

NEWS RELEASE

SEGA CORPORATION

November 20, 2001

SEGA CORPORATION
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2002

	Interim Period Ended September 30, 2001 Millions of yen	Previous Interim Period Ended September 30, 2000 Millions of yen	Previous Fiscal Year Ended March 31, 2001 Millions of yen
<u>INCOME STATEMENTS</u>			
Net sales	97,792	119,457	242,913
Cost of sales	67,820	106,876	218,235
SG&A expenses	24,192	40,734	76,696
<u>Operating income (loss)</u>	<u>5,779</u>	<u>(28,153)</u>	<u>(52,018)</u>
Other income	2,017	4,018	10,933
Other expenses	2,662	5,200	11,651
<u>Recurring income (loss)</u>	<u>5,134</u>	<u>(29,334)</u>	<u>(52,736)</u>
Extraordinary gain	5,128	70	78,380
Extraordinary loss	28,779	1,209	81,137
<u>Loss before income taxes</u>	<u>(18,516)</u>	<u>(30,473)</u>	<u>(55,493)</u>
Income taxes	2,251	4,031	(792)
Minority interests in earnings of Consolidated Subsidiaries	103	(2,049)	(2,971)
<u>Net loss for the period</u>	<u>(20,871)</u>	<u>(32,456)</u>	<u>(51,729)</u>
Net loss per share (yen)	(141.60)	(211.63)	(341.58)

	Interim Period As of September 30, 2001 Millions of yen	Previous Interim Period As of September 30, 2000 Millions of yen	Previous Fiscal Year As of March 31, 2001 Millions of yen
<u>BALANCE SHEETS</u>			
<u>ASSETS</u>			
Total current assets	126,083	190,886	96,853
Property and equipment	61,593	73,127	66,997
Intangible fixed assets	11,627	12,562	11,236
Investments and advances	79,241	66,323	109,368
Deferred assets	1,184	376	10
<u>Total assets</u>	<u>279,730</u>	<u>343,276</u>	<u>284,465</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Total current liabilities	127,182	115,626	155,106
Total long-term liabilities	66,636	90,335	36,878
Minority interests in consolidated subsidiaries	881	(3,480)	793
Shareholders' equity	85,029	140,794	91,687
<u>Total liabilities and shareholders' equity</u>	<u>279,730</u>	<u>343,276</u>	<u>284,465</u>

	Interim Period Ended September 30, 2001 Millions of yen	Previous Interim Period Ended September 30, 2000 Millions of yen	Previous Fiscal Year Ended March 31, 2001 Millions of yen
<u>NET SALES BY SEGMENT</u>			
Amusement machine sales	35,823	29,557	62,225
Amusement center operations	34,970	38,435	74,657
Consumer products	37,010	51,796	115,753
Eliminations	(10,011)	(331)	(9,722)
<u>Total</u>	<u>97,792</u>	<u>119,457</u>	<u>242,913</u>

Note: The above financial information was prepared using accounting principles generally accepted in Japan.

SEGA CORPORATION
November 20, 2001

SEGA CORPORATION
INTERIM NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING MARCH 31, 2002

	Interim Period Ended September 30, 2001 Millions of yen	Previous Interim Period Ended September 30, 2000 Millions of yen	Previous Fiscal Year Ended March 31, 2001 Millions of yen
<u>INCOME STATEMENTS</u>			
Net sales	50,125	127,188	192,713
Cost of sales	39,638	124,278	185,573
SG&A expenses	8,870	16,499	27,908
<u>Operating income (loss)</u>	1,615	(13,589)	(20,768)
Other income	2,528	2,283	8,236
Other expenses	2,534	2,629	5,230
<u>Recurring income (loss)</u>	1,609	(13,935)	(17,762)
Extraordinary gain	4,073	-	77,947
Extraordinary loss	33,526	3,426	146,264
<u>Loss before income taxes</u>	(27,842)	(17,361)	(86,080)
Income taxes	80	620	1,160
<u>Net loss for the period</u>	(27,922)	(17,982)	(87,240)
Net loss per share (yen)	(189.15)	(117.25)	(559.05)

	Interim Period As of September 30, 2001 Millions of yen	Previous Interim Period As of September 30, 2000 Millions of yen	Previous Fiscal Year As of March 31, 2001 Millions of yen
<u>BALANCE SHEETS</u>			
<u>ASSETS</u>			
Total current assets	91,529	178,964	105,884
Property and equipment	37,772	67,044	41,917
Intangible fixed assets	4,343	5,601	3,871
Investments and advances	104,603	110,750	143,808
Deferred assets	1,184	376	10
<u>Total assets</u>	239,433	362,737	295,492
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Total current liabilities	97,534	92,138	133,431
Total long-term liabilities	64,452	80,351	34,991
Shareholders' equity	77,446	190,248	127,069
<u>Total liabilities and shareholders' equity</u>	239,433	362,737	295,492

Note: The above financial information was prepared using accounting principles generally accepted in Japan.

Management Policy

1. Principles of Corporate Management

Based on its structural reform plan, implemented on April 19, 2001, SEGA CORPORATION has been steadily reforming its financial structure and business operations.

In its Consumer Products and Amusement businesses, SEGA has consistently created innovative amusement and, in its entertainment-related business operations, has firmly established a strong brand image and market position over Japan, the United States, and Europe. However, during fiscal 2001, ended March 31, 2001, SEGA discontinued the manufacturing of home video game consoles. From fiscal 2002, we have been working to establish a highly profitable framework for our Content business under the SEGA brand and assume greater market leadership in our Amusement business.

By firmly implementing its structural reform plan, SEGA will strive to strengthen its developmental abilities in its Consumer Products Sales, capture worldwide markets in its Amusement Machine Sales, create new arenas for amusement, and expand its markets in its Amusement Center Operations, thereby strengthening its corporate structure, enhancing its profitability, and bolstering its financial positions.

2. Profit-Sharing Policy

SEGA considers providing its shareholders with a return on their investment to be one of its most crucial policies and places proactive profit sharing among its top management responsibilities. Our basic policy in this regard is to give full attention to our financial position and the future development of our business activities, set aside an appropriate amount of retained earnings, and then return a portion of profits to our shareholders based on performance.

3. Medium- and Long-Term Management Strategy and Focus Issues

By focusing on its Content and Amusement businesses, SEGA has converted the configuration of its business. We have also revised our organization and business activities, and, accordingly, our revenue structure has steadily become more profitable.

Looking ahead, to become the world's top content provider, we will accelerate our structural reform and implement the following strategies aimed at obtaining new customers and improving productivity.

(1) Consumer Product Sales Strategy

SEGA is already a powerful brand name, but, to become the world's top content provider, it must carefully consider the market characteristics of each software content genre in Japan, North America, and Europe; optimize its title selection to suit each hardware manufacturer's platform; and implement the following strategies. We will also work to enhance our developmental strength toward the fulfillment of these strategies.

1. Strengthening SEGA SPORTS titles
2. Intensifying major franchises
3. Reproducing vintage brands
4. Creating brand-new titles
5. Strengthening characters and licensing

Furthermore, leveraging the expertise obtained through our Dreamcast operations, we will outline a clear business model for open device- and open ISP-based network game operations, through which we will pursue new venues of profitability. We will also work to improve our operations in the PC software and mobile content segments by developing our business model, upgrading our contents, and introducing new services.

(2) Amusement Business Strategy

Having affirmed its status as the leader in the amusement industry, SEGA will propel the industry to further growth by exercising its philosophy of creating new forms of recreation and stimulating the entire industry.

In Amusement Machine Sales, SEGA will expand its market share by providing a full product lineup, spanning from mainstay items to the latest new products for every product category, including video games, medal games, prize machines, and sticker-printing machines. We will also contribute to the growth of the industry by designating “Communication” as the key word for the next generation of amusement and continuing to supply revolutionary new products that surpass “Derby Owners Club” and “Star Horse”.

Overseas as well, SEGA will gain further shares of the world’s markets by making every effort to reduce the costs of machines and circuit boards and providing outstanding SEGA products to the hitherto untapped markets of the street operations found in the United States and Europe.

In Amusement Center Operations, we will expand our market share by augmenting our amusement franchises to meet the needs of every kind of customer from all generations, including the family entertainment market segment, and make further efforts to provide full product lineups for our amusement centers. We will also enhance the efficiency of amusement center management, introduce contents based on new technologies and new services that make use of the Internet, and attract new customers with the quality and breadth of our services.

(3) New Business

SEGA possesses a wealth of technologies and expertise, accumulated over its many years of experience. Leveraging these assets, we will strive to create and commercialize new business models. As quoted by the newly launched business models of Animanium and Driving Simulator, we are stimulating existing business operations by interlinking different business divisions and establishing new sources of revenue.

(4) Group Companies

A number of companies that are part of the SEGA Group have outstanding content assets and expertise. We have been working to clarify and reorganize the roles and objectives of each company, and we will clearly identify growth strategies for the core companies and strive to enhance corporate value for the SEGA Group.

4. Initiatives for the Streamlining of Management Structure

Although we have adopted an ‘Executive Officer System’, we will make further reforms to our management structure to more clearly delineate the responsibilities of management and operations so as to improve the speed of decision making and other aspects of corporate governance.

Furthermore, in the interest of achieving more timely disclosure of information, we have also newly established a department that specializes in investor relations, to which we have been allocating talented staff members.

Operating Results

1. Interim Period Review

Overview of Business Results

SEGA is implementing structural reforms that will enable it to evolve from a company that manufactured and sold hardware to a company that develops software and provides services. By changing the composition of its business through these reforms, the Company has been able to achieve a substantial improvement in profitability compared with the same period of the previous year.

Consolidated net sales for the interim period amounted to ¥97.8 billion, down 18.1%, compared to the same half of the previous term. Domestic sales declined 9.8%, to ¥72.3 billion, and overseas sales shrank 35.2%, to ¥25.5 billion. The Company also recorded extraordinary profit of ¥5.1 billion, ¥2.5 billion from the sale of investment securities and ¥1.7 billion in the form of a bequeathal from the personal assets of the late former Chairman and President Isao Okawa.

On the other hand, SEGA recorded extraordinary losses of ¥28.8 billion, owing to ¥2.7 billion in loss on the sale or disposal of property, plant and equipment, and ¥24.9 billion in losses from the devaluation of investment securities due to a decline in the stock market, which were composed primarily of securities received gratis from the late Isao Okawa for the last fiscal year.

As a result, SEGA recorded operating income of ¥5.8 billion (a loss of ¥28.2 billion in the same half of the previous term), recurring profit of ¥5.1 billion (a loss of ¥29.3 billion), and a net loss of ¥20.9 billion (a loss of ¥32.5 billion).

As part of its financial reforms, in an effort to improve and streamline its balance sheets, the Company has been undertaking the steady liquidation of assets by selling off investment securities and office and staff welfare facilities as well as reconsidering its affiliates and investments in other companies. SEGA's financial position is strengthened steadily now that the Company's credit lines for bank loan is secured.

In the interim period under review, the Company recognized net losses stemming from its ongoing reforms as well as the extraordinary valuation loss on investment securities. SEGA regrets that given this situation, it is compelled to forgo the payment of interim dividends this term.

Performance by Business Segment

Amusement Machine Sales

Net sales: ¥25,816 million (down 11.7% from the prior interim period)

Operating profit: ¥2,031 million

Healthy sales were recorded in Japan by supplying all types of products, including new and standard products as well as prize items.

Particularly in the video game category, our new product “Virtua Fighter 4,” launched in August 2001, made a significant contribution to earnings. “Virtua Fighter 4” takes amusement to new heights of user communication by applying such cutting-edge new elements as access cards and mobile communications technologies.

In response to the second wave of popularity for sticker-printing machines, known as “Print Club” machines, SEGA has reentered this market with “Gekiteki Bisha” and gained substantial market share. In the prize and toy novelties segment, thanks to our appealing character novelties and collaboration with other companies, we expect to outperform targets substantially for this segment.

In overseas sales, although robust performance has been seen in Europe and Asia, the result in the United States fell short of target figures, suffering from losses due to weak market investment in arcades which have been a favorite with SEGA.

Amusement Center Operations

Net Sales: ¥34,970 million (down 9.0% from the prior interim period)

Operating profit: ¥5,603 million

The Company’s approximately 510 amusement centers (with a combined floor space of some 400,000 square meters) comprise primarily medium- and large-scale operations, the majority of which are situated in highly

advantageous locations and wield superior competitive strength, thereby having brought favorable results to the Company.

SEGA aimed for interim sales in its existing amusement centers of 96.8% compared with the same period in the previous fiscal year, and sales were on target for the most part between April and July 2001. Sales for August amounted to 103% that of the previous year and climbed to 106% for September, thanks to the introduction of several popular new video game products, including “Virtua Fighter 4.”

The Company is enhancing the ability of its amusement centers to attract patrons through operational expertise that strengthens user support and high-value-added services, including such new endeavors as “SEGA Mobile Friends,” a mobile phone membership system that enables one-to-one marketing.

SEGA has continued its rationalization efforts with regard to operating costs, and this has contributed to an improvement in profitability.

Consumer Product Sales

Net Sales: ¥37,006 million (down 28.5% from the prior interim period)

Operating loss: ¥870 million

With regard to the sale of inventory resulting from the discontinuation of Dreamcast production, SEGA strove to deliver Dreamcast hardware units to end users at low prices and by packing them with software. As a result, sales volumes of Dreamcast home video game consoles amounted to 130,000 hardware units in Japan and 530,000 hardware units in the United States during the interim term.

The remaining Dreamcast inventory totaled 40,000 units in Japan and 230,000 units for the United States. We anticipate the sale of all remaining units by the holiday season as initially planned.

Sales for the Company’s Dreamcast softwares have remained brisk on the whole despite the harsh conditions resulting from the withdrawal from Dreamcast production, thanks to the strong performance of such powerful titles as “Sonic Adventure 2,” “Sakura Wars 3,” “Crazy Taxi 2,” “18 Wheeler,” “World Series Baseball 2K2,” “NFL 2K2,” “Phantasy Star Online ver. 2,” and “Shenmue II.”

In spite of terminating the sale of some titles in an effort to maintain the

brand name, sales volumes of new titles for Dreamcast software amounted to 14 titles and 820,000 units (against a target of 15 titles and 780,000 units) in Japan, 13 titles and 1.76 million units (against a target of 15 titles and 1.75 million units) in United States, and 7 titles and 470,000 units (against a target of 10 titles and 500,000 units) in Europe, totaling 34 titles and 3.05 million units (against a target of 40 titles and 3.03 million).

In addition, in the United States, sales volumes of low-priced versions of popular software already in circulation, the “All-Star” titles, amounted to 1.4 million units in combination with Dreamcast hardware (against a target of 960,000 units).

Sales of third-party software were 2.76 million units (against a target of 1.63 million), resulting in a healthy performance for Dreamcast business during the interim period.

In software for other manufacturers’ platforms, SEGA launched “Chu Chu Rocket” in the United States as a title for Nintendo’s Game Boy Advance and “Super Monkey Ball” as a title for Nintendo GAMECUBE in Japan.

As for the Company’s network businesses in Europe and the United States, ISP business are being downsized in line with the Company’s structural reform plans.

2. Outlook for Full Fiscal Year

The economic outlook for the days and months ahead is far from optimistic, with the slump in stock markets, the economy further suppressed by deflation, and the negative impact of the terrorist attacks in the United States on the global economy. However, SEGA will continue to push ahead with its structure reform plans to become “the world’s top content provider.”

In domestic amusement machine sales, SEGA expects to further expand its market share in the second half of the fiscal year through the introduction of revolutionary new products, benefiting from the recovery of the video game market.

In overseas sales, the slump in capital investment in the United States is expected to continue into the second half, and declines in both sales and profit are suffered.

SEGA’s efforts in amusement center operations will go beyond the mere

introduction of new products. The Company expects the superiority and operational strength of its medium- and large-scale centers and enhanced user services—including the development of family entertainment and the introduction of SEGA Mobile Friends—to be highly effective and foresees a continued strong performance in the second half.

In consumer product sales, SEGA is targeting the introduction of 60 new titles for other manufacturers' platforms and 24 ones for Dreamcast that it has perfected through dedicated development.

Consequently, for fiscal 2002, ending March 31, 2002, SEGA foresees consolidated net sales of ¥200.0 billion, consolidated recurring profit of ¥10 billion, and a consolidated net loss of ¥15 billion.