

SEGA SAMMY HOLDINGS INC. (SEGA CORPORATION)
Interim Consolidated Financial Results
for the Term ended September 30, 2004

Company Name: SEGA SAMMY HOLDINGS INC (SEGA CORPORATION)
TSE Code: 6460
(URL: <http://www.segasammy.co.jp>)
Representative: Hajime Satomi, Chairman, President and Representative Director
Further Information: Shunichi Shimizu
Tel: 81-6215-9555

1. Consolidated Results for the term ended September 30, 2004

1) Consolidated Results

	(millions of yen)		
	Net Sales	Operating Income	Ordinary Profit
First Half of FY 2005	93,129	5,571	5,598
First Half of FY 2004	93,474	7,569	6,164
FY 2004	191,257	14,480	12,617

	(yen)		(yen)
	Net Income	Net Income per share	Net Income per share after full dilution
First Half of FY 2005	1,025	6.57	6.35
First Half of FY 2004	5,932	38.27	33.31
FY 2004	8,760	55.96	50.70

(Notes)

1. Equity in gains of non-consolidated subsidiaries and affiliates

First Half of FY 2005: 204 millions of yen

First Half of FY 2004: 122 millions of yen

FY 2004: 142 millions of yen

2. Average number of shares issued during the term:

First Half of FY 2005: 156,058,832 shares

First Half of FY 2004: 155,040,118 shares

FY 2004: 155,038,766 shares

2) Consolidated Financial Data

(millions of yen)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per share (yen)
First Half of FY 2005	174,824	103,124	59.0%	649.34
First Half of FY 2004	192,506	93,464	48.6%	602.85
FY 2004	189,055	97,962	51.8%	631.88

(Note) Average number of shares issued at the end of the term (Consolidated)

First Half of FY 2005 158,814,072 shares

First Half of FY 2004 155,038,023 shares

FY 2004: 155,034,254 shares

3) Consolidated Cash Flows

(millions of yen)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at the end of the term
First Half of FY 2005	5,131	(12,333)	(17,461)	47,409
First Half of FY 2004	7,140	(4,067)	(35,026)	69,040
FY 2004	21,583	(9,095)	(41,399)	71,922

4) Matters Related to Consolidated Subsidiaries and Affiliates Accounted for using the Equity Method

Number of Consolidated Subsidiaries: 36

Number of Non-Consolidated subsidiaries accounted for using the Equity Method: 0

Number of Affiliates accounted for using the Equity method: 5

5) Change of the Consolidated Subsidiaries and Affiliates Accounted for using the Equity Method

Number of Companies newly consolidated: 1

Number of Companies removed from consolidation: 7

Number of Companies newly accounted for using the Equity Method: 1

Number of Companies removed from Equity Method: 0

2. Forecast for Consolidated Financial Results for FY 2005

(millions of yen)

	Net Sales	Recurring Profit	Net Income
FY 2005	204,000	12,500	8,000

(Reference) Net income per share for FY 2004 is forecasted to be 50.37 yen.

(Note) Business results forecasts described above are based on management's assumption regarding the economic environment and the Company's operating environment as of the date of announcement and involved various risks and uncertainty. Actual results may differ materially from forecasts herein.

Overview of the term

Consolidated net sales for the year under review amounted to 93,129 million yen. Net sales in Japan was 82,149 million yen, and overseas sales was 10,979 million yen. Operating profit was down 26.4% to 5,571million yen and recurring profit decreased 9.2% to 5,598 million yen.

In addition, the Company accounted to the extraordinary profit of 1,074 million yen. On the other hand, it amounted the 4,921 million yen.

Thus the net income for the term under review decreased 82.7% to 1,025 million yen, compared with the same term of the previous fiscal year.

Review of Operations

<Amusement Machine Sales>

During the term under review, net sales in this segment decreased 5.2% compared with the same term of the previous fiscal year, to 28,549 million yen and operating income of 5,709 million yen was recorded.

In Japan, due primarily to the aggressive opening of medium-to-large amusement facilities, our popular mainstay products including "UFO Catcher 7," and "Star Horse," contributed to the favorable business performance.

In addition, "MJ2," and "Gacha-mambo," both of which were released in the previous fiscal year, exceeded the initial projection. However, due to the cancellation or delay of some new product releases, net sales was slightly below the target.

In prize product sales, its results was very favorable, thanks to the products collaborating with other companies.

In overseas, thanks to the favorable sales in Asia of Driving game, "Initial D," "Outrun 2," released in Europe, and "Derby Owners Club" in North America, the results was almost same as our initial projection.

<Amusement Center Operations>

During the term under review, our sales from the facility operation business was slightly below the target, caused by the Athens Olympic or hot summer weather. However, the Company continued to proceed the facility's "Scrap and Build" strategy and to improve the efficiency, which enabled us to meet the initial projection in profit.

"The King of Beetle: Mushi-king" business, which combines equipment leasing and card sales, far exceeded the initial target in sales and profit. Since its launch, the Company sold 100 million copies of "Mushi-King" cards.

To increase the efficiency in Amusement center operations, the Company newly opened 11

facilities and closed 26 ones during the term under review. The number of the Company's amusement centers was 463 at the end of the term.

<Consumer Business>

During the term under review, net sales decreased 7.2% compared with the same term of the previous fiscal year, to 26,544 million yen and an operating loss of 4,027 million yen was recorded. In the term under review, the Company sold 1,020 thousand copies of home-use game software from 9 SKUs, compared with the sales target of 1,140 thousand copies from 8 SKUs in Japan. In North America, we sold 1,680 thousand copies from 8 SKUs, compared with the projection of 990 thousand copies from 7 SKUs. In Europe, SEGA sold 1,030 thousand copies from 4 SKUs, compared with the initial target of 560 thousand copies from 11 SKUs.

In Japan, the Company launched various games including sports management simulation game, "Let's make a J.LEAGUE professional Soccer Club! 3" for PS2, "Sakura Wars V EPISODE 0" for PS2, "Sonic Advance 3" for GBA, and "Puyo Pop Fever" for GBA and Xbox. The Company moved up to the launch schedule but the sales volume was below the initial projection. On the other hand, Sammy's pachinko simulation title, which the Company distributed, exceeded the sales target.

In North America, repeat order of "Sonic Heroes" far exceeded the initial estimation and in Europe, repeat orders contributed to the favorable results.

<Outlook for the full year results>

The results for the term under review exceeded the initial plan in sales and profit. However we expect that the economic conditions and our business environment not allow premature conclusions. Moreover the Company is reorganizing the R&D management structure through consolidating the R&D subsidiaries into the Company. Considering the conditions described above, the Company would not change the initial forecast for the results for the year ending March 31, 2005, announced in May 2004.

Regarding the non-consolidated business forecast, the Company accounted the contemporary expenses or will pay management consulting fees for SEGA SAMMY Holdings, the Company's parent company, we revised.

The Company forecasts the consolidated net sales for the current fiscal year of 204,000 million yen, recurring profit of 12,500 million yen and net income of 8,000 million yen.

Also we forecast the non-consolidated net sale for the current fiscal year of 104,000 million yen, recurring profit of 5,000 million yen and net income of 4,500 million yen.

Other than the above, the Company made forecasts based on the following currency exchange rate.

US\$1=105 yen

1GBP=185 yen

1EURO=125 yen

Financial Conditions

Net cash provided by operating activities decreased 2,008 million yen to 5,131 million yen. This was mainly due to the decrease of income before income taxes and minority interests in earnings of consolidated subsidiaries and increase of inventories.

Net cash used in investing activities decreased 8,265 million yen to 12,333 million yen. This was due attribute to time deposits and payments for purchases of fixed tangible assets.

Thus free cash flows amounted to negative 7,201 million yen.

On the other hand, net cash used in financing activities amounted 17,461 million yen, which was caused by payments for redemption of convertible bonds. Comparing with the previous term, it decreased 24,512 million yen.

Cash and cash equivalents at the end of the term decreased 24,512 million yen to 47,409 million yen.

Interest-bearing debt decreased 20,074 million yen to 33,549 million yen, compared with the previous fiscal year-end.

	FY2002.3	FY 2003.3	FY 2004.3	2004.9
Shareholders' equity ratio	34.3%	39.1%	51.8%	59.0%
Shareholders' equity ratio based on market cap	147.1%	46.8%	93.0%	135.3%
Debt redemption term	10.6 years	2.8 years	2.5 years	3.3 years
Interest coverage ratio	4.5	47.1	34.1	19.2

Millions of yen

Interest-bearing debt outstanding	99,313	95,261	53,624	33,549
Operating cash flows	9,349	34,232	21,583	5,131

Consolidated Balance Sheets

SEGA CORPORATION and Consolidated Subsidiaries
As of September 30, 2003 and 2004, and March 31, 2004

(millions of yen)

ASSETS	2004.9	2003.9	2004.3
Current Assets:			
Cash and time deposits	49,414	69,045	71,927
Notes and accounts receivable	18,651	22,620	19,436
Inventories	10,783	9,035	8,865
Other current assets	10,565	8,795	7,348
Less allowance for doubtful accounts	(1,392)	(916)	(1,421)
Total current assets	88,022	108,580	106,156
Property and Equipment			
Amusement machines and facilities	12,187	10,774	10,165
Building and structure	16,518	17,583	17,254
Land	9,320	9,290	9,336
Others	3,846	4,204	3,838
Total property and equipment	41,873	41,852	40,595
Intangible Fixed Assets	4,391	5,648	4,508
Investments and Advances			
Investments in securities	13,994	13,457	13,358
Fixed Leasehold deposits	16,117	16,625	15,988
Other investments	18,657	15,182	17,488
Less allowance for doubtful accounts	(8,306)	(9,092)	(9,180)
Total investments and advances	40,463	36,171	37,655
Deferred Charges	73	252	139
Total Assets	174,824	192,506	189,055

(millions of yen)

LIABILITIES	2004.9	2003.9	2004.3
Current Liabilities:			
Notes and accounts payable	17,847	16,963	14,373
Short-term bank loans	1,107	1,719	725
Current portion of debentures	2,950	2,930	2,950
Current portion of long-term bank loans	-	4,931	10,080
Current portion of convertible bonds	5,064	12,140	4,988
Accrued expenses	8,883	8,951	10,050
Income taxes payable	694	1,047	1,186
Other current liabilities	2,690	5,920	4,100
Total current liabilities	39,237	54,604	48,454
Long-Term Liabilities			
Deventures	12,020	14,670	13,495
Convertible bonds	-	6,806	6,806
Long-term debt	12,407	16,541	14,579
Deferred income taxes	1,542	426	1,348
Accrued employees' retirement benefits	4,578	4,157	4,541
Accrued retirement benefits for directors and corporate director	108	165	174
Other	1,183	678	1,155
Total long-term liabilities	31,841	43,445	42,100
Total Liabilities	71,078	98,049	90,555
Minority Interests in Consolidated Subsidiaries	620	991	537
Shareholders' Equity			
Common stock	127,582	127,582	127,582
Additional paid-in capital	2,171	2,171	2,171
Retained earnings	13,872	12,630	15,459
Adjustment of revaluation of land	(6,265)	(6,264)	(6,265)
Unrealized gain on investments in securities	1,748	128	1,488
Translation adjustment	(8,728)	(9,139)	(8,825)
Treasury stock	(27,256)	(33,644)	(33,649)
Total Shareholders' Equity	103,124	93,464	97,962
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	174,824	192,506	189,055

Consolidated Statement of Operations

SEGA and Consolidated Subsidiaries

For Six Months Ended September 30, 2003 and 2004 and the year ended March 31, 2004

(millions of yen)

	2004.9	2003.9	2004.3
Net Sales	93,129	93,474	191,257
Cost of Sales	68,921	67,578	138,687
Gross profit	24,208	25,895	52,570
Selling, General and Administrative Expenses	18,636	18,325	38,090
Operating income	5,571	7,569	14,480
Non-Operating Income	739	507	922
Non-Operating Expenses	(712)	(1,912)	(2,784)
Recurring Profit	5,598	6,164	12,617
Extraordinary Income	1,074	1,739	2,617
Extraordinary Loss	(4,921)	(957)	(4,893)
Income before income taxes and minority interests in earnings of consolidated subsidiaries	1,751	6,946	10,341
Income taxes			
Current	366	1,006	2,169
Deferred	295	45	(220)
Minority interests in Earnings of Consolidated Subsidiaries	63	(37)	(368)
Net Income for the term	1,025	5,932	8,760

(Notes) 1. The above financial information was prepared using accounting principles generally accepted in Japan.

2. Figures less than 1million yen have been omitted.

Consolidated Statements of Capital Surplus

SEGA CORPORATION and Consolidated Subsidiaries

For Six Months ended September 30, 2003 and 2004, and the year ended March 31, 2004

(millions of yen)

	2004.9	2003.9	2004.3
(Capital Surplus)			
Capital Surplus at Beginning of the Term	2,171	2,171	2,171
Increase in Capital Surplus			
Issuance of shares	-	-	-
Capital Surplus at End of the Term	2,171	2,171	2,171
(Retained Earnings)			
Retained earnings at Beginning of the Term	15,459	6,816	6,816
Increase in Retained Earnings			
Net Income for the Term	1,025	5,932	8,760
Adjustment on revaluation of land during the period	-	-	0
Decrease in Retained Earnings			
Directors' Bonus	88	118	118
Loss on desposal of treasury stock	2,524	-	-
Retained Earnings at End of the Term	12,630	12,630	15,459

Consolidated Statement of Operations

SEGA CORPORATION and Consolidated Subsidiaries
For Six Months Ended September 30, 2003 and 2004 and the year ended March 31, 2004

(millions of yen)

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Consolidated Statements of Capital Surplus

SEGA CORPORATION and Consolidated Subsidiaries

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(millions of yen)

	2004.9	2003.9	2004.3
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Capital Surplus at Beginning of the Term	2,171	2,171	2,171
Increase in Capital Surplus			
Issuance of shares	-	-	-
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Directors' Bonus	88	118	118
Loss on desposal of treasury stock	2,524	-	-
Retained Earnings at End of the Term	12,630	12,630	15,459

Consolidated Statements of Cash Flows

SEGA CORPORATION and Consolidated Subsidiaries
For Six Months ended September 30, 2003 and 2004, and the year ended March 31, 2004

(millions of yen)

	2004.9	2003.9	2004.3
Cash Flows from Operating Activities:			
Income before income taxes and minority interests in earnings of consolidated subsidiaries	1,751	6,946	10,341
Adjustment for:			
Depreciation and amortization	5,789	5,652	12,729
Transfer of amusement machines and facilities from investing activities	(2,147)	(2,370)	(3,931)
Provision for doubtful accounts	(519)	122	656
Increase in accrued employees' retirement benefits	40	477	870
Interest and dividend income	(106)	(73)	(126)
Interest expense	279	329	621
Equity in gain (loss) of non-consolidated subsidiaries and affiliates	(204)	(122)	(142)
Amortization of excess investment costs over net assets of consolidated subsidiaries	(15)	148	1,526
Gain on sale of property and equipment	(253)	(1,049)	(1,010)
Loss on disposal of property and equipment	294	121	411
Gain on sale of investments in securities	(0)	(83)	(571)
Loss on valuation of investments in securities	331	35	1,527
Gain on settlement of donated assets from Mr. Okawa	(499)	648	196
Decrease (increase) in notes and accounts receivable	(726)	(5,627)	(1,716)
Increase (decrease) in inventories	(2,434)	(531)	(408)
Decrease in accrued expenses	4,288	3,116	305
Gain on retirement of convertible bonds	-	(508)	(509)
Others	1,229	(580)	2,173
Sub-total	7,098	7,128	22,942
Interest and dividends received	155	113	164
Interest paid	(268)	(348)	(632)
Payment on extra allowance for retirement	(434)	-	-
Payment on settlement	(1,451)	-	-
Payment on disposal of donated assets	436	710	1,518
Income taxes paid	(405)	(463)	(2,408)
Net cash used in operating activities	5,131	7,140	21,583
Cash Flows from Investing Activities:			
Payments for time deposits	(3,500)	-	-
Payments for purchases of property and equipment	(6,144)	(3,797)	(9,230)
Proceeds from sales of property and equipment	28	266	809
Payments on acquisition of intangible assets	(392)	(583)	(1,006)
Proceeds from sale of intangible assets	130	1,058	1,024
Payments for purchases of investments in securities	(723)	(1,288)	(2,085)
Proceeds from sales of investments in securities	20	399	1,221
Payments for advances	(340)	(42)	(42)
Proceeds from collections of advances	259	22	125
Payments for fixed leasehold deposits	(1,234)	(917)	(1,334)
Proceeds from collections of fixed leasehold deposits	899	999	1,710
Others	-	(185)	(287)
Net cash Provided by investing activities	(12,333)	(4,067)	(9,095)
Cash Flows from Financing Activities:			
Increase (Decrease) in short-term bank loans, net	382	209	(708)
Proceeds from long-term debt	479	-	300
Repayment of long-term debt	(2,589)	(2,442)	(4,968)
Proceeds from issuance of debentures	-	584	885
Payments on redemption of debentures	(1,475)	(1,000)	(2,465)
Payments on redemption of convertible bonds	(8,069)	(32,351)	(34,410)
Proceeds from issuance of shares to minority shareholders	23	-	4
Dividend paid	-	(22)	(22)
Proceeds from issuance of shares under exercise of stock options	3,891	-	-
Others	(10,103)	(3)	(15)
Net cash provided by financing activities	(17,461)	(35,026)	(41,399)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	150	(367)	(528)
Net increase (decrease) in Cash and Cash Equivalents	(24,512)	(32,321)	(29,438)
Cash and Cash Equivalents at Beginning of the Term	71,922	101,361	101,361
Cash and Cash Equivalents at End of the Term	47,409	69,040	71,922

(Notes) 1. The above financial information was prepared using accounting principles generally accepted in Japan

2. Figures less than \1million have been omitted.

Segment Information

I. Business Segment Information

	(millions of yen)					
	Amusement machine sales	Amusement center operations	Consumer business	Total	Eliminations/Corporate	Consolidated Total
Six months ended September 30, 2004						
Sales to outside customer	28,549	38,035	26,544	93,129	-	93,129
Intersegment sales/transfers	7,604	905	14	8,524	(8,524)	-
Total	36,154	38,941	26,558	101,654	(8,524)	93,129
Cost of sales and operating expenses	30,444	34,560	30,586	95,591	(8,033)	87,557
Operating income (loss)	5,709	4,380	(4,027)	6,062	(490)	5,571

	(millions of yen)					
	Amusement machine sales	Amusement center operations	Consumer business	Total	Eliminations/Corporate	Consolidated Total
Six months ended September 30, 2003						
Sales to outside customer	30,109	34,749	28,616	93,474	-	93,474
Intersegment sales/transfers	7,305	46	56	7,409	(7,409)	-
Total	37,414	34,796	28,673	100,883	(7,409)	93,474
Cost of sales and operating expenses	31,296	30,875	30,514	92,686	(6,781)	85,904
Operating income (loss)	6,117	3,920	(1,841)	8,196	(627)	7,569

	(millions of yen)					
	Amusement machine sales	Amusement center operations	Consumer business	Total	Eliminations/Corporate	Consolidated Total
Year ended March 31, 2004						
Sales to outside customer	60,365	69,860	61,032	191,257	-	191,257
Intersegment sales/transfers	14,272	231	88	14,592	(14,592)	-
Total	74,637	70,091	61,121	205,850	(14,592)	191,257
Cost of sales and operating expenses	62,617	63,955	63,945	190,518	(13,741)	176,777
Operating income (loss)	12,019	6,135	(2,824)	15,331	(851)	14,480

(Notes) 1. The above financial information was prepared using accounting principles generally accepted in Japan

2. Figures less than 1million yen have been omitted.

II. Geographical Segment Information

Six months ended September 30, 2004	Japan	North America	Europe	Total	Eliminations	Consolidated total
Net Sales to:						
Outside customers	82,149	4,956	6,023	93,129	-	93,129
Intersegment sales/transfers	3,289	1,529	4	4,823	(4,823)	-
Total	85,438	6,486	3,027	97,952	(4,823)	93,129
Cost of sales and operating expenses	79,615	6,531	3,620	92,467	(4,910)	87,557
Operating income (loss)	5,823	(45)	(292)	5,484	86	5,571

Six months ended September 30, 2003	Japan	North America	Europe	Total	Eliminations	Consolidated total
Net Sales to:						
Outside customers	82,162	7,601	3,710	93,474	-	93,474
Intersegment sales/transfers	3,094	1,752	142	4,989	(4,989)	-
Total	85,256	9,354	3,853	98,464	(4,989)	93,474
Cost of sales and operating expenses	77,252	9,868	4,235	91,356	(5,451)	58,904
Operating income (loss)	8,004	(513)	(382)	7,107	461	7,569

Year ended March 31, 2004	Japan	North America	Europe	Total	Eliminations	Consolidated total
Net Sales to:						
Outside customers	163,992	16,979	10,285	191,257	-	191,257
Intersegment sales/transfers	7,376	9,118	3	10,499	(10,499)	-
Total	171,369	20,098	10,288	201,756	(10,499)	191,257
Cost of sales and operating expenses	156,465	20,690	10,663	187,819	(11,041)	176,777
Operating income (loss)	14,903	(591)	(374)	13,937	542	14,480

(Notes) 1. Division by country or region is based on geographical proximity.

2. Main country and regional division other than Japan

North America: U.S.A.

Europe: U.K., France, Spain, Germany