reversal of adjustment on revaluation of land	—	—	—	0	(0)	—	—	—	—
Unrealized holding gain arising during the period	—	—	—	—	—	2,040	—	—	2,040
Purchase of treasury stock	—	—	—	—	—	—	(8)	—	(8)
Decrease in translation adjustment	—	—	—	—	—	—	—	402	402
Balance at March 31, 2004	174,945,690	¥127,583	¥ 2,172	¥ 15,459	¥(6,265)	¥1,489	¥(33,649)	¥(8,826)	¥97,963

		Thousands of U.S. dollars (Note 1.1)							
	Number of shares of common stock	Common stock	Additional paid-in capital	(Accumulated deficit) retained earnings	Adjustment on revaluation of land	Unrealized gain (loss) on other securities	Treasury stock	Translation adjustment	Total
Balance at March 31, 2003	174,945,690	$1,207,144	$20,551	$64,490	$(59,277)	$(5,213)	$(318,299)	$(87,312)	$822,084
Net income for the year ended March 31, 2004	—	—	—	82,893	—	—	—	—	82,893
Bonuses to directors and corporate auditors	—	—	—	(1,116)	—	—	—	—	(1,116)
Increase in reversal of adjustment on revaluation of land	—	—	—	0	(0)	—	—	—	—
Unrealized holding gain arising during the period	—	—	—	—	—	19,301	—	—	19,301
Purchase of treasury stock	—	—	—	—	—	—	(76)	—	(76)
Decrease in translation adjustment	—	—	—	—	—	—	—	3,804	3,804
Balance at March 31, 2004	174,945,690	$1,207,144	$20,551	$146,267	$(59,277)	$14,088	$(318,375)	$(83,508)	$926,890

The accompanying notes are an integral part of these statements.

consolidated statements of cash flows

SEGA CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1.1)
	2002	2003	2004	2004
Cash Flows from Operating Activities:				
Income (loss) before income taxes and minority interest in earnings of consolidated subsidiaries	¥(14,294)	¥ 6,448	¥ 10,342	$ 97,852
Adjustment for:				
Depreciation and amortization	18,590	14,983	12,729	120,437
Transfer of amusement machines and facilities from investing activities	(8,005)	(4,086)	(3,931)	(37,194)
Increase in provision for doubtful accounts	(558)	445	656	6,207
Increase in accrued employees' retirement benefits	301	265	871	8,241
Interest and dividend income	(678)	(268)	(126)	(1,192)
Interest expense	1,713	738	622	5,885
Equity in (gains) losses of non-consolidated subsidiaries and affiliates	828	(440)	(142)	(1,343)
Amortization of excess investment costs over net assets of consolidated subsidiaries	374	236	1,526	14,438
Impairment charge on goodwill	4,378	—	—	—
Loss on sales or disposal of property and equipment	691	398	412	3,898
Gain on sales of property and equipment	—	(1,248)	(1,010)	(9,556)
Gain on sales of investments in securities	(2,181)	(3,078)	(571)	(5,403)
Loss on valuation of investments in securities	6,235	960	1,527	14,448
Gain on donated assets from Mr. Okawa (Note 18)	(1,667)	—	—	—
Loss on settlement of donated assets from Mr. Okawa (Note 18)	16,725	2,717	197	1,864
(Decrease) increase in notes and accounts receivable	(9,360)	12,538	(1,716)	(16,236)
Decrease (increase) in inventories	8,913	977	(409)	(3,870)
Increase (decrease) in notes and accounts payable	(7,259)	(2,146)	305	2,886
Increase (decrease) in accrued expenses	—	(7,745)	350	3,312
Gain on redemption of convertible bond	—	—	(509)	(4,816)
Others	3,482	(856)	1,819	17,211
Subtotal	18,228	20,838	22,942	217,069
Interest and dividends received	811	330	165	1,561
Interest paid	(2,078)	(728)	(633)	(5,989)
Payments for additional benefits for retirees	(711)	—	—	—
Proceeds from donated assets from Mr. Okawa (Note 18)	1,205	—	—	—
Proceeds from (payments on) settlement of donated assets from Mr. Okawa (Note 18)	(6,960)	18,889	1,518	14,363
Income taxes paid	(1,145)	(5,097)	(2,408)	(22,784)
Net cash provided by operating activities	9,350	34,232	21,584	204,220
Cash Flows from Investing Activities:				
Proceeds from cancellation of time deposits	—	10,060	—	—
Decrease in amount of times deposits	(10,006)	(50)	—	—
Payments for purchases of property and equipment	(3,673)	(7,016)	(9,230)	(87,331)
Payments on acquisition of intangible assets	(2,242)	(1,308)	(1,007)	(9,528)
Proceeds from sales of property and equipment	2,232	5,509	1,834	17,353
Payments for purchases of investments in securities	(1,069)	(180)	(2,085)	(19,728)
Proceeds from sales of investments in securities	3,947	6,946	1,221	11,553
Payments for advances	(255)	(173)	(42)	(398)
Proceeds from collections advances	534	509	125	1,183
Payments for fixed leasehold deposits	(1,388)	(2,960)	(1,334)	(12,622)
Proceeds from collections of fixed leasehold deposits	3,158	2,578	1,711	16,189
Other	284	85	(288)	(2,725)
Net cash (used in) provided by investing activities	(8,478)	14,000	(9,095)	(86,054)
Cash Flows from Financing Activities:				
Decrease in short-term bank loans, net	(15,825)	(27,339)	(709)	(6,708)
Issuance of long-term debt	5,080	31,565	300	2,838
Repayment of long-term debt	(261)	(12,817)	(4,969)	(47,015)
Proceeds from issuance of debentures	—	17,631	886	8,383
Payments on redemption debentures	(25,000)	(5,000)	(2,465)	(23,323)
Proceeds from issuance of convertible bonds	48,585	—	—	—
Payment on redemption of convertible bonds	(20)	(4,621)	(34,411)	(325,584)
Proceeds from issuance of shares to minority shareholders	—	446	4	38
Dividends paid	(28)	(8)	(22)	(208)
Proceeds from issuance of share under exercise of stock options	—	1,246	—	—
Other	958	(56)	(13)	(123)
Net cash (used in) provided by financing activities	13,489	1,047	(41,399)	(391,702)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	757	(668)	(529)	(5,005)
Net (Decrease) Increase in Cash and Cash Equivalents	15,118	48,611	(29,439)	(278,541)
Cash and Cash Equivalents at Beginning of Year	37,633	52,751	101,362	959,050
Cash and Cash Equivalents at End of Year (Note 3)	¥ 52,751	¥101,362	¥ 71,923	$680,509

The accompanying notes are an integral part of these statements.

notes to the consolidated financial statements

SEGA CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 Basis of Presentation

The accompanying consolidated financial statements of SEGA CORPORATION (the "Company") and its subsidiaries (collectively, "SEGA") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. The consolidated statements of shareholders' equity for the years ended March 31, 2002, 2003 and 2004 have been prepared to provide additional information.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to consolidated financial statements include information which is not required under generally accepted accounting information.

The U.S. dollar amounts stated in the consolidated financial statements are included solely for the convenience of readers outside Japan. The rate of ¥105.69=U.S.$1, the average rate of exchange as at March 31, 2004, has been used for the purpose of such translations. Those translations should not be construed as representations that the Japanese yen amounts have been or could be converted into U.S dollars at that rate or any other rate.

1.2 Significant Shareholder

CSK Corporation that was a significant shareholder, which owned 39,148 thousand shares of common stock of the Company at March 31, 2003, transferred the whole shares to Sammy Corporation that has become the significant shareholder, owning 39,248 shares, representing 22.4% of shares outstanding at March 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Scope and Principles of Consolidation

The Company had 52 subsidiaries and 8 affiliates at March 31, 2004 (56 subsidiaries and 8 affiliates at March 31, 2003).

The consolidated financial statements include the accounts of the Company and 42 of its subsidiaries at March 31, 2004 (47 at March 31, 2003), which are mostly listed below.

	Country of incorporation	Equity ownership percentage at March 31, 2004	Fiscal year-end
SEGA Holdings U.S.A., Inc.	U.S.A.	100.0	March 31
SEGA Amusements U.S.A., Inc.	U.S.A.	(100.0)	March 31
SEGA Enterprises, Inc. (U.S.A.)	U.S.A.	(100.0)	March 31
SEGA of America, Inc.	U.S.A.	(100.0)	March 31
Visual Concepts Entertainment, Inc.	U.S.A.	(100.0)	March 31
SEGA Com, Inc.	U.S.A.	100.0	March 31
SEGA Europe Ltd.	U.K.	100.0	February 29
SEGA Amusements Europe Ltd.	U.K.	(100.0)	February 29
JPM International Ltd.	U.K.	(100.0)	February 29
ACE Coin Equipment Ltd.	U.K.	(100.0)	February 29
Crystal Leisure Ltd.	U.K.	(100.0)	February 29
SEGA Gesellschaft fur Videospiele mbH	Germany	(100.0)	February 29
SEGA Consumer Products S.A.	Spain	(100.0)	February 29
SEGA France. S.A.	France	(100.0)	February 29
SEGA R&D Holdings, Inc.	Japan	100.0	June 30
SEGA-AM2 Co., Ltd.	Japan	(100.0)	March 31
SEGA Amusement Ltd.	Japan	100.0	March 31
SEGA TOYS, Ltd.	Japan	68.6	March 31
SEGA Music Networks Co., Ltd.	Japan	100.0	March 31
SEGA Logistics Service Ltd.	Japan	100.0	March 31
Hitmaker Co., Ltd.	Japan	(100.0)	March 31
Smilebit Corporation	Japan	(100.0)	March 31
Sonicteam Ltd.	Japan	(100.0)	March 31
Amusement Vision Ltd.	Japan	(100.0)	March 31
United Game Artists Ltd.	Japan	(100.0)	March 31
SEGA WOW, Inc.	Japan	(100.0)	March 31
Wavemaster Inc.	Japan	85.3	March 31
Other 15 subsidiaries	Japan		March 31

* Parentheses indicate indirect ownership by the company.

Major affiliated companies which are recognized to be substantially controlled by the Company under the effective control approach are consolidated regardless of the percentage of ownership. All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation.

Investments in affiliates in which the Company has significant influence are stated using the equity method. Consolidated net income includes SEGA's equity in current earnings after elimination of unrealized inter-company profits.

2.2 Translation of Foreign Currency Transactions and Accounts

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated at the foreign exchange rates prevailing at the respective balance sheet dates. Foreign currency transactions are generally translated using the average exchange rate during the year.

The translation of revenue and expenses in the financial statements of foreign subsidiaries and affiliates into Japanese yen is performed by using the average exchange rate during the year. Assets and liabilities are translated using the foreign exchange rates prevailing at the balance sheet dates, and shareholders' equity at beginning of the year is translated into Japanese yen at the historical rates. Foreign currency financial statement translation differences are presented as "Translation Adjustment" in shareholders' equity.

In addition, hedge accounting was applied to foreign currency monetary assets/liabilities on foreign exchange forward contracts.

Translation adjustment amounting to debit ¥9,228 million and debit ¥8,826 million ($83,508 thousand) as of March 31, 2003 and 2004, respectively, were classified as a component of shareholders' equity as opposed to a component of assets or liabilities.

2.3 Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand and time deposits able to be withdrawn on demand and highly liquid investments which are principally the investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

2.4 Financial Instruments

Securities held by SEGA are classified into three categories: 1) trading securities; 2) held-to-maturity debt securities; and 3) other securities.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities classified as other than trading securities and held-to-maturity debt securities are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of shareholders' equity, net of tax. Other than temporary declines in the value of other securities and unlisted securities are reflected in current income. Held-to-maturity dept securities and other securities are classified as "Investments in Securities" except for trading securities which are included in Current Assets.

Derivatives:

Derivatives are stated at faire value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designed as "hedging instruments".

Hedge accounting:

Gains or loss arising from changes in fair value of the derivatives designed as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

Derivatives designated as hedging instruments by the company are interest rate swap contracts and forward exchange contracts. The related hedge items are investments in securities, loans and monetary receivables and payables denominated in foreign currencies.

The company use derivatives to reduce the company's exposure to the risk of fluctuation in interest rates, foreign exchange rates.

2.5 Inventories

Inventories held by the Company and its domestic consolidated subsidiaries are stated at cost, as determined using the moving-average method. Inventories held by the foreign consolidated subsidiaries are mainly valued at the lower of cost, as determined by the first-in, first-out method, or market value.

2.6 Allowance for doubtful accounts

The allowance for doubtful accounts is estimated by the average percentage of actual bad debts in the past to the balance of receivables. In addition, an amount deemed necessary to cover non-collectable is provided on individual account basis.

2.7 Property and Equipment

Property and equipment, including significant renewals and improvements, are carried at cost less depreciation. Maintenance and repairs including minor renewals and improvements are charged to income as incurred. Depreciation is computed primarily on the declining-balance method at rates based on the estimated useful lives of the assets. When retired or disposed of, the difference between the net book value and sales proceeds is charged or credited to income.

2.8 Deferred Charges

Debt issuance costs are amortized over three years, including the year of expenditure.

2.9 Intangible Assets

Amortization of intangible assets was computed using the straight-line method. Amortization of software for self-use was computed using the straight-line method over the estimated useful life of five years.

2.10 Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

However, the Company does not apply the standard for the year ended March 31, 2004, thus the amounts of impairment losses are unknown because of no computation made.

2.11 Amortization of Goodwill

The Company amortizes goodwill over 5 years using the straight-line method and SEGA Europe Ltd. is amortizing the goodwill brought by acquiring stocks of JPM International Ltd. and three other subsidiaries over 15 years. Immaterial amounts of goodwill are all amortized in a single year.

2.12 Income Taxes

Income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. Deferred income taxes are provided for temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

The Company filed a consolidated income tax return since the year ended March 31, 2003, where as each of the domestic consolidated subsidiaries filed a separate income tax return prior to the period.

As a result of filing the consolidated income tax return, net income for the year ended March 31, 2003 has increased by ¥2,782 million ($23,145 thousand), as compared with the amounts which would have been reported of the separate income tax return had been filed consistently.

2.13 Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan. All finance leases in overseas subsidiaries are accounted for as finance leases and similarly accounted for as sales transactions.

2.14 Accrued Employees' Retirement Benefits

To provide for the employees' retirement benefits, the Company and domestic consolidated subsidiaries provided the deemed retirement obligations based on the estimated present value of projected benefit obligations in excess of the fair value of the plan assets at the end of this period. Unrecognized actuarial gains and losses are amortized on a straight-line basis over a certain period of 10 years within the average remaining service periods of employees, starting from the respective fiscal year immediately subsequent to the year of occurrence.

2.15 Development Costs for Software to Be Sold

Development costs for software to be sold are charged to cost of sales as incurred.

2.16 Net Income per Share

Net income and loss per share are computed based on the weighted average number of shares of common stock outstanding during each fiscal period. Diluted net income per share was not disclosed for the year ended March 31, 2002, due to net loss for the year.

On September 25, 2002, the Accounting Standards Board of Japan issued new accounting standards concerning accounting for net income per share, effective for fiscal years beginning on or after April 1, 2002. SEGA has adopted these new accounting standards from the fiscal year commencing on April 1, 2002. Under the new accounting standards, "bonuses to directors and corporate auditors", which are determined through appropriation of retained earnings by resolution of a general shareholders' meeting subsequent to the fiscal year-end and not reflected in the statement of income of the current year, should be reflected in the calculation of net income per share, as if "bonuses to directors and corporate auditors" was charged to income in the current fiscal year.

2.17 Appropriation of Retained Earnings

The appropriation of retained earnings reflected in the accompanying consolidated financial statements has been recorded after approval by the shareholders as required under the Commercial Code of Japan.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2002, 2003 and 2004, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2002	2003	2004	2004
Cash and time deposits	¥ 62,757	¥101,367	¥71,928	$680,556
Time deposits with original maturity over 3 months	(10,006)	(5)	(5)	(47)
Total cash and cash equivalents	¥ 52,751	¥101,362	¥71,923	$680,509
Important Non-Cash Transactions				
Convertible bonds:				
Increase of common stock by conversion of convertible bonds	¥ 7,320	¥ 1,553	¥ —	$ —
Increase of additional paid-in capital by conversion of convertible bonds	7,309	1,549	—	—
Decrease of convertible bonds by conversion	¥14,629	¥ 3,102	¥ —	$ —

The company and consolidated subsidiary sold shares of NEXTECH CORPORATION, and SEGA Gaming Technology, Inc. in the year ended March 31, 2004.

The main assets or liabilities of those companies are as follows:

NEXTECH CORPORATION

	Millions of yen
Current assets	¥485
Non-current assets	114
Total assets	¥599
Current liabilities	¥1,320
Non-current liabilities	8
Total liabilities	¥1,329
Unrealized gain on other securities	0

SEGA Gaming Technology, Inc.

	Millions of yen
Current assets	¥456
Non-current assets	8
Total assets	¥464
Current liabilities	¥1,471
Non-current liabilities	4,570
Total liabilities	¥6,041

4. INVENTORIES

Inventories as of March 31, 2003 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Merchandise	¥2,090	¥2,375	$22,471
Products	2,971	3,559	33,674
Materials	2,107	472	4,466
Work in progress	1,374	2,105	19,917
Supplies	297	355	3,359
Total	¥8,839	¥8,866	$83,887

5. INVESTMENTS IN SECURITIES

The cost, net unrealized gains or losses and fair value for marketable securities classified as investments in securities are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Stock:			
Cost	¥1,978	¥1,085	$10,266
Carrying amount (fair value)	1,659	1,776	16,804
Unrealized gain (loss)–net	(319)	691	6,538
Bonds and Debentures:			
Cost	¥ —	¥2,001	$18,933
Carrying amount (fair value)	—	2,012	19,037
Unrealized gain–net	—	11	104

The carrying amounts of non-marketable securities held at March 31, 2003 and 2004 were ¥4,289 million and ¥3,382 million ($31,999 thousand) for stock, respectively. There were no non-marketable bonds held on March 31, 2003 and 2004, respectively.

The proceeds from sales of investments in securities were ¥12,447 million and ¥2,026 million ($19,169 thousand) and gross gains of ¥3,639 million and ¥872 million ($8,251 thousand) and gross losses of ¥1,312 million and ¥66 million ($624 thousand) were realized on the sales for the years ended March 31, 2003 and 2004, respectively.

6. REVALUATION OF LAND USED FOR BUSINESS OPERATION IN ACCORDANCE WITH THE LAND REVALUATION LAW

In accordance with the 34th Act issued on March 31, 1998 and the 19th Act issued on March 31, 2001, the Company revalued land for their business relating to the Land Revaluation Law. They recorded the entire differences between carrying amount and revalued amount as Adjustment on Revaluation of Land as a separate component of shareholders' equity. Revaluation of land was performed by making a reasonable adjustment on the standard basis of land in accordance with Article 2-3 of the Enforcement Ordinance of 119th Cabinet Order issued on March 31, 1998 relating to the Land Revaluation Law, and by the real estate appraiser in accordance with the Article 2-5 of the said Enforcement Ordinance.

Date of Revaluation: March 31, 2002

Fair value as of March 31, 2004 was less than revalued book value by ¥639 million ($6,046 thousand).

7. FIXED LEASEHOLD DEPOSITS

SEGA conducts amusement center operations on property leased from lessors on a long-term cancellable basis. Japanese lessors require large amounts of leasehold deposits relative to the amount of annual lease rental payments. Such leasehold deposits do not bear interest and are generally returnable only when the lease is terminated. Such leasehold deposits are shown in the consolidated balance sheets as "Fixed Leasehold Deposits", in the amounts of ¥17,012 million and ¥15,989 million ($151,282 thousand) on March 31, 2003 and 2004, respectively.

8. LONG-TERM DEBT

Long-term debt at March 31, 2003 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
0.37% unsecured notes, due 2005	¥ 3,000	¥ 2,000	$ 18,923
0.73% unsecured notes, due 2008	3,000	3,000	28,385
0.44% unsecured notes, due 2008	3,000	3,000	28,385
0.45% unsecured notes, due 2008	5,000	4,000	37,847
1.06% unsecured notes, due 2008	4,000	3,550	33,589
1.24% unsecured notes, due 2008	—	450	4,258
0.79% unsecured notes, due 2008	—	135	1,277
0.75% unsecured notes, due 2008	—	100	946
1.47% unsecured notes, due 2010	—	140	1,325
1.30% unsecured notes, due 2009	—	70	662
0.40% convertible bonds due 2006	6,806	6,806	64,396
Zero-coupon convertible bonds due 2004	45,000	10,080	95,373
Unsecured loans, from banks due 2005 to 2010 with average interest of 2.0% per annum in 2003 and due 2005 to 2010 with average interest of 2.2% per annum in 2004	23,945	19,568	185,145
	93,751	52,899	500,511
Less portion due within one year	7,389	18,018	170,480
Total	¥86,362	¥34,881	$330,031

The aggregate annual maturities of long-term debt after March 31, 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ending March 31,	2003	2004	2004
2004	¥ 7,389	¥ —	$ —
2005	52,828	18,018	170,480
2006	14,625	14,784	139,881
2007	6,794	6,952	65,777
2008	12,109	12,271	116,104
2009 thereafter	6	874	8,269
Total	¥93,751	¥52,899	$500,511

The zero-coupon convertible bonds due 2004 were issued on June 18, 2001 for a principal amount of ¥50,000 million. The bonds are convertible into shares of common stock of the Company at the current conversion price of ¥2,398 per share effective July 7, 2001. The 0.40% convertible bonds due 2006 were issued on February 17, 1999 for a principal amount of ¥30,000 million. The bonds are convertible into shares of common stock of the Company at the current conversion price of ¥1,506.10 per share effective June 19, 2001.

9. INCOME TAXES

SEGA is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 42 percent for the year ended March 31, 2002 and 44 percent for the years ended March 31, 2003 and 2004, respectively. The significant components of deferred tax assets and liabilities at March 31, 2003 and 2004, were as follows:

	Millions of yen			Thousands of U.S. dollars
Years ending March 31,	2002	2003	2004	2004
Deferred tax assets:				
Loss carryforwards	¥ 51,873	¥ 59,250	¥ 52,802	$ 499,593
Excess over the limit of allowance for doubtful accounts	20,964	17,670	5,154	48,765
Devaluation of investments in securities	49,354	33,614	38,219	361,614
Devaluation of inventories	1,944	1,340	1,026	9,708
Other	10,912	16,058	11,625	109,992
Gross deferred tax assets	135,047	127,932	108,826	1,029,672
Less valuation allowance	(133,382)	(127,140)	(107,811)	(1,020,068)
Total deferred tax assets	1,665	792	1,015	9,604
Deferred tax liabilities:				
Unrealized gain on other securities	2,042	—	1,019	9,642
Other	102	330	330	3,122
Gross deferred tax liabilities	2,144	330	1,349	12,764
Net deferred tax (liabilities) assets	¥ (479)	¥ 462	¥ (334)	$ (3,160)

A reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2002, 2003, 2004.

	2002	2003	2004
Statutory tax rate	42.1%	43.8%	43.8%
Valuation allowance	(55.0)	23.5	(27.6)
Amortization of goodwill	(1.1)	(1.6)	—
Equity in earnings of affiliated companies	(2.4)	2.9	0.6
Elimination of unrealized gain	(3.6)	(17.9)	1.4
Other	(3.6)	1.1	0.6
Effective income tax rate	(23.6)%	51.8%	18.8%

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in manufacturing costs and selling, general and administrative expenses were ¥27,665 million and ¥26,689 million ($252,522 thousand) for the years ended March 31, 2003 and 2004, respectively.

11. LOSS ON VALUATION OF INVESTMENTS IN SECURITIES

The valuation loss included ¥2,720 million on ASCII corporation and ¥1,208 million on CSK ELECTRONICS CORPORATION for the year ended March 31, 2002, and ¥706 million SEGA Amusements Taiwan Ltd. and ¥728 million Silverrado Resort, Inc. for the year ended March 31, 2004, respectively.

12. GAIN ON SALE OF PROPERTY AND EQUIPMENT

The gain derived from transferring real estate for the year ended March 31, 2003 and from sale of assets relative to network games in U.S.A for the year ended March 31, 2004, respectively.

13. AMORTIZATION OF GOODWILL

The amortization is due to amortization relative to JPM International Ltd. in a single year.

14. LOSS ON DISPOSAL OF INVENTORIES

The loss derived from one-time disposal of inventories owned by SEGA TOYS, Ltd.

15. FINANCE LEASES

15.1 Lessee

Lease rental expense on finance lease contracts without ownership transfer during the years ended March 31, 2003 and 2004, were summarized as follows:

Acquisition cost, accumulated depreciation and book value of leased properties as of March 31, 2003 and 2004, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Buildings:			
Acquisition cost	¥ 958	¥ —	$ —
Accumulated depreciation	(810)	—	—
Book value	¥ 148	¥ —	$ —
Other:			
Acquisition cost	¥ 3,040	¥2,209	$20,901
Accumulated depreciation	(2,231)	(846)	(8,005)
Book value	¥ 809	¥1,363	$12,896

The amounts of outstanding future lease payments for finance leases without ownership transfer at March 31, 2003 and 2004, including the interest were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Future lease payments:			
Within one year	¥ 630	¥ 492	$ 4,655
More than one year	380	883	8,355
	¥1,010	¥1,375	$13,010

Lease payments and the calculated amounts relevant to depreciation and interest expense for leased properties for the years ended March 31, 2003 and 2004, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Lease payments	¥1,420	¥801	$7,579
Depreciation	1,313	741	7,011
Interest expense	51	28	265

The amounts of outstanding future lease payments for non-cancellable operating leases at March 31, 2003 and 2004 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Future lease payments:			
Within one year	¥1,200	¥1,249	$11,818
More than one year	4,470	4,623	43,741
	¥5,670	¥5,872	$55,559

15.2 Lessor

Lease rental income on finance lease contracts without ownership transfer during the years ended March 31, 2003 and 2004, were summarized as follows:

Acquisition cost, accumulated depreciation and book value of leased properties as of March 31, 2003 and 2004, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Other:			
Acquisition cost	¥108	¥ —	$ —
Accumulated depreciation	(96)	—	—
Book value	¥ 12	¥ —	$ —

The amounts of outstanding future lease receipts for finance leases without ownership transfer at March 31, 2003 and 2004, including the interest were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Future lease receipts:			
Within one year	¥ 8	¥ —	$ —
More than one year	5	—	—
	¥13	¥ —	$ —

Lease receipts and the calculated amount relevant to depreciation and interest income for the leased properties for the years ended March 31, 2003 and 2004, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Lease receipts	¥31	¥6	$57
Depreciation	30	7	66
Interest expense	—	0	0

The amounts of outstanding future lease receipts for non-cancellable operating leases at March 31, 2003 and 2004, were summarized as follows;

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Future lease receipts:			
Within one year	¥182	¥ 49	$ 464
More than one year	157	68	643
	¥339	¥117	$1,107

16. COMMITMENTS AND CONTINGENCIES

SEGA was contingently liable for obligations of others as of March 31, 2003 and 2004, as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Guarantee or Commitments for:			
SEGA Game Works L.L.C.	¥341	¥316	$2,990
	¥341	¥316	$2,990

17. SEGMENT INFORMATION

17.1 Business Segment Information

SEGA operates principally in the following business segments:

Amusement machine sales, amusement center operations and consumer business. Details of each segment of business are as follows:

>> Amusement machine sales: Manufacturing and selling arcade video games, medal games, prize games, vending machines, change machines and IC boards

>> Amusement center operations: Operating amusement centers

>> Consumer business (consumer product sales in prior years): Manufacturing and selling home video games, toys and educational equipment, etc.

Sales of SEGA for the years ended March 31, 2002, 2003 and 2004, classified by business segment were summarized as follows:

	Millions of yen				
Year ended March 31, 2002	Amusement machine sales	Amusement center operations	Consumer business	Eliminations/ Corporations	Total
Net sales to:					
Outside customers	¥52,664	¥68,534	¥85,136	¥ —	¥206,334
Intersegment sales/transfers	19,516	469	13	(19,998)	—
Total	72,180	69,003	85,149	(19,998)	206,334
Cost of sales and operating expenses	70,223	60,889	79,571	(18,550)	192,133
Operating income (loss)	¥ 1,957	¥ 8,114	¥ 5,578	¥ (1,448)	¥ 14,201
Assets	¥35,141	¥58,635	¥54,641	¥ 95,493	¥243,910
Depreciation and amortization	1,602	12,370	3,853	764	18,589
Capital expenditures	1,871	10,900	2,169	676	15,616

	Millions of yen				
Year ended March 31, 2003	Amusement machine sales	Amusement center operations	Consumer business	Eliminations/ Corporations	Total
Net sales to:					
Outside customers	¥61,344	¥69,331	¥66,549	¥ —	¥197,224
Intersegment sales/transfers	14,408	53	124	(14,585)	—
Total	75,752	69,384	66,673	(14,585)	197,224
Cost of sales and operating expenses	64,859	61,335	75,243	(13,510)	187,927
Operating income (loss)	¥10,893	¥ 8,049	¥ (8,570)	¥ (1,075)	¥ 9,297
Assets	¥32,788	¥58,621	¥33,292	¥ 97,366	¥222,067
Depreciation and amortization	1,095	10,512	3,045	923	15,575
Capital expenditures	1,165	9,737	1,561	526	12,989

	Millions of yen				
Year ended March 31, 2004	Amusement machine sales	Amusement center operations	Consumer business	Eliminations/ Corporations	Total
Net sales to:					
Outside customers	¥60,366	¥69,860	¥61,032	¥ —	¥191,258
Intersegment sales/transfers	14,272	231	89	(14,592)	—
Total	74,638	70,091	61,121	(14,592)	191,258
Cost of sales and operating expenses	62,618	63,955	63,946	(13,741)	176,778
Operating income (loss)	¥12,020	¥ 6,136	¥ (2,825)	¥ (851)	¥ 14,480
Assets	¥25,227	¥54,195	¥34,475	¥ 75,159	¥189,056
Depreciation and amortization	850	9,183	2,371	927	13,331
Capital expenditures	738	10,981	2,010	420	14,149

Year ended March 31, 2004	Amusement machine sales	Amusement center operations	Consumer business	Eliminations/ Corporations	Total
	Thousands of U.S. dollars				
Net sales to:					
Outside customers	$571,161	$660,990	$577,462	$ —	$1,809,613
Intersegment sales/transfers	135,036	2,186	842	(138,064)	—
Total	706,197	663,176	578,304	(138,064)	1,809,613
Cost of sales and operating expenses	592,469	605,119	605,033	(130,012)	1,672,609
Operating income (loss)	$113,728	$ 58,057	$ (26,729)	$ (8,052)	$ 137,004
Assets	$238,689	$512,773	$326,190	$ 711,127	$1,788,779
Depreciation and amortization	8,042	86,886	22,434	8,771	126,133
Capital expenditures	6,983	103,898	19,018	3,974	133,873

17.2 Geographical Segment Information

Sales of SEGA for the years ended March 31, 2002, 2003 and 2004, classified by geographical segment were summarized as follows:

Year ended March 31, 2002	Japan	North America	Europe	Total	Eliminations/ Corporations	Consolidated total
	Millions of yen					
Net sales to:						
Outside customers	¥160,090	¥34,302	¥11,942	¥206,334	¥ —	¥206,334
Intersegment sales/transfers	14,368	6,175	17	20,560	(20,560)	—
Total	174,458	40,477	11,959	226,894	(20,560)	206,334
Cost of sales and operating expenses	152,336	41,065	13,468	206,869	(14,736)	192,133
Operating income (loss)	¥ 22,122	¥ (588)	¥ (1,509)	¥ 20,025	¥ (5,824)	¥ 14,201
Assets	¥173,295	¥25,290	¥ 9,829	¥208,414	¥ 35,496	¥243,910

Year ended March 31, 2003	Japan	North America	Europe	Total	Eliminations/ Corporations	Consolidated total
	Millions of yen					
Net sales to:						
Outside customers	¥163,425	¥26,448	¥7,351	¥197,224	¥ —	¥197,224
Intersegment sales/transfers	14,239	7,689	4	21,932	(21,932)	—
Total	177,664	34,137	7,355	219,156	(21,932)	197,224
Cost of sales and operating expenses	161,342	41,108	7,785	210,235	(22,308)	187,927
Operating income (loss)	¥ 16,322	¥ (6,971)	¥ (430)	¥ 8,921	¥ 376	¥ 9,297
Assets	¥144,381	¥13,949	¥6,976	¥165,306	¥ 56,761	¥222,067

Year ended March 31, 2004	Japan	North America	Europe	Total	Eliminations/ Corporations	Consolidated total
	Millions of yen					
Net sales to:						
Outside customers	¥163,993	¥16,980	¥10,285	¥191,258	¥ —	¥191,258
Intersegment sales/transfers	7,377	3,118	4	10,499	(10,499)	—
Total	171,370	20,098	10,289	201,757	(10,499)	191,258
Cost of sales and operating expenses	156,466	20,690	10,663	187,819	(11,041)	176,778
Operating income (loss)	¥ 14,904	¥ (592)	¥ (374)	¥ 13,938	¥ 542	¥ 14,480
Assets	¥109,332	¥ 8,221	¥ 6,612	¥124,165	¥ 64,891	¥189,056

Year ended March 31, 2004	Japan	North America	Europe	Total	Eliminations/ Corporations	Consolidated total
	Thousands of U.S. dollars					
Net sales to:						
Outside customers	$1,551,641	$160,659	$ 97,313	$1,809,613	$ —	$1,809,613
Intersegment sales/transfers	69,799	29,501	38	99,338	(99,338)	—
Total	1,621,440	190,160	97,351	1,908,951	(99,338)	1,809,613
Cost of sales and operating expenses	1,480,424	195,761	100,890	1,777,075	(104,466)	1,672,609
Operating income (loss)	$ 141,016	$ (5,601)	$ (3,539)	$ 131,876	$ 5,128	$ 137,004
Assets	$1,034,460	$ 77,784	$ 62,560	$1,174,804	$ 613,975	$1,788,779

17.3 Overseas Sales Information

Overseas sales of the Company for the years ended March 31, 2002, 2003 and 2004, were summarized as follows:

Year ended March 31, 2002	North America	Europe	Other	Total
	Millions of yen			
Overseas sales	¥44,973	¥16,142	¥3,993	¥ 65,108
Consolidated net sales	—	—	—	206,334
Ratio of overseas sales to consolidated sales	21.8%	7.8%	1.9%	31.5%

Year ended March 31, 2003	North America	Europe	Other	Total
	Millions of yen			
Overseas sales	¥35,223	¥9,489	¥3,689	¥ 48,401
Consolidated net sales	—	—	—	197,224
Ratio of overseas sales to consolidated sales	17.8%	4.8%	1.9%	24.5%

Year ended March 31, 2004	North America	Europe	Other	Total
	Millions of yen			
Overseas sales	¥21,906	¥10,752	¥3,277	¥ 35,935
Consolidated net sales	—	—	—	191,258
Ratio of overseas sales to consolidated sales	11.5%	5.6%	1.7%	18.8%

Year ended March 31, 2004	North America	Europe	Other	Total
	Thousands of U.S. dollars			
Overseas sales	$207,267	$101,731	$31,006	$ 340,004
Consolidated net sales	—	—	—	1,809,613
Ratio of overseas sales to consolidated sales	11.5%	5.6%	1.7%	18.8%

18. ASSETS DONATION FROM MR. OKAWA

In January 2001, Mr. Isao Okawa, then chairman and president of the Company who passed away on March 16, 2001, proposed to contribute his own assets netting ¥77,913 million to the Company to support the development of the business. At the Meeting of Board of Directors held on January 31, 2001, the Company accepted Mr. Okawa's proposal, thereby realizing a gain on donated assets for the year then ended.

18.1 Summary of Donated Assets from Mr. Okawa (For the year ended March 31, 2001)

	Millions of yen
Treasury stock (19,865,718 shares)	¥ 33,573
Investments in securities	57,525
Long-term loans receivable, net	1,200
Other investments	7,132
Other current assets	9,134
Total donated assets	108,564
Less: Short-term bank loans	21,815
Other current liabilities	8,836
Net donated assets	¥ 77,913

Marketable securities are valued at the market prices prevailing as at January 31, 2001 and non-marketable securities are evaluated at the fair values as at January 31, 2001 by an independent appraiser. The balance of loans receivable has been reduced for uncollected ones.

18.2 Summary of Donated Assets to be Settled

The following donated assets from Mr. Okawa are planned to be settled in the following year:

	Millions of yen			Thousands of U.S. dollars
	2002	2003	2004	2004
Building	¥ 104	¥ 98	¥ 86	$ 814
Land	279	118	65	615
Investments in securities	31,554	3,699	3,155	29,851
Long-term loans receivable	1,900	1,900	1,900	17,977
Allowance for doubtful accounts	(700)	(700)	(1,120)	(10,597)
Other investments	5,814	3,301	4,435	41,963
Other current liabilities	(5,000)	—	—	—
Total	¥33,951	¥8,416	¥8,521	$80,623

18.3 Summary of Losses on Settlement of Donated Assets

Gains and losses on settlement of assets from Mr. Okawa are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2003	2004	2004
Gains on sales of investments in securities	¥ 2,376	¥ 576	¥ 301	$ 2,848
Losses on sales of investments in securities	(3,097)	(869)	(186)	(1,760)
Losses on valuation of investments in securities	(14,425)	(1,088)	(119)	(1,126)
Losses in investments association	(1,425)	(2,253)	254	2,403
Gains on settlement of other current liabilities	—	869	—	—
Provision of allowance for doubtful accounts	—	—	(420)	(3,974)
Other gains (losses)	(154)	48	(27)	(255)
Total	¥(16,725)	¥(2,717)	¥(197)	$ (1,864)

18.4 Summary of Proceeds from and Payments on Settlement of Donated Assets

Proceeds from and payment on the donated assets from Mr. Okawa are as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2003	2004	2004
Payment on notes payable	¥ (3,836)	¥ —	¥ —	$ —
Proceeds from sales on investments in securities	9,703	18,690	858	8,118
Proceeds from collection of short-term loans receivables	8,013	—	—	—
Payments for notes payable	(20,815)	—	—	—
Dividends from investments association	—	—	633	5,989
Other	(25)	199	27	256
Total	¥ (6,960)	¥18,889	¥1,518	$14,363

19. EMPLOYEE BENEFIT PLAN

Upon terminating employment, employees of the Company and subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pension payments. The Company has adopted an adjusted pension plan to all of the pension and severance plan since November 1, 1993. The following is a summary of financial information on the pension and severance plan applicable to the years ended March 31, 2003 and 2004.

19.1 Summary of Benefit Obligation

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Projected benefit obligation	¥(10,992)	¥(12,419)	$(117,504)
Plan assets	4,252	5,616	53,137
Unrecognized benefit obligation	(6,740)	(6,803)	(64,367)
Unrecognized actuarial differences	3,787	2,898	27,420
Unrecognized prior service cost	(727)	(636)	(6,018)
Accrued employees' retirement benefits	¥ (3,680)	¥ (4,541)	$ (42,965)

19.2 Summary of Pension Expense

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Service cost	¥ 801	¥1,059	$10,020
Interest cost	202	215	2,034
Expected return on plan assets	(103)	0	0
Recognized actuarial differences	146	393	3,718
Amortization of prior service cost	(90)	(91)	(860)
Net periodic pension expense	¥ 956	¥1,576	$14,912

19.3 Summary of Assumptions on Benefit Obligation

	2003	2004
Periodic distribution method of expected pension benefit	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.5%	0.0%
Amortization period of prior service differences (within average remaining service years when incurred)	10 years	10 years
Amortization period of actual loss (within average remaining service years when incurred, but amortization is to commence from the following year)	10 years	10 years

20. STOCK OPTION PLAN

Under the Plans, which were approved at the General Meeting of Shareholders held on June 27, 2002 and June 27, 2003, directors and employees are entitled to be granted options for 1,113,600 shares at an exercise price of ¥2,465 at March 31, 2003 and 722,000 shares at an exercise price of ¥2,465 and 4,134,500 shares at an exercise price of ¥1,025 at March 31, 2004.

21. DERIVATIVES

In the normal course of business, the company enters into various derivative financial instruments in order to manage the exposure resulting from fluctuations in foreign currency exchange rates and interest rates.

Derivative financial instruments were as follows:

As of March 31, 2003

At March 31,2003, there were no derivative financial instruments, except those instruments to which hedge accounting is applied.

As of March 31, 2004

Currency relatives:

	Millions of yen		
Description	Contract amount	Estimated fair value	Unrealized gain/(loss)
Foreign exchange contracts			
Buys contracts:			
US $	¥841	¥736	¥(104)
Total	¥841	¥736	¥(104)

Notes: 1. The estimated fair value is provided by financial institutions with which we made the contracts of currency swaps.
2. Any derivative transaction to which hedge accounting is applied are excluded from the above table.

Interest relatives:

	Millions of yen		
Description	Contract amount	Estimated fair value	Unrealized gain/(loss)
Interest swap contracts	¥6,000	¥5,977	¥(22)
Total	¥6,000	¥5,977	¥(22)

Notes: 1. The Contract amount represents the nominal amount of the interest rate swap contracts.
2. Any derivative transaction to which hedge accounting is applied are excluded from the above table.

22. SUBSEQUENT EVENTS

22.1 Establishment of a Joint Holding Company through a Share-for-Share Exchange

The 46th General Meeting of Shareholders of the Company held on June 29, 2004 approved establishment of a Joint Holding Company through a share-for-share exchange in cooperation with Sammy Corporation.

The 29th General Meeting of Shareholders of Sammy Corporation held on June 25, 2004 also approved the establishment.

The establishment is subject to approvals of relevant regulatory authorities.

The purpose and outline of the establishment are as follows.

(1) The purpose of the establishment

The Company and Sammy Corporation have reached an agreement on a business combination for the purpose of maximizing corporate value by combining the management resources and maximizing synergistic benefits in order to further strengthen their position as a globally integrated entertainment Company.

The Company and Sammy have minimal overlap and competition with each other's businesses and are expected to achieve complementary results. The business combination aims to harmonize both companies' technical development capabilities with Sammy's high growth potential and profitability, and the Company's globally renown brand name, while concurrently pursuing synergistic benefits and business efficiencies in order to accelerate both companies' business development in the Japanese market, thereby enabling both companies to fortify their combined presence as an integrated entertainment company.

For that purpose, the Company establishes SEGA SAMMY HOLDINGS INC., a Joint Holding Company, through a share-for-share exchange specified in the Article 364 of the Commercial Code of Japan in cooperation with Sammy Corporation.

(2) Outline of the Holding Company

① Name

SEGA SAMMY HOLDINGS INC.

② Location of incorporation

Minato-ku, Tokyo

③ Stock and numbers to be issued at the exchange

The stock to be issued is common stock and the total numbers are the sum of the numbers calculated by multiplying the total numbers of issued common stocks at the date before the date of the exchange by the Company by 0.28 and the total numbers of issued common stocks at the date before the date of the exchange by Sammy Corporation.

④ Exchange ratio
The Holding Company share will be allotted in the following ratio to shareholders listed on each companies' shareholders' lists at the date before the date of the exchange.

One Holding Company share will be allotted in exchange for each Sammy share, and 0.28 Holding Company shares will be allotted in exchange for each SEGA share.

⑤ Paid-in capital and additional paid-in capital
Paid-in capital: ¥10 billion
Additional paid-in capital: Amount calculated by deducting the paid-in capital from the sum of the parties' net assets existing at the date of the exchange

⑥ Cash consideration upon the transaction
The Holding Company will not pay any cash consideration upon the occurrence of the transaction.

⑦ Schedule of the exchange
October 1, 2004
The Company and Sammy may change the above schedule upon discussion should any significant issues arise as the business combination planning process proceeds.

⑧ Directors and corporate auditors of SEGA SAMMY HOLDINGS INC.
Directors (7 persons): Hajime Satomi, Hisao Oguchi, Keishi Nakayama, Kiyofumi Sakino, Hideki Okamura, Kenkichi Yoshida and Yasuo Tazoe.
Note that Hajime Satomi is scheduled to inaugurate as Chairman, President and Representative Director.
Corporate auditors (4 persons): Kazutada Ieda, Akio Kioi, Ryoichi Arai and Yoshio Hirakawa.
Note that all corporate auditors are the outside statutory auditors as defined in paragraph 1 of Article 18 of the Audit Special Exceptions Law of Japan (Law No. 22 of 1974).

⑨ Outline of Sammy Corporation (at March 31, 2004)

Company Name	SAMMY CORPORATION	
Location of Headquarters	23-2, Higashi Ikebukuro 2-chome, Toshima-ku, Tokyo	
Date of Incorporation	November 1, 1975	
Paid-in Capital	¥15,374 million	
Description of Business	Development, manufacturing and sales of pachislot and pachinko machines and peripherals, amusement arcade equipment and home video game software	
Representative	Hajime Satomi, President and Representative Director	
Number of Employees	1,006	
Net Sales and Net income (Million yen)	Net Sales: ¥227,174 Net income: ¥34,866	For the year ended March 31, 2004
Assets, Liabilities and Shareholders' Equity (Million yen)	Assets: ¥276,277 Liabilities: ¥159,750 Equity: ¥116,526	At March 31, 2004

22.2 The Redemption of the Company's 5th Unsecured Convertible Bonds
At the meeting of Board of Directors at June 29, 2004, the Company decided the redemption of the Company's 5th unsecured convertible bonds (convertible-bond type bonds with warrants, hereinafter referred to as "convertible bonds") within the upper limit of ¥5 billion. Associated with the convertible bonds announced on May 20, 2004, aiming at the incorporation of a 100% holding parent company with Sammy Corporation through transferring shares of both companies, the Company is now planning to hold the creditors' meeting to add an article of early redemption (creditors' meeting date (to be determined), the early redemption price ¥117 per stated value ¥100 (scheduled)). Accordingly, the Company made the decision to keep the effectiveness of the early redemption of bonds outstanding. Furthermore, the above-mentioned addition of the article and execution of the early redemption requires 1) the judicial decision to approve the resolution provided in Article 319 of the Commercial Code of Japan, 2) the resolution of approval to add an article regarding the early redemption in the creditors' meeting and 3) the effect of the judicial approval of the resolution 2) in accordance with Article 327 of the Commercial Code of Japan.

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
SEGA CORPORATION

We have audited the accompanying consolidated balance sheets of SEGA CORPORATION and its subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years ended March 31, 2004, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated financial statements are freeof material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 CORPORATION and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in Japan.

As described in Note 22, SEGA CORPORATION decided the incorporation of a 100% holding parent company through a share-for-share exchange and the redemption of SEGA CORPORATION's 5th unsecured convertible bonds (convertible-bond type bonds with warrants).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2004

non-consolidated statements of operations

SEGA CORPORATION
For the years ended March 31, 2002, 2003 and 2004

		Millions of yen		Thousands of U.S. dollars
	2002	2003	2004	2004
Net Sales	¥106,550	¥100,042	¥97,269	$920,323
Costs of Sales	82,029	77,933	71,852	679,837
Gross profit	24,521	22,109	25,417	240,486
Selling, General and Administrative Expensive	20,158	20,016	19,293	182,543
Operating income	4,363	2,093	6,124	57,943
Other Income (Expenses):				
Interest and dividend income	1,477	1,103	1,886	17,845
Interest expense	(1,204)	(303)	(193)	(1,826)
Gain on sales of property and equipment	—	1,249	1	9
Loss on sales or disposal of property and equipment	(2,462)	(359)	(78)	(738)
Loss on valuation of investments in securities	(5,998)	(938)	(745)	(7,049)
Loss on valuation of investments in subsidiaries and affiliates	(5,636)	(2)	(900)	(8,515)
Gain on donated assets from Mr. Okawa	1,667	—	—	—
Net gain on sales of investments in securities	1,447	2,733	517	4,892
Net gain (loss) on sales of investments in securities of subsidiaries and affiliates	376	(91)	0	0
Net loss on foreign exchange	(175)	(614)	(693)	(6,557)
Income from administration charge to affiliates	1,872	1,802	1,042	9,859
Expenses on administration charge to affiliates	(1,301)	(1,109)	(611)	(5,781)
Reversal of provision for doubtful accounts	4,694	—	680	6,434
Provision for doubtful accounts	—	(2,338)	—	—
Reserve for valuation loss of investments in subsidiaries	—	(4,292)	(212)	(2,006)
Amortization of bond and note issue expenses	(482)	(595)	(595)	(5,630)
Gain on redemption of convertible bonds	—	379	509	4,816
Net gain (loss) on settlement of donated assets from Mr. Okawa	(16,974)	(3,096)	34	322
Other, net	(2,040)	(1,581)	(110)	(1,041)
Total other income (expense), net	(24,739)	(8,052)	532	5,034
Income (loss) before income taxes	(20,376)	(5,959)	6,656	62,977
Income Taxes	391	(3,423)	(3,000)	(28,385)
Net income (loss)	¥(20,767)	¥ (2,536)	¥ 9,656	$ 91,362

		Yen		U.S. dollars
	2002	2003	2004	2004
Per Share:				
Net income (loss) — basic	¥ (138.7)	¥ (16.4)	¥ 62.3	$ 0.59
Cash dividends	—	—	—	—
Weighted average number of shares (thousands)	149,765	154,784	155,039	155,039

non-consolidated balance sheets

SEGA CORPORATION
March 31, 2003 and 2004

Assets	Millions of yen 2003	Millions of yen 2004	Thousands of U.S. dollars 2004
Current Assets:			
Cash and time deposits	¥ 79,386	¥ 53,800	$ 509,036
Notes and accounts receivable	14,804	13,646	129,113
Inventories	4,372	5,246	49,636
Prepaid expenses	2,539	692	6,547
Other current assets	12,458	10,646	100,729
Less allowance for doubtful accounts	(550)	(520)	(4,920)
Total current assets	113,009	83,510	790,141
Investments and Advances:			
Investments in securities	23,427	30,322	286,896
Long-term loans receivable	47,599	17,383	164,472
Other investments and advances	11,401	13,015	123,142
Less allowance for doubtful accounts	(35,832)	(12,790)	(121,014)
Reserve for valuation loss of investments in subsidiaries	(7,637)	(7,962)	(75,333)
Total investments and advances	38,958	39,968	378,163
Property and Equipment:			
Amusement machines and facilities	3,046	3,396	32,132
Building and structures	26,411	24,368	230,561
Other	7,590	7,959	75,305
	37,047	35,723	337,998
Less accumulated depreciation	(23,029)	(22,341)	(211,382)
	14,018	13,382	126,616
Land	8,924	8,969	84,861
Total property and equipment	22,942	22,351	211,477
Fixed Leasehold Deposits	1,536	2,000	18,923
Deferred Charges and Intangible Assets	4,189	3,249	30,741
Total assets	¥180,634	¥151,078	$1,429,445

Liabilities and Shareholders' Equity	Millions of yen 2003	Millions of yen 2004	Thousands of U.S. dollars 2004
Current Liabilities:			
Short-term bank loans	¥ 841	¥ 740	$ 7,002
Current portion of bond	2,450	2,900	27,439
Current portion of convertible bond	—	10,080	95,373
Current portion of long-term debt	600	600	5,677
Notes and accounts payable:			
Trade	8,977	9,830	93,008
Subsidiaries and affiliates	423	423	4,002
Other	672	1,348	12,754
	10,072	11,601	109,764
Accrued expenses	12,342	7,476	70,735
Income taxes payable	54	54	511
Other current liabilities	1,259	473	4,476
Total current liabilities	27,618	33,924	320,977
Long-Term Liabilities:			
Long-term debt	71,256	22,756	215,309
Accrued employees' retirement benefits	2,290	2,511	23,758
Accrued retirement benefits for directors and corporate auditors	60	85	804
Deferred tax liabilities	—	1,019	9,641
Other long-term liabilities	778	744	7,040
Total long-term liabilities	74,384	27,115	256,552
Shareholders' Equity:			
Common stock, no par value as of March 31, 2003 and 2004:			
Authorized — 600 million shares at March 31, 2002 and 2003, respectively			
Issued — 174,945,690 shares			
at March 31, 2003 and 2004, respectively	127,583	127,583	1,207,144
Additional paid-in capital	2,172	2,172	20,551
Accumulated deficit	(10,942)	(1,286)	(12,168)
Unrealized gain (loss) on other securities	(275)	1,485	14,051
Adjustment on revaluation of land	(6,265)	(6,266)	(59,287)
Treasury stock, at cost	(33,641)	(33,649)	(318,375)
Total shareholders' equity	78,632	90,039	851,916
Total liabilities and shareholders' equity	¥180,634	¥151,078	$1,429,445

board of directors and auditors

As of June 28, 2004

Chairman and CEO
Hajime Satomi

President and COO
Hisao Oguchi

Managing Director
Yoshiharu Suzuki

Managing Director
Hideki Okamura

Managing Director
Yasuo Tazoe

Director
Akira Sugano

Statutory Auditor	Kazutada Ieda
Statutory Auditor	Iwao Nishi
Auditor	Ryoichi Arai
Auditor	Mineo Enomoto

corporate data

As of March 31, 2004

Head Office
2-12 Haneda 1-chome, Ohta-ku, Tokyo 144-8531, Japan
Tel: 81-3-5736-7111
http://www.sega.co.jp

Date of Incorporation
June 3, 1960

Number of Employees
3,507 (consolidated basis)
814 (non-consolidated basis)

Paid-in Capital
¥127,583 million

Number of Shareholders
98,515

Number of Shares Authorized
600,000,000 shares

Number of Shares Issued
174,945,690 shares

Stock Listing
Tokyo Stock Exchange (First Section)

Transfer Agent
The Sumitomo Trust and Banking Co., Ltd.

Independent Accountant
ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan

Ordinary General Meeting of Shareholders
June

American Depositary Receipts
Ratio (ADR:ORD): 4:1
Symbol: SEGNY
CUSIP: 815793104
Depositary: JPMorgan Chase Bank
270 Park Avenue,
New York, NY
10017-2070, U.S.A.
Tel: 1-212-270-6000

principal overseas subsidiaries

SEGA of America, Inc.
650 Townsend Street, Suite 650,
San Francisco, CA 94103-4908, U.S.A.
Tel: 1-415-701-6000

SEGA Enterprises, Inc. (U.S.A.)
650 Townsend Street, Suite 575,
San Francisco, CA 94103-4908, U.S.A.
Tel: 1-415-701-6500

Visual Concepts Entertainment, Inc.
One Thorndale Drive, San Rafael, CA 94903, U.S.A.
Tel: 1-415-479-3634

SEGA Europe Ltd.
27 Great West Road, Brentford,
Middlesex, TW8 9BW, United Kingdom
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