

**FLASH REPORT**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Year Ended March 31, 2005**

**Name of the Company :** SEGA SAMMY HOLDINGS INC.  
**Code number :** 6460  
 (URL <http://www.segasammy.co.jp>)  
**Representative:** Hajime Satomi  
 Chairman & CEO  
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Date of the Board of Directors meeting for the fiscal year closing      May 24, 2005

**1.Consolidated Operating Results for Year Ended March 31, 2005**

**(1) RESULTS OF CONSOLIDATED OPERATIONS**

	Net sales		Operating income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For Year ended March 31, 2005	515,668	—	105,089	—	50,574	—
For Year ended March 31, 2004	—	—	—	—	—	—

	Net income per share	Net income per share (Diluted)	Return on equity	Operating income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
For Year ended March 31, 2005	410.53	400.95	19.5	23.9	20.4
For Year ended March 31, 2004	—	—	—	—	—

(Note) ① Equity in net earnings of affiliated companies for the fiscal year 2004 was ¥25 million.  
 ② Weighted average number of shares outstanding for the fiscal year 2004 was 122,335,930 shares.  
 ③ There was no significant change in the accounting policy between the years presented.  
 ④ Return on equity and Operating income to total assets are calculated by stockholders' equity and total assets for year ended March 31,2005.

**(2) CONSOLIDATED FINANCIAL POSITION**

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2005	438,991	258,954	59.0	2,067.91
March 31, 2004	—	—	—	—

(Note) The total numbers of shares outstanding were 124,968,006 shares at March 31, 2005, respectively.

**(3) CONSOLIDATED CASH FLOWS**

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at the year-end
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
For Year ended March 31, 2005	77,762	(39,617)	(25,702)	151,253
For Year ended March 31, 2004	—	—	—	—

(4) Scope of consolidation and equity method application

The Company consolidated all of its 61 subsidiaries, and 6 affiliated companies using the equity method.

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

	Net sales	Operating income	Net income
	Millions of Yen	Millions of Yen	Millions of Yen
Interim	240,000	28,000	9,000
Entire – year	567,000	100,000	56,000

(Reference) Projected net income per share for the entire-year is ¥443.87 Yen.

(Note)

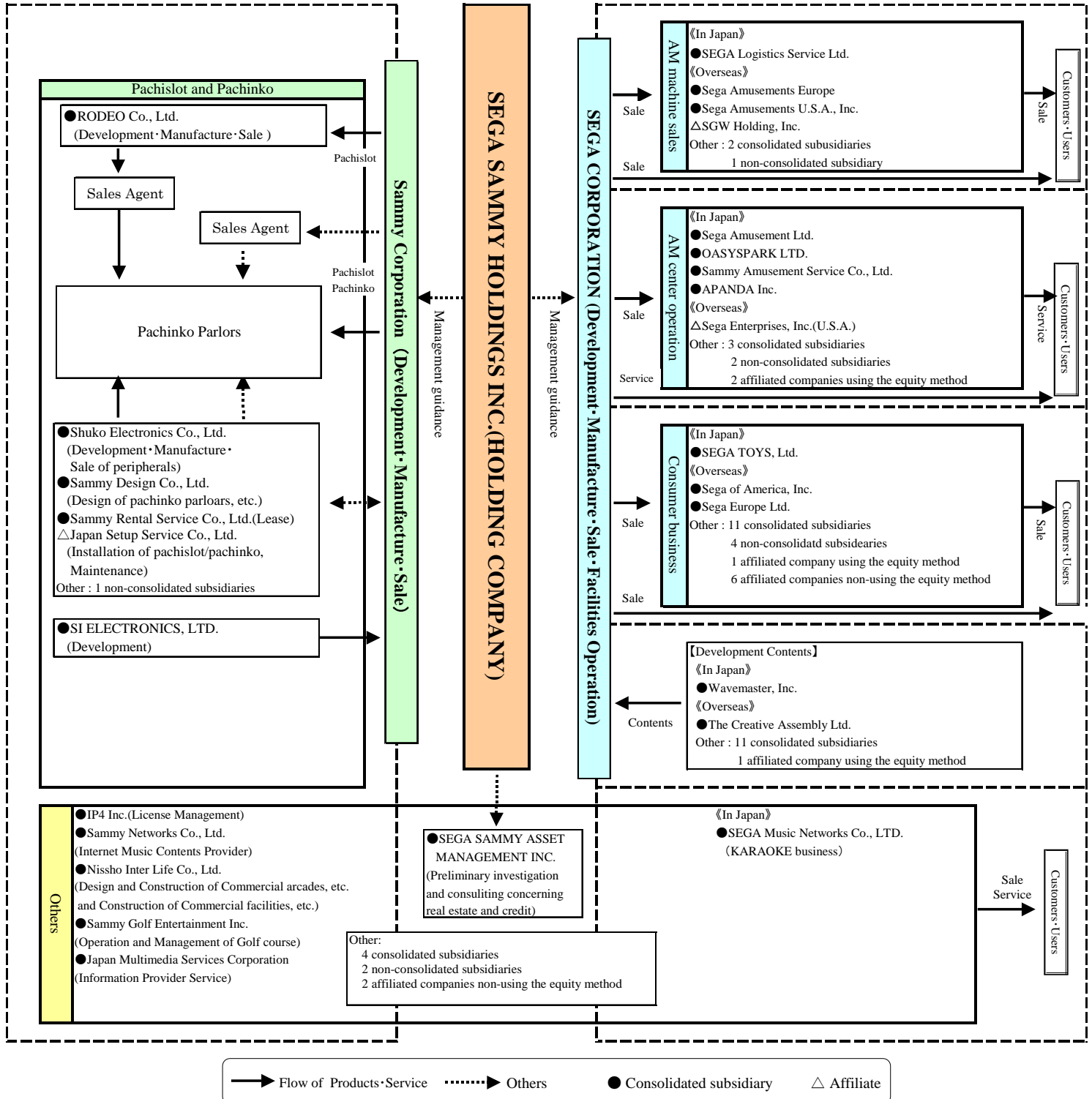
The management of the Company is required to disclose the information about Projection of results for fiscal year 2005 in accordance with the regulation of Tokyo Stock Exchange.

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

# 1. Overview of the SEGA SAMMY Group

The SEGA SAMMY Group consists of SEGA SAMMY HOLDINGS INC., 71 subsidiaries and 14 affiliates. Group operations center primarily on the development, manufacture and sale of pachislot and pachinko machines and related peripherals, but also encompass game machines for amusement centers, game software, and toys and accessories. The development and management of amusement facilities is another vital Group business.

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



→ Flow of Products·Service    ·····▶ Others    ● Consolidated subsidiary    △ Affiliate

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

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

## **2. Management Policies**

### **(1) Basic management policies**

SEGA CORPORATION and Sammy Corporation on October 1, 2004 integrated their operations for the purpose of building an even more powerful base as a comprehensive global entertainment organization. A holding company called SEGA SAMMY HOLDINGS INC. was established with the aim of maximizing corporate value, giving the two companies a new beginning as the SEGA SAMMY Group.

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

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

### **(2) Basic policy concerning distribution of earnings**

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

On February 15, 2005, the Company appropriated ¥266,062 million in paid-in capital, and transferred this sum to other retained earnings based on the decision in the General Meeting held thereon. This decision reflects the Company's stance of developing a flexible capital structure for future business operations and securing funds for the payment of dividends.

For the fiscal year ended March 31, 2005, the Company proposed to declare a year-end dividend of ¥60 per share, to be paid to shareholders of record as of the balance sheet date. This proposal was made based on the accomplishment with satisfactory business results of ordinary income of more than ¥100 billion in the previous year as the starting year of the Company's three-year medium-term business plan, which is scheduled to conclude in the March 2007 fiscal year and the strides steadily made in realigning businesses. In addition to a normal year-end dividend of ¥40 per share, this proposed sum includes the payment of a special dividend of ¥20 per share commemorating the establishment of SEGA SAMMY HOLDINGS.

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

### **(3) Medium- to Long-Term Strategies and Other Issues**

Through this management integration, the SEGA SAMMY Group has the resources to create a truly comprehensive and powerful entertainment organization. There is little overlap in business activities and customers at the two main subsidiaries, SEGA CORPORATION and Sammy Corporation. Furthermore, the integration provides mutually complementary strengths in business operations and enables these companies to stabilize their earnings. Other advantages include the ability to use assets more efficiently, such as by using content and development tools many times, and to procure jointly components used in pachinko and pachislot machine and amusement machine sales. Management therefore believes that substantial synergies can be captured through this integration.

The Group will leverage the globally powerful brands of SEGA CORPORATION along with the strong growth and profitability of Sammy Corporation, as well as bring together the sophisticated technology development skills of the SEGA SAMMY Group. The aim is to become the world's leading comprehensive entertainment organization by enhancing the Group's stature in all business fields through the provision of entertainment for people of all ages worldwide.

In February 2005, several news media organizations reported allegations of possible income tax law violations by the former president of consolidated subsidiary Sammy Corporation. We deeply regret the concern and misgivings that this incident has caused our shareholders and all other stakeholders. This situation has forced us to recognize the inadequacy of the internal controls and functions we have relied upon to date. To rectify this, we are enacting the following initiatives to strengthen corporate governance and prevent the recurrence of similar incidents:

- ① Ensure thorough compliance awareness
  - Request written pledges and promises from directors, executive officers and managers
  - Draft regulatory and ethical guidelines for directors and executive officers
  - Use in-house training programs to underscore compliance awareness at every level
- ② Review systems and mechanisms related to purchasing transactions, and rethink management procedures
  - Reinforce mutual monitoring capabilities among divisions responsible for decisions relating to the selection and management of business partners, purchasing methods and other aspects of relationships with business partners involved in purchasing transactions
- ③ Educate business partners on Group compliance standards
  - Assert impeccable business practices as the Group's compliance stance

The Group has launched projects aimed at strengthening its system of internal controls in the shortest possible timeframe, and has enlisted the advice of outside experts by formally installing an Advisory Committee within its organizational structure. By using this committee to offer input and monitor the total spectrum of management, the Group is ultimately seeking to strengthen its organization and systems.

The SEGA SAMMY Group recognizes that bolstering the corporate governance and compliance framework is a management issue of the highest priority, and is encouraging Group-wide collaboration in this task as it moves boldly forward to enhance corporate governance.

On a different note, on April 18, 2005, a fatal mishap involving the *Viva! Skydiving* attraction at TOKYO JOYPOLIS, an amusement facility operated by consolidated subsidiary SEGA CORPORATION, claimed the life of a customer. We would like to take this opportunity to express our sincerest condolences for the tragic loss of life in this accident. We would also like to convey our deepest apologies for the enormous burden placed on everyone affected by this tragedy.

We would once again like to express our deepest condolences and sympathies to the family of the deceased, and vow to respond to their needs with the utmost sincerity in their hour of bereavement. The SEGA SAMMY Group stands firm in its commitment to thoroughly investigate the causes that led to this incident to ensure that the necessary safety measures are in place to prevent this kind of tragedy from ever happening again.

The Group has cooperated fully with the authorities in the investigation conducted in the wake of this incident. Following the accident, SEGA CORPORATION immediately moved to set up a special committee, chaired by SEGA president Hisao Oguchi, to examine measures to prevent accidents at the facility. Operations at TOKYO JOYPOLIS were halted, and a fact-finding mission and in-depth inquiry into the factors that led to the accident were conducted. In its findings, the committee concluded that improper management of the attraction was the root cause of the fatal accident.

To assure improved safety through more effective safety measures, the committee also carried out safety inspections of all attractions at TOKYO JOYPOLIS. This rigorous safety check covered both the mechanical and management-side of attraction operations. In addition to checking each attraction while in operation, the committee also verified the overall condition of the attraction's machinery, its operating parameters, and looked for discrepancies between operating parameters and the operating manual. This inspection not only identified points for improving machinery at several attractions, but also revealed management shortcomings in the operating manual, as well as the reporting and contact framework. Another comprehensive safety check is under way, this time of the condition and safety of equipment and machinery at all of the Group's 400 amusement facilities across Japan.

The entire SEGA SAMMY Group is taking initiatives to prevent the recurrence of this type of accident. At the same time, it is reexamining safety measures for attractions from the ground up. Efforts are largely being spearheaded through four initiatives outlined below. In a move to further improve safety measures by taking on board objective viewpoints, the SEGA SAMMY Group will select several third-party groups to serve as advisers that can evaluate and offer advice regarding the initiatives.

- ① Establish reliable safety standards for each attraction
- ② Upgrade operating manuals with reference to new safety standards
- ③ Upgrade in-house training systems and ensure strict observance of the operating manual
- ④ Enact proper monitoring to ensure overall implementation of safety measures

Not content to only target safety measures for its attractions, the entire Group is working to ensure proper safety measures for coping with threats posed by natural disasters, fire and theft are in place throughout the scope of its operations. To complement this, the SEGA SAMMY Group is upgrading its crisis-response manual and taking other steps to overhaul the entire crisis management framework.

By enacting these initiatives, the SEGA SAMMY Group is renewing its pledge to create amusement facilities that customers can enjoy with peace of mind.

### 《Issues in each business of the SEGA SAMMY Group》

In the pachislot and pachinko industry, Japan enacted revisions in July 2004 to regulations pertaining to the law governing gaming machines, primarily for the purpose of tightening restrictions on payout percentages of pachinko and pachislot machines and strengthening measures to prevent fraud. Following these changes, the ability to offer outstanding game play and entertainment value has become even more critical in order to distinguish pachislot and pachinko machines from competitors' models. The situation has further spotlighted the differences in technological skill among different manufacturers. In this environment, the SEGA SAMMY Group is further refining its new product development skills to remain the industry leader. The Group will increase efforts to make products that target an even broader spectrum of age groups by working even harder at commercializing innovative ideas to supply more entertaining products. Through these activities, the Group intends to contribute to further industry development by attracting dormant game users back to the market.

In the pachislot machine business, the SEGA SAMMY Group has used its outstanding technology development expertise to supply products following regulatory revisions that, just as before, earn high marks from the market for their unparalleled appeal. The success of "Hokuto No Ken," the biggest hit ever in the pachislot industry, is clear proof of this capability. In addition, the Group is enhancing planning and sales capabilities while rapidly incorporating video enhancement technologies. By further reinforcing the Group's already overwhelming lead in brand equity in this manner, the Group intends to preserve its number one position in terms of units sold each year.

In the pachinko machine business, actions were already started in May 2004 to bolster the R&D organization, such as by increasing the number of engineers. Due to the elimination of pachinko machine categories and other actions associated with regulatory revisions, the Group is free to develop a much more diverse range of models. Viewing the new regulations as an excellent opportunity, the Group plans to introduce new products incorporating unprecedented concepts to increase its share of the pachinko machine market.

In business activities other than pachislot and pachinko machine sales, the Group sells peripheral devices; designs, installs and performs other facility-related services for pachinko parlors; provides operational assistance such as producing special events; develops and expands lineups of prize items; and supplies other services for operators of pachinko parlors.

In the amusement machine sales business, the Group is using its advanced technology to strengthen new product development skills. In addition, the Group is helping to energize and enlarge the market by using its strength as a supplier of a full line of models, which can serve all customer segments, in order to supply popular mainstay products along with models that go in new directions. Outside Japan, the Group will conduct tightly focused sales activities while developing products that reflect the characteristics of each region as well as user needs. The overseas sales network and operating structure will be reinforced and sales channels enlarged. The objective is to increase market share in overseas markets as well as in Japan.

In the amusement center operations business, the Group will continue to adopt the customers' perspective to focus on "creating services" and "creating spaces." The aim is to be a driving force in the industry's development by creating

markets that people of all ages can enjoy. In recent years, there has been growth in families and couples at amusement center operations, a trend that is adding vitality to the entire industry. In response, the Group has been actively creating new markets, most notably “MUSHIKING: The King of Beetles.” Going farther, the Group is using entirely fresh concepts to create multi-faceted entertainment facilities. Drawing on the collective strengths of the SEGA SAMMY Group, plans call for creating new forms of entertainment, beginning with a project at the Minato Mirai 21 district of Yokohama. The Group will also explore opportunities in Asia and other overseas regions for creating entertainment facilities that accurately target local needs.

In the consumer business, the home videogame software market in Japan remains extremely challenging. However, market expansion is predicted because of new hardware products like portable game consoles. Growth is expected to continue overseas, particularly in the U.S. and Europe. To succeed in this environment, the Group’s central goal is strengthening the appeal of each of the products in its lineup. For this purpose, the Group is creating a more efficient and powerful management framework for new product development, such as by combining subsidiaries engaged in development programs with their parent companies. Another priority is reinforcing overseas new product development and sales capabilities, thereby making the Group more competitive outside Japan while quickly establishing a profitable base of operations.

#### **(4) Basic Stance on Corporate Governance and Progress on Related Measures**

##### (Basic stance on corporate governance)

The SEGA SAMMY Group places the highest priority on corporate governance in its conduct as a corporate citizen. Group efforts to enhance corporate governance are guided by three basic policies—achieving progressive improvements in efficiency, ensuring sound corporate management and boosting transparency.

##### Improving efficiency

Establishing processes that promote fast and accurate decision-making and that raise the efficiency of corporate actions are two key ways to maximize corporate value and performance. In so doing, the Group is dedicated to returning value to its shareholders and other stakeholders.

##### Ensuring sound management

In a business environment characterized by tumultuous change, SEGA SAMMY HOLDINGS must remain keenly aware of and properly manage the range of risks it faces, a point crucial to maximizing corporate value. Equally vital is ensuring sound corporate management by establishing a compliance framework that not only respects laws and regulations, but also ethical and social standards.

##### Boosting transparency

The importance of information disclosure by corporations is steadily growing. In this context, SEGA SAMMY HOLDINGS is committed to meeting its obligation to explain activities to shareholders and all other stakeholders. In parallel, the Company is deploying proactive IR activities as a means to raise management transparency and further upgrade its disclosure profile.

- ① The managerial and administrative organization of the SEGA SAMMY Group related to management decision-making, business execution and monitoring  
Status of other corporate governance systems

- (a) The “company with committees” versus the “corporate auditor” system and the appointment of outside directors and auditors

In preference to the “company with committees” system, SEGA SAMMY HOLDINGS has adopted the “corporate auditor system” for corporate governance. This is the same system that subsidiaries SEGA CORPORATION and Sammy Corporation have long relied upon to invigorate their respective management structures and systems, as well as to attain speedier, more accurate decision-making through the appointment of in-house executive officers with in-depth knowledge of Group business operations. The four corporate auditors on staff, meanwhile, are all from outside the Group and have no special conflicts of interest with SEGA SAMMY HOLDINGS. The Company has appointed no directors from outside the Group.

(b) Overview of governance organization

( i ) Board of Directors

In addition to extensive discussion of key issues, the six-member Board of Directors (as of March 31, 2005) uses regular monthly meetings and extraordinary sessions held as necessary in its drive to expedite decision-making and encourage management flexibility. In addressing important management topics and other issues facing each operating company, the Board formulates resolutions and reports on its own status and that of other governance organizations within the Company, with a view to maximizing Group profitability.

( ii ) Auditors Meeting

At regular monthly Auditors Meeting and extraordinary sessions held as needed, the four-member team of corporate auditors (as of March 31, 2005) debate issues related to proper audit execution. Issues discussed include audit policy, the methodology for investigating company operations and financial assets, and the assignment of specific auditing tasks, as well as in-depth analysis and investigation of concrete problems facing the SEGA SAMMY Group.

( iii ) Group Management Council

This council, comprising all directors from SEGA SAMMY HOLDINGS, SEGA CORPORATION and Sammy Corporation, is a forum for sharing information between Group companies and conducting extensive debate required to build Group-wide consensus. The council meets monthly to report on business status and deliberate key investment and strategy matters.

( iv ) Corporate Officer Liaison Committee

This committee is composed of directors from corporate divisions responsible for company management functions at SEGA CORPORATION and Sammy Corporation, and directors from SEGA SAMMY HOLDINGS. The committee meets twice monthly to coordinate and unify decisions made across the SEGA SAMMY Group.

( v ) Group Audit Committee

This committee is composed of directors, auditors and executive officers responsible for corporate operations drawn from SEGA SAMMY HOLDINGS, SEGA CORPORATION and Sammy Corporation. The committee is chaired by the president of SEGA SAMMY HOLDINGS to ensure that Group audits are conducted properly and with due efficiency. The committee holds meetings approximately once every three months to allow audit divisions to report to divisions involved in business execution on audit progress and results.

( vi ) SEGA SAMMY HOLDINGS Audit Liaison Committee

This committee serves as a forum for sharing information regarding recent trends at operating companies and subsidiaries, accounting issues, and other topics. Comprising the committee are independent auditor KPMG AZSA & Co., standing corporate auditors and officers in charge of corporate divisions, and members of senior management from SEGA SAMMY HOLDINGS, SEGA CORPORATION and Sammy Corporation. The committee meets once a month to give accountants, corporate auditors and officers in charge of operating companies a chance to exchange their respective viewpoints as they work to enhance accounting-side compliance.

( vii ) Group Audit Liaison Committee

This committee, formed by standing corporate auditors from each Group company, meets regularly to share information and exchange views. Sessions are also held as needed to examine the role of auditors in preventing corporate scandals and other themes.

( viii ) Auditor and Audit Office Liaison Committee

The goal of this committee, comprising standing corporate auditors from SEGA SAMMY HOLDINGS, SEGA CORPORATION and Sammy Corporation, and the Audit Office, is to foster mutual awareness and share information regarding specific audits through meetings held each month.



② Remuneration paid (during the fiscal year) to the directors, corporate auditors and the independent auditors

Remuneration paid by SEGA SAMMY HOLDINGS :

To the directors	¥89 million
To corporate auditors	¥6 million

Remuneration paid by SEGA SAMMY HOLDINGS :

Details of KPMG AZSA & Co., the independent auditor, are as follows:

Remuneration pursuant to Article 2-1 of Japan's CPA Law (Law No. 103, 1948)

¥10 million

Other Remuneration ¥4 million

③ Conflicts of interest (personal, financial, business, etc.) between the Company and its outside directors and corporate auditors

SEGA SAMMY HOLDINGS presently has no outside directors. With regard to the four outside corporate auditors, there are no transactions or conflicts of interest with the Company and Group, including transactions or conflicts of interest pertaining to relatives of the corporate auditors or companies with whom they are affiliated.

④ Progress on corporate governance measures during the most recent fiscal year

(a) Enhancing the strength and efficiency of internal audit functions

Prior to the management integration of SEGA CORPORATION and Sammy Corporation on October 1, 2004, the companies had a combined total of six dedicated staff members in their respective audit offices. At the time of the integration, the collective audit office staff for the Company, SEGA CORPORATION and Sammy Corporation was boosted to 12 members.

The audit offices of each company have now been consolidated at SEGA SAMMY HOLDINGS in order to swiftly establish a Group-wide framework for internal audits and carry out more effective audits.

In a bid to conduct proper audits more efficiently, the corporate auditors, Audit Office and the independent auditor, while retaining their autonomy, work in close communication with each other when performing audits.

Essentially, the close working relationship between the corporate auditors and Audit Office is complemented by the independent auditor. Pursuant to Article 8-1 of the Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-Gaisha (Joint-stock corporations), the independent auditor reports to the Auditors' Meeting any serious misconduct or violations of laws and company regulations discovered while monitoring directors in the execution of their duties. In accordance with Article 8-2 of the same law, corporate auditors can also request reports from the independent auditor whenever such are deemed vital to the performance of their duties.

Besides the sharing of information, the close relationships between these three auditing bodies intrinsically enable each to keep close watch on their respective actions, a fact that should ultimately hone audit precision.

(b) Protection of personal information

The Company protects personal information in accordance with guidelines stipulated by the Personal Information Protection Act and formulated by Japan's Ministry of Economy, Trade and Industry for the safeguarding of personal information in economic and industrial spheres. At Group companies, steps are taken at the organizational, individual, physical and technological level to ensure safe management of personal information. Moreover, Privacy Mark (personal information management) certification is being sought for Group companies with operations where demand is high for such credentials.

(c) Establishment of organization to promote Group governance

The existence of mechanisms that enable a range of different stakeholders to check whether a company is efficiently managed is implicit in any definition of corporate governance. In line with efforts to maximize corporate value, SEGA SAMMY HOLDINGS has examined the feasibility of installing a specialized department to analyze and investigate issues that could potentially impact on or conflict with the interests of its broad base of stakeholders. This culminated in the establishment of the CSR Promotion Department on April 1, 2005.

## **(5) Other Key Management Issues**

Subsidiary Sammy Corporation is currently the defendant in the following lawsuits alleging infringement on patents and other rights of third parties in conjunction with the manufacture and sale of pachislot machines.

In each case, the management of Sammy Corporation believes that no such infringement has occurred and will defend its position in court. However, depending on the final verdict, this litigation could have an adverse effect on the Group's operating results.

1. Request for ¥10,066 million in damages by Aruze Corp.  
On March 19, 2002, the Tokyo District Court ordered Sammy Corporation to pay ¥7,416 million to Aruze Corp. The verdict has been appealed to the Tokyo High Court.
2. Request for ¥1,430 million in damages by Aruze Corp.  
Suit was filed on March 26, 2001 at the Tokyo District Court. No verdict has yet been reached.
3. Request for ¥5,145 million in damages by Aruze Corp.  
Suit was filed on May 31, 2002 at the Tokyo District Court. No verdict has yet been reached.
4. Request for ¥11,424 million in damages by Abilit Corporation.  
Litigation was terminated on December 9, 2004 when Abilit Corporation. withdrew its claim associated with a lawsuit related to a utility model.

Items 1 and 2 involve the same patents. The court invalidated both cases on December 25, 2002 due to the judgment of the Japan Patent Office that the applicable patents were not valid. Following this action, Aruze Corp. on January 27, 2003 filed a lawsuit with the Tokyo High Court requesting that the invalidation judgment be reversed. The Tokyo High Court on February 21, 2005 dismissed the request of Aruze Corp. In response, Aruze Corp. appealed the verdict of the Tokyo High Court to the Japan Supreme Court on March 7, 2005. No verdict has yet been reached.

Concerning item 3 as well, the case was invalidated on November 17, 2003 because the Japan Patent Office reached the decision that the applicable patents were not valid. Following this action, Aruze Corp. on December 25, 2003 filed a lawsuit with the Tokyo High Court requesting that the invalidation judgment be reversed. The Tokyo High Court on February 15, 2005 dismissed the request of Aruze Corp. In response, Aruze Corp. appealed the verdict of the Tokyo High Court to the Japan Supreme Court on March 1, 2005. No verdict has yet been reached.

Concerning item 4 as well, the case was invalidated on June 5, 2003 because the Japan Patent Office reached the decision that the applicable utility model was not valid. Following this action, Abilit Corporation. (formerly Takasago Electric Industry Co., Ltd.) on July 10, 2003 filed a lawsuit with the Tokyo High Court requesting that the invalidation judgment be reversed. The Tokyo High Court on October 19, 2004 dismissed the request of Abilit Corporation. In response, Abilit Corporation. submitted a request to appeal the verdict of the Tokyo High Court to the Japan Supreme Court on November 5, 2004. The Supreme Court on March 17, 2005 reached the decision to refuse to hear this appeal, confirming the invalidation of the utility model.

In addition, SEGA CORPORATION and its group companies are defendants in the following litigation.

1. Request for damages for violation of fiduciary duty (United States)  
Conseco Health Insurance, a holder of the preferred stock of SEGA GAMEWORKS, L.L.C., a subsidiary of SEGA SAMMY HOLDINGS INC., has submitted a lawsuit in the state of California on March 12, 2004 requesting payment of more than US\$10 million for alleged damages resulting from SEGA GAMEWORKS, L.L.C. not respecting its rights as a shareholder. The defendants are SEGA Enterprises, Inc. (U.S.A.), in which Conseco Health Insurance is directly invested, and three SEGA GAMEWORKS, L.L.C. directors who have been supplied by SEGA CORPORATION. No verdict has yet been reached.
2. Patent infringement lawsuit (United States)  
SEGA Group company SEGA of America, Inc. and 12 other game software publishers have been named as defendants in a lawsuit filed on August 23, 2004 in the state of Texas alleging that the Nintendo Gamecube version of "Super Monkey Ball 2", a home videogame software product of SEGA CORPORATION, uses without permission the patented imaging technology of American Video Graphics. No verdict has yet been reached.

### **3. Operating Results and Financial Position**

#### **(1) Overview**

During the past fiscal year, the outlook for Japan's economy improved due to expectations for a continuation in a recovery led by private-sector demand. In particular, there was an upturn in employment statistics as corporate performance continued to improve because of a big increase in earnings and other factors.

In this environment, the pachislot and pachinko industry saw a rebound in investments by pachinko parlors as the number of large parlors continued to climb and several new pachinko machines became major hits. In July 2004, revisions were enacted to regulations pertaining to the law in Japan governing gaming machines that, among other things, tightened limitations on the gambling elements of pachinko and pachislot machines and strengthened measures to prevent improper use of machines. Although pachislot machine manufacturers have had difficulty producing models that conform to these new regulations, there are high expectations among customers that suppliers will quickly introduce innovative models that are even more entertaining. In the pachinko machine category, all manufacturers have been introducing new models that conform to the amended regulations and expanding pachinko machine lineups, a move that is putting an end to the prior trend of all companies supplying look-alike models. The collective result of all these trends is that Japan's pachislot and pachinko industry is entering a period of transition.

In the amusement machine sales industry, one notable trend in recent years has been the industry-leading sales of popular game machines that allow players to compete over networks and that tie in with card trading. Another notable trend is the strong performance in the market for family-oriented machines, such as prize crane machines and token-based machines for children. Furthermore, there is now widespread market acceptance of pachinko and pachislot machines that are redesigned for use in amusement centers. The result is an increasingly pronounced recovery fueled by rising demand for amusement products due to the large number of new, large-scale amusement center operations being opened in Japan.

In the amusement center operations industry, recent years have witnessed the closing of smaller facilities along with the opening of many large-scale facilities. At the same time, facilities for children in shopping centers and other locations continue to perform well. The primary source of growth is games for children that use cards and allow for head-to-head play.

In the home videogame software industry, the Tokyo Game Show 2004, held in September 2004, attracted a record number of participating companies. As markets mature for established home videogame consoles, manufacturers have been making headlines by introducing a number of new portable game consoles since late in 2004. As a result, there are rising hopes that this industry, which some feared had begun to stagnate, will be reenergized.

In this environment, SEGA CORPORATION and Sammy Corporation on October 1, 2004 integrated their operations for the purpose of building an even more powerful base as a comprehensive global entertainment organization. A holding company called SEGA SAMMY HOLDINGS INC. was established with the aim of maximizing corporate value, giving the two companies a new beginning as the SEGA SAMMY Group.

To make even more effective use of its resources, the new Group plans to reorganize the operations of Sammy Corporation, SEGA CORPORATION and other subsidiaries into the following categories: pachislot and pachinko machines; amusement machine sales; amusement center operations; consumer business; and other businesses. In conjunction with this realignment, Sammy Corporation in the past fiscal year began to specialize in pachislot and pachinko machines and SEGA CORPORATION began assembling a business structure to specialize in the amusement machine sales, amusement center operations and consumer businesses. To accomplish this, the following actions were taken.

<Business reorganization actions during the past fiscal year>

- ① To capture synergies quickly from this integration, all shares of Sammy Amusement Service Co., Ltd. and APANDA Inc. held by Sammy Corporation were transferred to SEGA CORPORATION on December 1, 2004.
- ② To strengthen the pachinko parlor design business, Sammy Corporation on January 28, 2005 purchased all shares of Sammy Design Co., Ltd. that were previously held by Shuko Electronics Co., Ltd. In addition, Sammy Corporation purchased all outstanding shares of AGORA DESIGN Co., Ltd., a company engaged in the design of pachinko parlor, etc.

- ③ All shares of Sammy USA Corporation and Sammy Europe Limited were transferred to SEGA HOLDINGS U.S.A., Inc. and SEGA Europe Ltd. respectively on February 25, 2005.
- ④ All shares of Sammy Studios, Inc., which was a subsidiary of Sammy Holding Co., Inc., were sold to the managers of Sammy Holding Co., Inc. on February 28, 2005. The purposes are to realign development resources and unify development and sales strategies in order to focus resources on growing market categories and to raise productivity in the consumer business.

On January 21, 2005, SEGA SAMMY ASEET MANAGEMENT INC. was established for the purpose of more efficiency to utilize cash flows and diversifying risks associated with investments in new facilities and other development projects.

As part of actions to realign the overseas game software development framework, all shares of Visual Concepts Entertainment, Inc. along with all sports game titles and intellectual asset rights were transferred to Take-Two Interactive Software, Inc. on January 24, 2005. In addition, in the consumer business, The Creative Assembly Ltd. joined into the SEGA SAMMY Group on March 9, 2005 for the purpose to supply competitive titles and powerful brands used in Europe and the U.S. This provides an operating base with the potential for achieving dramatic growth in the product lineup and sales volume.

In the pachislot machine category of the pachislot and pachinko machine business, which is a core business of the entire Group, “Hokuto No Ken” achieved record-setting sales volume by generating a strong response from users. This accomplishment enabled SEGA SAMMY Group to retain its leading share of the pachislot market. In the pachinko machine category as well, the Group’s first model conforming to the flesh standards, “CR-Hakushon Daimao 2,” was very successful, demonstrating the effectiveness of actions taken to reinforce this business to respond to changes in regulations.

In the amusement center operations business, the Group established an entirely new genre by launching a kids card game called “MUSHIKING: The King of Beetles” that combines a rental amusement device with the sale of trading cards. Along with the sale of MUSHIKING merchandise, this genre is making a consistent and substantial contribution to the Group’s sales and earnings.

Due to the above items, consolidated net sales totaled ¥515,668 million, and operating income was ¥105,089 million. Extraordinary expenses of ¥20,054 million resulting from business reorganizations and other actions associated with the integration that formed the SEGA SAMMY Group, consolidated net income was ¥50,574 million.

Note that the first fiscal year for consolidation reporting purposes covers the period from April 1, 2004 to March 31, 2005, whereas the first business year on an operating basis was the six-month period that ended on March 31, 2005.

Results by business segment were as follows.

### 《Pachislot and Pachinko Machines》

In the pachislot machine business, “Hokuto No Ken” has become an extremely long-term hit product following its introduction in the prior fiscal year. In the past fiscal year alone, sales of this model totaled 357 thousand units, raising cumulative sales to 617 thousand units, more than any other pachislot machine in the history of the industry.

The Group also recorded strong sales of prize merchandise using Hokuto No Ken characters at pachinko parlors due to the introduction of many original products based on innovative ideas. In RODEO-brand products, key products include “Umematsu Paradise” incorporating the new Dynamite Wave game cabinet; “Kaiji,” the pachislot industry’s first 13-inch LCD model; and “Onimusha 3,” which is based on the hit software game “Onimusha 3.” As a result, pachislot machine sales rose to 677 thousand units compared with 591 thousand units in the prior fiscal year.

In the pachinko machine business, the Group introduced its first model conforming to the amended regulations, “CR Hakushon Daimao 2,” a unit featuring a large, 10.4-inch LCD screen along with outstanding game play. In all, 8 new models were released during the past fiscal year, demonstrating the benefits of new product development initiatives. However, the start of sales of some models has been pushed back to the current fiscal year reflecting marketing strategies. As a result, pachinko machine sales totaled 233 thousand units compared with 248 thousand units in the prior fiscal year.

In pachinko ball and token dispensing machines and other peripheral businesses, as well as the pachinko parlor design business, activities were focused on building a base for taking businesses in new directions by bolstering sales activities through closer cooperation among Group members.

Due to the above items, net sales in this segment totaled ¥280,109 million and operating income was ¥103,930 million.

#### Main Pachislot Machines and Units sold

Variety	(Brand name)	Units sold ( : Thousand )
Hokuto No Ken	(Sammy)	357
Popeye	(Sammy)	60
Onimusha 3	(Rodeo)	69
Umematsu Paradise	(Rodeo)	37
Gamera High Grade Vision	(Rodeo)	31
Kaiji	(Rodeo)	28
Others	(OEM, etc)	95
Total		677

#### Main Pachinko Machines and Unit Sold

Variety	Units sold ( : Thousand )
CR-Hakushon Daimao 2 series	60
CR-Popeye series	42
CR-Oreno Sora series	30
CR-Rinda No Dounimotomaranai series	26
Others	75
Total	233

### 《Amusement machine sales》

In this segment, the primary source of sales growth was token games that are based on pachislot machines customized for use in amusement center operations. Also contributing to sales growth was strong sales of core products like “UFO Catcher 7” due to the large number of new large and midsize amusement arcades. Moreover, two newly introduced products, “Quest of D” and “Sangokushi Taisen,” posted strong sales. Overall, game machines with networking and card-trading functions have created a new genre in the amusement machine sales category. In prize sales as well, the year saw a strong performance due to the benefits of collaboration with other companies and the popularity of MUSHIKING merchandise.

Due to the above items, net sales in this segment totaled ¥63,304 million and operating income was ¥7,423 million.

### 《Amusement center operations》

Although the Summer Olympics and unusually hot weather in Japan held back results in the fiscal year’s first half, this segment posted strong results from UFO Catcher and other prize machines. However, overall performance for the fiscal year was weak because no major new products were unveiled during the second half.

“MUSHIKING: The King of Beetles” has achieved more than 150 million cumulative card sales since the sale of cards for this game started, making a significant contribution to earnings. Furthermore, the concept for this game was used to develop and begin sales of a successful game called “Oshare Majo Love and Berry.” This game targets elementary school-age girls, a market segment that is difficult to target with conventional amusement center operations and machines. In July 2004, Sammy Ebisu Plaza opened to gain a foothold in the market for multi-faceted entertainment facilities.

Due to the above items, net sales in this segment totaled ¥83,193 million and operating income was ¥5,472 million. During the fiscal year, 24 locations were opened and 42 closed, resulting in 477 locations at the end of the fiscal year.

### 《Consumer Business》

During the past fiscal year, home videogame software sales totaled 11,790 thousand copies from 84 titles. There were 30 titles and 3,380 thousand copies in Japan, 26 titles and 4,530 thousand copies in the U.S. and 28 titles and 3,870 thousand copies in Europe.

In Japan, cumulative sales of “Jissen Pachislot Hisshoho! Hokuto No Ken” passed the one million mark. Also contributing to sales were “J. LEAGUE Pro Soccer Club wo Tsukurou! ’04”, “Shining Force NEO”, the latest addition to the Shining Series, and other titles.

Outside Japan, the major contributors to sales were “Sonic Mega Collection Plus” in the U.S. and “Football Manager” in Europe. Furthermore, membership increased for services that provide content for mobile phones, notably “Sammy 777 Town”, a mobile phone pachislot website, and a website that supplies ring tones with excellent sound quality.

Due to the above items, net sales in this segment increased to ¥65,341 million. However, the segment recorded an operating loss of ¥8,809 million due to the postponement of the launch of certain home videogame titles to the current fiscal year, an increase in R&D expenditures and other items.

### 《Others》

This segment mainly represents the planning, design, management, installation and other services involving displays, commercial facilities and other facilities. Segment sales totaled ¥23,719 million but there was an operating loss of ¥541 million.

### (2) Financial Position

Operating activities provided net cash of ¥77,762 million, and came mainly from income before income taxes and minority interests of ¥89,482 million.

Investing activities used net cash of ¥39,617 million. Cash was primarily used for purchases of property, plant and equipment related to the amusement center operations business.

Financing activities used net cash of ¥25,702 million, mostly for the redemption of bonds due that accompanied the business integration of SEGA CORPORATION and Sammy Corporation.

As a result of the above, cash and cash equivalents stood at ¥151,253 million as of March 31, 2005.

### **(3) Outlook for the March 2006 Fiscal Year**

The pachislot and pachinko industry saw a wave of new pachinko machines compatible with revised gaming machine regulations take the market by storm during the year under review. This trend is likely to continue in the fiscal year ending March 31, 2006, as replacement demand for new pachinko machines remains at a high level. For pachislot machines, although no new varieties compatible with revised industry regulations emerged during the year, a host of new pachislot machine varieties are predicted to hit the market during the current business term as pachislot manufacturers aggressively develop new products.

In amusement machine sales and the amusement center operations sector, performance should remain robust thanks to a growing numbers of multifaceted commercial facilities and stand-alone locations, supporting operations in existing markets.

In Japan, strong results are forecast for the consumer business industry as the uptake of new portable game consoles that debuted during the year under review and the anticipated emergence of new hardware in the current year revitalize the market. Market demand for software in North America and Europe is also expected to be robust.

In this context, the SEGA SAMMY Group, in its pachislot and pachinko business, is seeking to launch highly distinctive pachislot machines leveraging its advanced capabilities in technology development, planning and visual expression. Based on this approach, the Group is targeting unit sales of 580,000 pachislot machines. In pachinko machines, the Group is aiming to sell 430,000 units through the active development and launch of strategic products. Beyond core products, the Group will also focus on strengthening its peripheral equipment and amusement hall design operations to become, in every respect, a full-service amusement hall producer.

In the amusement machine sales business, armed with the full lineup of products gained from the business integration of SEGA CORPORATION and Sammy Corporation, the Group will leverage operations that combine popular favorites and new products to drive growth.

In the amusement center operations business, the Group will work to maintain its strong performance by developing Festival Walk Soga and other new multifaceted commercial facilities, in addition to renovating centers to reinvigorate existing operations. By promoting the spread of games such as “MUSHIKING: The King of Beetles” and “Oshare Majo Love and Berry,” the Group is also looking to boost trading card sales.

In the consumer business, the Group pushed decisively forward with realigning operations in the year under review. In addition to absorbing a software development subsidiary into the Company, the Group encouraged development specialization by product genre, sold off overseas subsidiaries, and acquired overseas software development companies possessing prominent IP assets. Moreover, on April 1, 2005, development and operational divisions related to the consumer business were merged to establish the CS Management Division. This division has unified development and sales activities, and is enabling the management of schedules, costs, quality and other aspects of title projects. It is also clarifying accountability in business operations. Through these initiatives, the Group is targeting total software sales of 15 million units, comprising 4.7 million units in Asia, including Japan, 4.7 million in the United States and 5.6 million units in Europe for the March 2006 fiscal year.

As a result of the above, the SEGA SAMMY Group is projecting consolidated net sales of ¥567 billion (up 10.0% year on year), operating income of ¥100 billion (down 4.8%), and net income of ¥56 billion (up 10.7%). The foregoing projections are based on the following major exchange rates: ¥105 to US\$1, ¥190 to £1 and ¥135 to 1 euro.

#### **[Caution with Regard to Operating Results Outlook]**

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

# CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED BALANCE SHEET  
AS OF MARCH 31, 2005

(Unit : Millions of Yen)

	Current year (As of March 31, 2005)	
	Amount	Percentage
( A s s e t s )		%
I Current Assets		
Cash and deposits	152,277	
Notes and accounts receivable - trade	76,922	
Allowance for doubtful accounts - current	(1,891)	
Inventories	32,001	
Deferred taxes - current	6,023	
Others	17,128	
Total current assets	282,461	64.3
II Fixed assets		
Tangible fixed assets		
Buildings and structures	27,556	
Rental equipment for amusement arcades	13,871	
Land	22,257	
Construction in progress	1,220	
Others	8,282	
Total tangible fixed assets	73,187	16.7
Intangible fixed assets		
Goodwill	3,404	
Others	6,636	
Total intangible fixed assets	10,040	2.3
Investments and other assets		
Investment securities	43,775	
Long - term loan receivable	3,828	
Lease deposits	19,117	
Deferred taxes non - current	499	
Others	15,623	
Allowance for doubtful accounts non - current	(9,544)	
Total investments and other assets	73,300	16.7
Total fixed assets	156,529	35.7
Total assets	438,991	100.0



SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED BALANCE SHEET  
AS OF MARCH 31, 2005

(Unit : Millions of Yen)

	Current year (As of March 31, 2005)	
	Amount	Percentage
( L i a b i l i t i e s )		%
I Current liabilities		
Short - term bank loans and current portion of long - term debt	10,023	
Notes and accounts payable - trade	57,139	
Redeemable bond within a year	3,278	
Income taxes payable	12,507	
Accrued employees' bonuses	1,722	
Others	25,596	
Total current liabilities	110,268	25.1
II Non-current liabilities		
Long - term debt, less current portion	11,118	
Severance and retirement allowance	7,198	
Bonds payable	25,788	
Corporate bond with stock acquisition rights	5,322	
Deferred taxes liabilities non - current	5,399	
Others	6,437	
Total non - current liabilities	61,265	14.0
Total liabilities	171,533	39.1
Minority interest	8,503	1.9
( S h a r e h o l d e r s ' e q u i t y )		
Common stock	27,291	6.2
Capital surplus	176,302	40.2
Retained earnings	133,760	30.5
Adjustment on revaluation of Land	(6,541)	(1.5)
Net unrealized holding gains on securities	10,792	2.4
Foreign currency translation adjustments	(9,425)	(2.1)
	332,179	75.7
Treasury stock	(73,225)	(16.7)
Total shareholders' equity	258,954	59.0
Total liabilities and shareholders' equity	438,991	100.0

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED MARCH 31, 2005

(Unit : Millions of Yen)

	Current year From April 1,2004 To March 31,2005	
	Amount	Percentage
Net sales	515,668	100.0
Cost of sales	304,109	59.0
Gross profit	211,558	41.0
Selling, general and administrative expenses	106,469	20.6
Operating income	105,089	20.4
Other income (expenses) :		
Interest and dividend income	759	
Gain on change in equity of a subsidiary	2,251	
Reversal of allowance for doubtful receivables	1,325	
Gain on sale of discontinued operation	742	
Interest expenses	(803)	
Loss on disposal of fixed assets	(907)	
Loss on sale of fixed assets	(768)	
Loss from revaluation of fixed assets	(325)	
Loss from revaluation of investment securities	(1,040)	
Loss of business reorganization	(2,944)	
Loss from redemption of bonds	(10,606)	
Others	(3,290)	
Sub total	(15,607)	(3.0)
Income before income taxes and minority interest	89,482	17.4
Income taxes - current	32,437	6.3
- deferred	5,651	1.1
Total income taxes	38,089	7.4
Net income before minority interests	51,393	10.0
Minority interests	819	0.2
Net income	50,574	9.8

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENT OF RETAINED EARNINGS  
FOR THE YEAR ENDED MARCH 31, 2005  
(Unit : Millions of Yen)

	Current year From April 1,2004 To March 31,2005
	Amount
(Capital surplus)	
I Capital surplus at the beginning of year Beginning balance	154,340
II Increase	
1. Issuance of new stock of wholly owned subsidiary before the stocks transfer	20,132
2. Gain on sale of treasury stock	3
3. Gain on sale of treasury stock of wholly owned subsidiary before the stocks transfer	1,826
III Capital surplus at the end of year	176,302
(Retained earnings)	
I Retained earnings at the beginning of year Beginning balance	101,837
II Increase	
1. Net income	50,574
2. Increase amount due to consolidation scope change	1,910
3. Increase by collection of adjustment on revaluation of Land	276
III Decrease	
1. Dividends of wholly owned subsidiary before the stock transfer	(7,432)
2. Bonuses to directors and corporate auditors	(525)
3. Loss of disposal of treasury stock of wholly owned subsidiary before the stocks transfer	(12,880)
IV Retained earnings at the end of year	133,760

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2005

(Unit : Millions of Yen)

	Current year From April 1,2004 To March 31,2005
	Amount
Cash flows from operating activities:	
Income before income taxes and minority interests	89,482
Depreciation and amortization	17,743
Amount of transfer of equipment by amusement center operation business	(4,981)
Interest and dividend income	(759)
Interest expenses	803
Amortization of goodwill	720
Gain on change in equity of a subsidiary	(2,251)
Loss on disposal/sales of fixed assets	1,354
Loss from revaluation of fixed assets	325
Loss on sale and revaluation of investment securities	1,413
Gain on investment in partnerships	(1,066)
Loss of business reorganization	2,944
Loss from redemption of bonds	10,606
Equity in earnings of affiliates	(25)
Others	(6,913)
Changes in assets and liabilities:	
Decrease in notes and accounts receivable	34,138
Increase in inventories	(3,947)
Decrease in notes and accounts payable	(12,091)
Increase in other liabilities	2,075
Sub-total	129,569
Receipt of interest and dividend income	718
Payment of interest expenses	(735)
Payment of income taxes	(51,791)
Net cash provided by operating activities	77,762

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2005

(Unit : Millions of Yen)

	Current year From April 1,2004 To March 31,2005
	Amount
Cash flows from investing activities:	
Increase in time deposit - net	(3,500)
Payment for purchase of tangible fixed assets	(24,416)
Proceeds from sales of tangible fixed assets	1,045
Payment for purchase of intangible fixed assets	(1,826)
Proceeds from sales of intangible fixed assets	1,828
Payment for purchase of investment securities	(2,897)
Proceeds from sales of investment securities	179
Payment for investment in partnerships	(2,060)
Proceeds from distribution of investment in partnerships	696
Payment for acquisition of consolidated subsidiaries - net	(2,677)
Proceeds from sales of consolidated subsidiaries - net	160
Payment for acquisition of shares of affiliated companies	(2,234)
Increase in loans receivable – net	(1,789)
Lease deposits	(3,652)
Refund of deposits	2,265
Others	(738)
Net cash used in investing activities	(39,617)
Cash flows from financing activities:	
Decrease in short - term bank loans	(2,540)
Proceeds from issuance of long - term debt	1,707
Payment of long - term debt	(7,781)
Proceeds from issuance of bonds	193
Payment of redemption of bonds	(21,265)
Proceeds from issuance of stock to minority shareholders	4,956
Cash dividends paid for minority shareholders	(81)
Cash dividends paid of wholly owned subsidiary before the stock transfer	(7,432)
Payment for purchase of treasury stock	(444)
Proceeds from exercise of stock acquisition rights of wholly owned subsidiary before the stock transfer	7,261
Others	(276)
Net cash used in financing activities	(25,702)
Effect of exchange rate changes on cash and cash equivalents	53
Net increase in cash and cash equivalents	12,495
Cash and cash equivalents at beginning of year	138,758
Cash and cash equivalents at end of year	151,253

## SEGMENT INFORMATION

### A. Operations by product

Current period (From April 1, 2004 to March 31,2005)

(Unit: Millions of yen)

	Pachinko Pachislot	Amusement machine sales	Amusement center operations	C o n s u m e r b u s i n e s s	Others	Total	Corporate and eliminations	Consolidated
Net sales -								
(1) Outside customers	280,109	63,304	83,193	65,341	23,719	515,668	—	515,668
(2) Inter segment	32	16,535	125	115	746	17,555	(17,555)	—
Total	280,141	79,840	83,319	65,456	24,466	533,223	(17,555)	515,668
Cost and expenses	176,210	72,416	77,847	74,266	25,007	425,748	(15,169)	410,578
Operating income (loss)	103,930	7,423	5,472	(8,809)	(541)	107,475	(2,386)	105,089
Assets	114,063	35,190	74,988	54,493	19,627	298,364	140,626	438,991
Depreciation	2,388	957	11,919	2,094	346	17,706	24	17,730
Capital expenditure	2,842	1,227	24,886	2,222	638	31,817	651	32,468

(Note)

1. The Company has 5 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
  - (1) Pachinko and pachislot … Development, manufacture and sell Pachinko and pachislot machines and design parlors
  - (2) Amusement machine sales … Development, manufacture and sell game machines used in an amusement arcades
  - (3) Amusement center operations … Development, operation, rent and maintenance of Amusement center
  - (4) Consumer business … Development and sell home video game software,  
Development, manufacture, and sell of toys  
Project and production of entertainment contents through cellular phone etc.
  - (5) Others … Project, design, management and construction of commercial establishment, etc.
3. General corporate expenses of ¥ 2,181 million, which mainly consist of expenses incurred by the submitting company's administrative department, are included in "Corporate and eliminations."
4. Corporate assets of ¥ 144,739 million, which mainly consist of SEGA CORPORATION's and Sammy Corporation's cash and cash equivalent and the Company's assets, are included in "Corporate and elimination."

### B. Geographical segment information

Geographical segment information was not presented as the sales and assets of consolidated domestic subsidiaries for the year ended March 31,2005 exceed 90% of consolidated net sales and assets

### C. Overseas sales

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

(Reference)

**SEGA SAMMY HOLDINGS INC.**  
(Portion of Sammy Corporation)  
**CONSOLIDATED FINANCIAL STATEMENTS**

Date of the Board of Directors meeting for the period closing                      May 24,2005

**1.Consolidated Operating Results for Year Ended March 31, 2005**

**(1) RESULTS OF CONSOLIDATED OPERATIONS**

	Net sales		Operating income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For Year ended March 31, 2005	327,560	30.4	98,957	38.1	48,576	50.9
For Year ended March 31, 2004	251,226	51.5	71,676	38.6	32,196	39.6

	Net income per share	Net income per share (Diluted)	Return on equity	Operating income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
For Year ended March 31, 2005	578.84	568.46	32.8	33.4	30.2
For Year ended March 31, 2004	424.68	417.97	36.1	34.8	28.5

- (Note) ① Equity in net earnings of affiliated companies for the fiscal years 2004 and 2003 were negative ¥1,443 million and negative ¥1,835 million, respectively.
- ② Weighted average number of shares outstanding for the fiscal years 2004 and 2003 were 83,320,165 shares and 74,782,783 shares, respectively.
- ③ There was no significant change in the accounting policy between the years presented.
- ④ Percentages for net sales, operating income and net income represent change from the prior-year.

**(2) CONSOLIDATED FINANCIAL POSITION**

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Millions of Yen	Millions of Yen	%	Yen
March 31, 2005	293,143	183,263	62.5	2,160.63
March 31, 2004	299,272	112,987	37.8	1,390.74

(Note) The total numbers of shares outstanding were 84,658,430 shares and 80,927,879 shares at March 31, 2004 and 2003, respectively.

**(3) CONSOLIDATED CASH FLOWS**

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at the year-end
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
For Year ended March 31, 2005	62,250	(16,648)	(42,644)	69,850
For Year ended March 31, 2004	36,581	(57,368)	61,128	66,838

- (4) Scope of consolidation and equity method application  
The Company consolidated all of its 14 subsidiaries and applied the equity method to 1 affiliated company.
- (5) Change in scope of consolidation and equity method application  
Starting from this fiscal year, 1 of the Company was newly consolidated as subsidiaries and 8 companies as consolidated subsidiary were excluded. 1 affiliated company consolidated was excluded.

**2. Projection for Consolidated Result for Fiscal Year 2005 (April 1, 2005 ~ March 31, 2006)**

Please refer to the FLASH REPORT of Consolidated Financial Statement for Fiscal year 2004 of SEGA SAMMY HOLDINGS INC.

# CONSOLIDATED FINANCIAL STATEMENTS

## SAMMY CORPORATION CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year (As of March 31, 2005)		Prior year (As of March 31, 2004)		Change
	Amount	Percentage	Amount	Percentage	Amount
( A s s e t s )		%		%	
I Current Assets					
Cash and deposits	69,875		66,863		3,012
Notes and accounts receivable - trade	58,921		94,119		(35,197)
Allowance for doubtful accounts - current	(282)		(651)		369
Parent company stock	71,652		—		71,652
Inventories	21,892		19,812		2,080
Deferred taxes - current	404		10,020		(9,616)
Deposit for lawsuit	5,000		5,000		—
Others	4,167		4,917		(750)
Total current assets	231,632	79.0	200,081	66.9	31,550
II Fixed assets					
Tangible fixed assets					
Buildings and structures	10,058		6,455		3,602
Machinery and equipments	2,011		2,353		(341)
Tools, furniture and fixtures	2,350		2,325		24
Rental equipment for amusement arcades	—		1,199		(1,199)
Land	13,272		4,835		8,437
Construction in progress	130		5,830		(5,700)
Total tangible fixed assets	27,823	9.5	22,999	7.7	4,824
Intangible fixed assets					
Software	1,185		1,279		(93)
Goodwill	476		1,384		(908)
Others	1,488		1,063		425
Total intangible fixed assets	3,151	1.1	3,727	1.2	(576)
Investments and other assets					
Investment securities	20,873		64,497		(43,624)
Lease deposits	2,390		1,420		969
Deferred taxes non - current	221		214		6
Others	8,246		7,237		1,009
Allowance for doubtful accounts non-current	(1,194)		(905)		(288)
Total investments and other assets	30,537	10.4	72,464	24.2	(41,927)
Total fixed assets	61,511	21.0	99,191	33.1	(37,679)
Total assets	293,143	100.0	299,272	100.0	(6,129)



SAMMY CORPORATION  
CONSOLIDATED BALANCE SHEET  
AS OF MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year (As of March 31, 2005)		Prior year (As of March 31, 2004)		Change
	Amount	Percentage	Amount	Percentage	Amount
( Liabilities )		%		%	
I Current liabilities					
Short - term bank loans and current portion of long - term debt	4,495		6,362		(1,866)
Notes and accounts payable - trade	41,412		55,885		(14,472)
Redeemable bond within a year	328		180		148
Accounts payable - other	3,886		11,301		(7,415)
Income taxes payable	11,468		30,691		(19,223)
Accrued employees' bonuses	1,292		1,403		(111)
Deferred tax liabilities-current	5,533		—		5,533
Others	5,631		7,218		(1,586)
Total current liabilities	74,048	25.3	113,042	37.8	(38,993)
II Non-current liabilities					
Long-term debt, less current portion	1,215		3,114		(1,898)
Severance and retirement allowance	2,230		2,120		109
Bonds payable	15,243		55,395		(40,152)
Deferred tax liabilities non-current	4,188		3,891		297
Others	5,232		3,838		1,393
Total non - current liabilities	28,110	9.5	68,360	22.8	(40,249)
Total liabilities	102,159	34.8	181,403	60.6	(79,243)
Minority interest	7,720	2.7	4,882	1.6	2,837
( Shareholders' equity )					
Common stock	18,221	6.2	15,374	5.1	2,847
Capital surplus	21,037	7.2	16,364	5.5	4,673
Retained earnings	119,502	40.8	86,378	28.9	33,123
Net unrealized holding gains on securities	24,569	8.3	10,352	3.5	14,217
Foreign currency translation adjustments	(67)	(0.0)	32	0.0	(100)
	183,263	62.5	128,502	43.0	54,761
Treasury stock	—	—	(15,515)	(5.2)	15,515
Total shareholders' equity	183,263	62.5	112,987	37.8	70,276
Total liabilities and shareholders' equity	293,143	100.0	299,272	100.0	(6,129)

SAMMY CORPORATION  
CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year		Prior year		Change
	From April 1,2004 To March 31,2005		From April 1,2003 To March 31,2004		
	Amount	Percentage	Amount	Percentage	Amount
Net sales	327,560	100.0	251,226	100.0	76,333
Cost of sales	163,103	49.8	123,738	49.3	39,364
Gross profit	164,457	50.2	127,488	50.7	36,969
Selling, general and administrative expenses	65,499	20.0	55,811	22.2	9,688
Operating income	98,957	30.2	71,676	28.5	27,280
Other income (expenses) :					
Interest and dividend income	332		235		96
Gain on change in equity of a subsidiary	2,803		5		2,797
Gain (Loss) on sale of fixed assets - net	(36)		5		(41)
Interest expenses	(257)		(298)		40
Exchange loss	(2)		(229)		227
Expense proceeded form issuance of Bond	(6)		(643)		637
Equity losses from affiliates	(1,443)		(1,835)		392
Loss on disposal of fixed assets	(275)		(237)		(37)
Loss from revaluation of fixed assets	(325)		—		(325)
Loss of business reorganization	(2,554)		—		(2,554)
Loss from redemption of bonds	(9,383)		—		(9,383)
Others	(1,533)		(738)		(794)
Sub total	(12,681)	(3.9)	(3,737)	(1.5)	(8,943)
Income before income taxes and minority interests	86,275	26.3	67,938	27.0	18,336
Income taxes - current	31,665	9.7	42,369	16.9	(10,703)
- deferred	5,379	1.6	(6,989)	(2.8)	12,369
Total income taxes	37,045	11.3	35,379	14.1	1,665
Net income before minority interests	49,230	15.0	32,559	12.9	16,670
Minority interests	653	0.2	363	0.1	290
Net income	48,576	14.8	32,196	12.8	16,380

SAMMY CORPORATION  
CONSOLIDATED STATEMENT OF RETAINED EARNINGS  
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year From April 1,2004 To March 31,2005	Prior year From April 1,2003 To March 31,2004	Change
	Amount	Amount	Amount
(Capital surplus)			
I Capital surplus at the beginning of year Beginning balance	16,364	9,011	7,352
II Increase			
1. Issuance of new stock	2,847	7,352	(4,505)
2. Gain on sale of treasury stock	1,826	—	1,826
III Capital surplus at the end of year	21,037	16,364	4,673
(Retained earnings)			
I Retained earnings at the beginning of year Beginning balance	86,378	60,023	26,355
II Increase			
1. Net income	48,576	32,196	16,380
2. Increase due to change of consolidation scope	2,772	—	2,772
III Decrease			
1. Dividends	(7,432)	(5,486)	(1,946)
2. Bonuses to directors and corporate auditors	(437)	(333)	(103)
3. Loss of disposal of treasury stock	(10,355)	(21)	(10,334)
IV Retained earnings at the end of year	119,502	86,378	33,123

SAMMY CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year	Prior year
	From April 1,2004 To March 31,2005	From April 1,2003 To March 31,2004
	Amount	Amount
Cash flows from operating activities:		
Income before income taxes and minority interests	86,275	67,938
Depreciation and amortization	3,699	3,715
Interest and dividend income	(332)	(235)
Interest expenses	257	298
Loss on sales and revaluation of investment securities	419	123
Amortization of good will	732	720
Loss of business reorganization	2,554	—
Loss on disposal/sales of tangible fixed assets - net	311	232
Loss from revaluation of fixed assets	325	—
Gain on change in equity of a subsidiary	(2,803)	(5)
Equity losses from affiliates	1,443	1,835
Loss from redemption of bonds	9,383	—
Others	(3,484)	303
Changes in assets and liabilities:		
Decrease (Increase) in notes and accounts receivable	34,667	(58,305)
Increase in inventories	(2,527)	(1,618)
Increase (Decrease) in notes and accounts payable	(14,287)	36,623
Decrease (Increase) in other assets	746	(1,632)
Increase (Decrease) in other liabilities	(3,928)	12,121
Sub-total	113,452	62,116
Receipt of interest and dividend income	238	253
Payment of interest expenses	(206)	(263)
Payment of income taxes	(51,234)	(25,524)
Net cash provided by operating activities	62,250	36,581

SAMMY CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year	Prior year
	From April 1,2004 To March 31,2005	From April 1,2003 To March 31,2004
	Amount	Amount
Cash flows from investing activities:		
Payment for purchase of tangible fixed assets	(10,733)	(8,200)
Proceeds from sales of tangible fixed assets	559	235
Payment for purchase of intangible fixed assets	(1,033)	(877)
Payment for acquisition of shares of subsidiaries and affiliated companies	(317)	(45,442)
Proceeds from sales of investment securities	5,004	116
Payment for purchase of investment securities	(6,919)	(1,119)
Proceeds from distribution of investment securities	87	—
Proceeds form acquisition of consolidated subsidiaries	—	313
Payment for sales of the consolidated subsidiaries	(659)	—
Decrease (Increase) in loans receivable - net	(376)	902
Increase in time deposit - net	(1,000)	(3,000)
Decrease in other investments - net	(1,259)	(296)
Net cash used in investing activities	(16,648)	(57,368)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	986	2,150
Payments of long-term debt	(2,386)	(1,151)
Increase (Decrease) in short - term bank loans	(1,768)	(920)
Proceeds from issuance of bonds	193	54,456
Payment of redemption of bonds	(40,103)	(75)
Payment for purchase of treasury stock	(234)	(3,466)
Proceeds from sale of treasury stock	—	14,823
Proceeds from exercise of stock acquisition rights	3,370	—
Proceeds from issuance of stock to minority shareholders	4,831	210
Cash dividends paid	(7,514)	(5,512)
Others	(18)	615
Net cash used in financing activities	(42,644)	61,128
Effect of exchange rate changes on cash and cash equivalents	55	(70)
Net increase in cash and cash equivalents	3,012	40,270
Cash and cash equivalents at beginning of year	66,838	26,567
Cash and cash equivalents at end of year	69,850	66,838

## SEGMENT INFORMATION

### Operations by product

Current period (From April 1, 2004 to March 31,2005)

(Unit: Millions of yen)

	Pachinko Pachislot	Amusement equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales -							
(1) Outside customers	280,117	9,458	6,067	31,916	327,560	—	327,560
(2) Inter segment	24	100	356	544	1,026	(1,026)	—
Total	280,141	9,559	6,424	32,461	328,587	(1,026)	372,560
Cost and expenses	169,683	10,911	9,099	31,240	220,934	7,668	228,602
Operating income (loss)	110,458	(1,351)	(2,674)	1,220	107,652	(8,695)	98,957
Assets	108,082	7,278	3,652	37,968	156,982	136,161	293,143
Depreciation	2,075	183	293	833	3,386	313	3,699
Capital expenditure	2,022	497	535	8,716	11,772	820	12,592

- (Note) 1. The Company has 4 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
- (1) Pachinko and pachislot ... Manufacture and sell Pachinko and pachislot machines and design parlors
  - (2) Amusement equipment ... Manufacture, sell and rent game machines used in an amusement arcades
  - (3) Home video game software ... Develop and sell home video game software
  - (4) Others ... Operation of amusement arcades Management of amusement arcades, Produce and sell music CD, Development of computer graphics, License Management, Internet Music Contents provider, Development business of Commercial facilities and Rent business on real estate, Design and Construction of Commercial arcades Etc, Information Provider business
3. General corporate expenses of ¥ 8,721 million, which mainly consist of expenses incurred by the management fees to parent company and the parent company's administrative department, are included in "Corporate and eliminations."
4. Corporate assets of ¥ 136,967 million, which mainly consist of cash and cash equivalent and corporate properties, are included in "Corporate and elimination."

### Operations by product

Current period (From April 1, 2003 to March 31,2004)

(Unit: Millions of yen)

	Pachinko Pachislot	Amusement equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales -							
(1) Outside customers	226,624	7,779	4,864	11,958	251,226	—	251,226
(2) Inter segment	70	2	321	65	460	(460)	—
Total	226,695	7,782	5,185	12,023	251,687	(460)	251,226
Cost and expenses	142,097	9,433	10,234	12,475	174,240	5,309	179,550
Operating income (loss)	84,597	(1,651)	(5,048)	(451)	77,447	(5,770)	71,676
Assets	144,369	56,694	5,868	30,937	237,871	61,401	299,272
Depreciation	1,959	626	214	654	3,454	261	3,715
Capital expenditure	2,709	844	608	6,638	10,801	638	11,440

- (Note) 1. The Company has 4 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
- (1) Pachinko and pachislot ... Manufacture and sell Pachinko and pachislot machines and design parlors
  - (2) Amusement equipment ... Manufacture, sell and rent game machines used in an amusement arcades
  - (3) Home video game software ... Develop and sell home video game software
  - (4) Others ... Operation of amusement arcades Management of amusement arcades, Produce and sell music CD, Development of computer graphics, License Management, Internet Music Contents provider, Development business of Commercial facilities and Rent business on real estate, Design and Construction of Commercial arcades Etc, Information Provider business
3. General corporate expenses of ¥ 5,770 million, which mainly consist of expenses incurred by the parent company's administrative department, are included in "Corporate and eliminations."
4. Corporate assets of ¥ 61,401 million, which mainly consist of cash and cash equivalent and corporate properties, are included in "Corporate and elimination."

(Reference)

**SEGA SAMMY HOLDINGS INC.**  
(Portion of SEGA CORPORATION)  
**CONSOLIDATED FINANCIAL STATEMENTS**

Date of the Board of Directors meeting for the period closing May 24, 2005

**1. Consolidated Operating Results for Year Ended March 31, 2005**

(2) RESULTS OF CONSOLIDATED OPERATIONS

	Net sales		Operating income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For Year ended March 31, 2005	194,947	1.9	6,341	(56.2)	1,767	(79.8)
For Year ended March 31, 2004	191,257	(3.0)	14,480	55.8	8,760	186.8

	Net income per share	Net income per share (Diluted)	Return on equity	Operating income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
For Year ended March 31, 2005	10.70	10.62	1.5	3.2	3.2
For Year ended March 31, 2004	55.96	50.70	9.5	7.0	7.6

- (Note) ① Equity in net earnings of affiliated companies for the fiscal years 2004 and 2003 were ¥119 million and ¥142 million, respectively.
- ② Weighted average number of shares outstanding for the fiscal years 2004 and 2003 were 164,972,669 shares and 155,038,766 shares, respectively.
- ③ There was no significant change in the accounting policy between the years presented.
- ④ Percentages for net sales, operating income and net income represent change from the prior-year.

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Millions of Yen	Millions of Yen	%	Yen
March 31, 2005	206,555	131,670	63.8	752.64
March 31, 2004	189,055	97,962	51.8	631.88

(Note) The total numbers of shares outstanding were 174,945,700 shares and 155,034,254 shares at March 31, 2004 and 2003, respectively.

(3) CONSOLIDATED CASH FLOWS

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at the year-end
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
For Year ended March 31, 2005	17,343	(22,200)	(22,659)	44,469
For Year ended March 31, 2004	21,583	(9,095)	(41,399)	71,922

- (4) Scope of consolidation and equity method application  
The Company consolidated all of its 44 subsidiaries and applied the equity method to 5 affiliated companies.
- (5) Change in scope of consolidation and equity method application  
Starting from this fiscal year, 11 of the Companies were newly consolidated as subsidiaries and 9 companies as consolidated subsidiary was excluded. 1 affiliated company using the equity method was newly consolidated.

**2. Projection for Consolidated Result for Fiscal Year 2005 (April 1, 2005 ~ March 31, 2006)**

Please refer to the FLASH REPORT of Consolidated Financial Statement for Fiscal year 2004 of SEGA SAMMY HOLDINGS INC.

# CONSOLIDATED FINANCIAL STATEMENTS

## SEGA CORPORATION CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year (As of March 31, 2005)		Prior year (As of March 31, 2004)		Change
	Amount	Percentage	Amount	Percentage	Amount
( A s s e t s )		%		%	
I Current Assets					
Cash and deposits	45,468		71,927		(26,459)
Notes and accounts receivable - trade	20,253		19,436		817
Allowance for doubtful accounts - current	(1,614)		(1,421)		(192)
Parent company stock	29,449		—		29,449
Inventories	10,108		8,865		1,242
Prepaid expense	2,002		1,386		616
Others	6,881		5,961		919
Total current assets	112,551	54.5	106,156	56.1	6,394
II Fixed assets					
Tangible fixed assets					
Buildings and structures	17,218		17,254		(35)
Rental equipment for amusement arcades	14,325		10,165		4,160
Land	8,984		9,336		(351)
Others	4,695		3,838		856
Total tangible fixed assets	45,224	21.9	40,595	21.5	4,629
Intangible fixed assets					
Total intangible fixed assets	6,890	3.3	4,508	2.4	2,381
Investments and other assets					
Investment securities	21,240		13,358		7,881
Long-term loan receivable	3,374		2,745		629
Lease deposits	16,499		15,988		510
Others	9,118		14,743		(5,624)
Allowance for doubtful accounts non - current	(8,352)		(9,180)		828
Total investments and other assets	41,880	20.3	37,655	19.9	4,224
Total fixed assets	93,996	45.5	82,760	43.8	11,235
III Deferred charge					
Expense proceeded from issuance of Bond	8		139		(130)
Total deferred charge	8	0.0	139	0.1	(130)
Total assets	206,555	100.0	189,055	100.0	17,499



SEGA CORPORATION  
CONSOLIDATED BALANCE SHEET  
AS OF MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year (As of March 31, 2005)		Prior year (As of March 31, 2004)		Change
	Amount	Percentage	Amount	Percentage	Amount
( L i a b i l i t i e s )					
I Current liabilities		%		%	
Short - term bank loans and current portion of long - term debt	5,942		5,713		229
Notes and accounts payable-trade	17,965		14,373		3,592
Redeemable bond within a year	2,950		2,950		—
Redeemable convertible bond within a year	—		10,080		(10,080)
Deferred tax liabilities - current	892		—		892
Accrued expenses	11,332		10,050		1,281
Income taxes payable	899		1,186		(287)
Others	4,900		4,100		799
Total current liabilities	44,883	21.7	48,454	25.6	(3,571)
II Non-current liabilities					
Long-term debt, less current portion	11,133		14,579		(3,446)
Severance and retirement allowance	4,948		4,715		233
Bonds payable	10,545		20,301		(9,756)
Deferred tax liabilities non - current	1,332		1,348		(16)
Others	1,205		1,155		49
Total non - current liabilities	29,165	14.1	42,100	22.3	(12,935)
Total liabilities	74,048	35.8	90,555	47.9	(16,507)
Minority interest	836	0.4	537	0.3	299
( S h a r e h o l d e r s ' e q u i t y )					
Common stock	60,000	29.1	127,582	67.5	(67,582)
Capital surplus	65,943	31.9	2,171	1.1	63,772
Retained earnings	18,701	9.1	15,459	8.2	3,241
Adjustment on revaluation of Land	(6,541)	(3.2)	(6,265)	(3.3)	(276)
Net unrealized holding gains on securities	2,927	1.4	1,488	0.8	1,438
Foreign currency translation adjustments	(9,360)	(4.5)	(8,825)	(4.7)	(535)
	131,670	63.8	131,611	69.6	58
Treasury stock	—	—	(33,649)	(17.8)	33,649
Total shareholders' equity	131,670	63.8	97,962	51.8	33,708
Total liabilities and shareholders' equity	206,555	100.0	189,055	100.0	17,499

SEGA CORPORATION  
CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year From April 1,2004 To March 31,2005		Prior year From April 1,2003 To March 31,2004		Change
	Amount	Percentage	Amount	Percentage	Amount
Net sales	194,947	100.0	191,257	100.0	3,689
Cost of sales	146,969	75.4	138,687	72.5	8,282
Gross profit	47,978	24.6	52,570	27.5	(4,592)
Selling, general and administrative expenses	41,637	21.4	38,090	19.9	3,546
Operating income	6,341	3.2	14,480	7.6	(8,138)
Other income (expenses) :					
Interest income	235		111		124
Gain (Loss) on donated assets from Mr. Okawa	1,123		(196)		1,320
Gain on sale of discontinued operation	742		—		742
Interest expenses	(557)		(621)		63
Gain (Loss) on sale of investment securities	(363)		571		(934)
Loss on disposal of fixed assets	(632)		(411)		(220)
Gain (Loss) on sale of fixed assets	(411)		1,010		(1,421)
Loss from revaluation of investment securities	(428)		(1,527)		1,098
Loss from prematurity redemption of convertible bonds	(1,260)		—		(1,260)
Settlement fee	(1,477)		—		(1,477)
Special retirement allowance	(499)		—		(499)
Others	345		(3,073)		3,418
Sub total	(3,184)	(1.6)	(4,138)	(2.2)	954
Income before income taxes and minority interests	3,157	1.6	10,341	5.4	(7,184)
Income taxes - current	634	0.3	2,169	1.1	(1,534)
- deferred	567	0.3	(220)	(0.1)	788
Total income taxes	1,202	0.6	1,949	1.0	(746)
Net income before minority interests	1,954	1.0	8,392	4.4	(6,437)
Minority interests	186	0.1	(368)	(0.2)	555
Net income	1,767	0.9	8,760	4.6	(6,992)

SEGA CORPORATION  
CONSOLIDATED STATEMENT OF RETAINED EARNINGS  
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year From April 1,2004 To March 31,2005	Prior year From April 1,2003 To March 31,2004
	Amount	Amount
(Capital surplus)		
I Capital surplus at the beginning of year Beginning balance	2,171	2,171
II Increase		
1. Issuance of new stock	0	—
2. Increase by reduction of capital	63,772	—
III Capital surplus at the end of year	65,943	2,171
(Retained earnings)		
I Retained earnings at the beginning of year Beginning balance	15,459	6,816
II Increase		
1. Net income	1,767	8,760
2. Increase by collection of adjustment on revaluation of Land	276	0
3. Increase by reduction of capital	3,810	—
III Decrease		
1. Bonuses to directors and corporate auditors	(88)	(118)
2. Loss of disposal of treasury stock	(2,524)	—
IV Retained earnings at the end of year	18,701	15,459

SEGA CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year	Prior year
	From April 1,2004 To March 31,2005	From April 1,2003 To March 31,2004
	Amount	Amount
Cash flows from operating activities:		
Income before income taxes and minority interests	3,157	10,341
Depreciation and amortization	14,521	12,729
Amount of transfer by amusement center operation business	(4,355)	(3,931)
Interest expenses	557	621
(Gain) Loss on disposal/sales of fixed assets	1,043	(598)
Gain on sale of discontinued operation	(742)	—
(Gain) Loss on donated assets from Mr. Okawa	(1,123)	196
Settlement fee	1,477	—
Loss from prematurity redemption of convertible bonds	1,260	—
Others	2,202	5,051
Changes in assets and liabilities:		
Increase in notes and accounts receivable	(1,321)	(1,716)
Increase in inventories	(1,420)	(408)
Increase in notes and accounts payable	2,908	305
Increase in Accrued expenses	1,008	350
Sub-total	19,174	22,942
Receipt of Interest and dividend income	287	164
Payment of interest expenses	(541)	(632)
Payment of special retirement allowance	(499)	—
Payment of settlement fee	(1,477)	—
Proceeds from disposal of donated assets from Mr. Okawa	957	1,518
Payment of income taxes	(556)	(2,408)
Net cash provided by operating activities	17,343	21,583

SEGA CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

(Unit : Millions of Yen)

	Current year From April 1,2004 To March 31,2005	Prior year From April 1,2003 To March 31,2004
	Amount	Amount
Cash flows from investing activities:		
Increase in time deposit - net	(2,500)	—
Payment for purchase of tangible fixed assets	(14,581)	(9,230)
Proceeds from sales of tangible fixed assets	666	1,834
Payment for purchase of intangible fixed assets	(755)	(1,006)
Proceeds from sales of intangible fixed assets	1,828	0
Payment for purchase of investment securities	(2,742)	(2,085)
Proceeds from sales of investment securities	30	1,221
Payment for purchase of subsidiaries stocks	(2,552)	—
Proceeds from sales of subsidiaries stocks	692	—
Decrease (Increase) in loans receivable - net	(1,565)	83
Lease deposits	(2,760)	(1,334)
Refund of deposits	2,177	1,710
Others	(137)	(288)
Net cash used in investing activities	(22,200)	(9,095)
Cash flows from financing activities:		
Decrease in short - term bank loans	(732)	(708)
Proceeds from issuance of long - term debt	721	300
Payments of long-term debt	(5,542)	(4,968)
Payment of redemption of bonds	(2,950)	(2,465)
Payment of purchase of convertible bonds	(8,069)	(34,410)
Payment of redemption of convertible bonds	(10,080)	—
Proceeds from exercise of stock acquisition rights	3,891	—
Others	101	854
Net cash used in financing activities	(22,659)	(41,399)
Effect of exchange rate changes on cash and cash equivalents	63	(528)
Net decrease in cash and cash equivalents	(27,453)	(29,438)
Cash and cash equivalents at beginning of year	71,922	101,361
Cash and cash equivalents at end of year	44,469	71,922

## SEGMENT INFORMATION

### Operations by product

Current period (From April 1, 2004 to March 31,2005)

(Unit: Millions of yen)

	Amusement machine sales	Amusement center operations	Consumer business	Total	Corporate and elimination	Consolidated
Net sales -						
(1) Outside customers	57,947	78,975	58,023	194,947	—	194,947
(2) Inter segment	14,981	125	36	15,142	(15,142)	—
Total	72,928	79,100	58,060	210,090	(15,142)	194,947
Cost and expenses	62,601	73,456	66,326	202,384	(13,777)	188,606
Operating income (loss)	10,327	5,644	(8,265)	7,706	(1,365)	6,341
Assets	24,306	60,859	37,025	122,190	84,364	206,555
Depreciation	1,090	11,490	1,786	14,367	210	14,578
Capital expenditure	1,076	16,964	1,575	19,616	154	19,771

- (Note) 1. The Company has 3 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
- (1) Amusement machine sales … Manufacture and sell arcade video games, medal games, prize game, vending machines, change machines and IC boards
  - (2) Amusement center operation … Operating amusement centers
  - (3) Consumer business … Manufacture and sell home video game, toys and educational equipment, etc.
3. General corporate expenses of ¥ 986 million, which mainly consist of expenses incurred by the management fees to parent company and the parent company's administrative department, are included in "Corporate and eliminations."
4. Corporate assets of ¥ 84,638 million, which mainly consist of cash and cash equivalent, parent company stock and corporate properties, are included in "Corporate and elimination."

### Operations by product

Current period (From April 1, 2003 to March 31,2004)

(Unit: Millions of yen)

	Amusement machine sales	Amusement center operations	Consumer business	Total	Corporate and elimination	Consolidated
Net sales -						
(1) Outside customers	60,365	69,860	61,032	191,257	—	191,257
(2) Inter segment	14,272	231	88	14,592	(14,592)	—
Total	74,637	70,091	61,121	205,850	(14,592)	191,257
Cost and 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
Assets	25,227	54,194	34,474	113,896	75,158	189,055
Depreciation	850	9,183	2,370	12,404	927	13,331
Capital expenditure	738	10,981	2,009	13,729	420	14,149

- (Note) 1. The Company has 3 operating segments based on its management control structure, and nature of products and market.
2. Main products and line of business by segment
- (1) Amusement machine sales … Manufacture and sell arcade video games, medal games, prize game, vending machines, change machines and IC boards
  - (2) Amusement center operation … Operating amusement centers
  - (3) Consumer business … Manufacture and sell home video game, toys and educational equipment, etc.
3. Corporate assets of ¥ 76,941 million, which mainly consist of cash and cash equivalent and corporate properties, are included in "Corporate and elimination."