SEGA Enterprises, Ltd., was founded in 1951 and incorporated in 1960. Our comprehensive businesses—consumer products, amusement center operations and amusement machines—have made us a world leader in high-tech entertainment. To create the products, technologies and interactive entertainment of tomorrow, we are focusing our creative energies in multimedia and high-tech amusement theme parks.

SEGA Enterprises, Ltd. Annual Report 1995

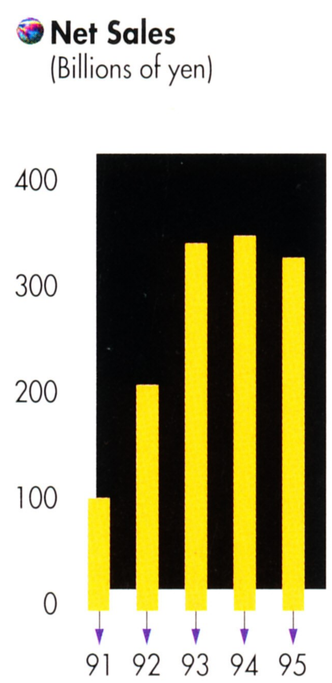
Year ended March 31, 1995

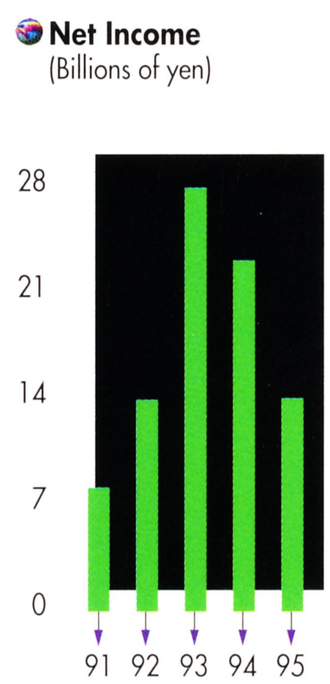
SEGA™

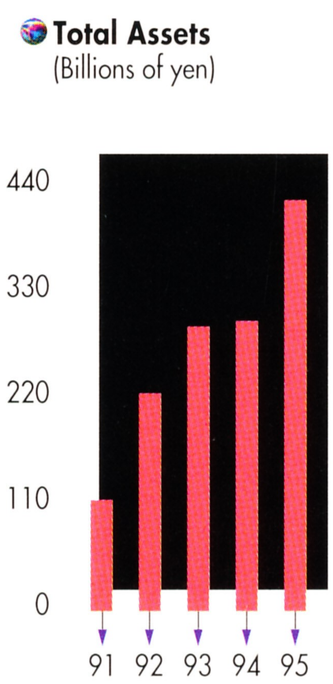
FINANCIAL HIGHLIGHTS

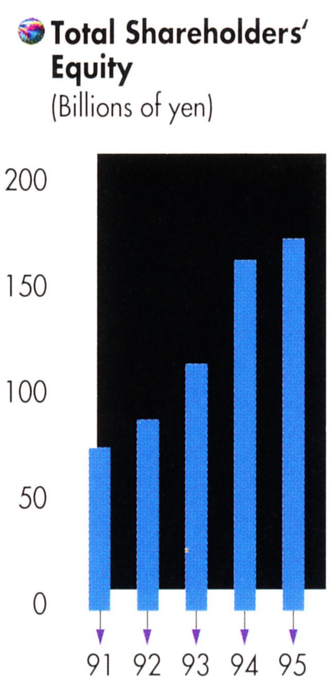
SEGA Enterprises, Ltd. For the years ended March 31, 1993, 1994 and 1995	Millions of yen			Thousands of U.S. dollars
	1993	1994	**1995**	**1995**
Net sales	¥346,937	¥354,032	**¥333,323**	**$3,730,531**
Net income	28,017	23,223	**14,085**	**157,639**
Total assets	295,153	300,968	**426,457**	**4,772,882**
Total shareholders' equity	116,511	165,469	**175,641**	**1,965,764**
	Yen			U.S. dollars
Net income per share	¥ 288.7	¥ 232.8	**¥ 140.2**	**$ 1.57**
Cash dividends per share (adjusted)	25.0	38.0	**38.0**	**0.43**
Shareholders' equity per share	1,200.4	1,646.7	**1,747.9**	**19.56**

Notes: 1. All dollar figures refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥89.35=US$1.
2. Net income per share figures have been computed using the weighted average number of shares outstanding during each period, retroactively adjusted to reflect a stock split at a rate of 1 into 1.2 on May 20, 1993.









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DAYTONA USA:	© SEGA 1994, 1995
SEGA RALLY CHAMPIONSHIP:	© SEGA 1995

YOKOHAMA JOYPOLIS

Operating Environment and Results

During fiscal 1995, ended March 31, 1995, personal spending in Japan briefly recovered, helped by the unseasonably hot summer in 1994. Nevertheless, the economy in general remained weak, owing to such factors as the devastating earthquake that struck the Hanshin region of western Japan in January 1995 and the sharp increase in the value of the yen against other major currencies at the close of the fiscal year. In overseas amusement markets, the consumer market in Europe was again sluggish, and the U.S. consumer market entered a period of slow demand.

Throughout the fiscal year, SEGA Enterprises, Ltd., strove to develop distinctive products and open new markets in line with its basic policy of "creating markets with new products and businesses." However, primarily because of the above adverse influences, the Company's non-consolidated net sales decreased 5.8% compared with the previous year, to ¥333.3 billion ($3.7 billion). Net income declined 39.3%, to ¥14.1 billion ($157.6 million). The Company's ratio of exports to net sales fell to 48.1%, from 64.2%.

On a consolidated basis, net sales fell 7.9%, to ¥383.6 billion ($4.3 billion). Despite a ¥7.0 billion reduction in selling, general and administrative expenses, to ¥78.8 billion ($882.0 million), net income dropped 54.4%, to ¥5.1 billion ($57.2 million). The causes of this performance were weak consumer markets overseas and a consolidated loss in our consumer product operations. The high yen also led to ¥3.5 billion ($38.9 million) in foreign exchange losses.

Review of Operations

Consumer Products

Consumer products sales decreased 20.1%, to ¥188.5 billion ($2.1 billion).

On the domestic front, in November 1994 we released the extremely successful 32-bit SegaSaturn, developed as a next-generation home video game system. The release of Virtua Fighter and other hit software supported strong sales for this system.

Overseas sales of consumer products fell substantially, owing to the high yen and adverse consumer market conditions in Europe and the United States. Furthermore, our results in Asia were influenced by illegal copying of software and hardware in the region.

Bright notes during the year included PICO, our electronic learning aid for children, which sold well worldwide. PICO is contributing to the steady development of the market for "edutainment" products, which combine elements of education and entertainment. Products such as our extremely popular Ferie electronic organizer for children, introduced in October 1994, helped us advance our presence in the toy market.

In software, strong-selling domestic titles released during the year included Sonic the Hedgehog 3 and J-League Pro Striker 2 for our 16-bit home video game systems. Virtua Fighter, developed for our SegaSaturn consoles, became an instant hit. In the United States, sales for 16-bit games, such as Sonic & Knuckles and Virtua Racing, were excellent.

Amusement Center Operations

Sales in this category increased 20.2%, to ¥74.2 billion ($830.5 million).

The opening of high-tech amusement theme parks in Japan was a major step forward in our amusement center operations. We commenced operations at Galbo, located in the Asia Trade Center in Osaka, in April 1994. Joypolis opened in Yokohama in July, and two new Galbo parks in Ichikawa, Chiba Prefecture, and Yokkaichi, Mie Prefecture, started operations in November 1994 and March 1995, respectively. These facilities contributed strongly to sales and profits from amusement center operations, as our Galbo park in Osaka and Joypolis park in Yokohama greeted 1,098,000 and 688,000 visitors, respectively, by fiscal year-end. These two parks also became the first amusement facilities to receive the Prize for Excellence in the Service Category of the 1994 Nikkei Award for Excellent Products and Services.

GAME GEAR

MEGA DRIVE 2 AND MEGA CD2 (GENESIS 2 AND SEGA CD2) WITH SUPER GENESIS 32X

We expanded our GIGO network of high-tech urban amusement centers by opening facilities in Hiroshima in June 1994, Tenjin, Fukuoka City, in August and Shinsaibashi, Osaka, in December. In addition, throughout our amusement center operations we promoted efficiency by applying our scrap-and-build policy for these facilities, thereby contributing to sales and profits in the category.

Fiscal 1995 saw SEGA rapidly expand its overseas presence in the field of amusement center operations. We actively expanded our presence in North America and, in Europe, began operations at six amusement facilities in the United Kingdom and France.

Amusement Machine Sales

This category represents SEGA's oldest business field and a focus of its current operations. Sales advanced 17.8% in fiscal 1995, to ¥61.4 billion ($687.2 million), supported by rising domestic sales and a 53.5% increase in exports, to ¥20.2 billion ($226.1 million).

Daytona USA, a racing game, and Virtua Fighter 2 became huge hits during the year, both in Japan and overseas. These products use our Model 2 printed circuit board for processing computer graphics, which offers detailed images as well as fast and realistic on-screen action.

Our medal games remained popular in Japan, where strong demand continued for Bingo Party, Exciting Boat Race, Royal Ascot and other products. In the rapidly expanding domestic *karaoke* market, we introduced our sing-along Prologue 21 on-line *karaoke* system. Nevertheless, capital investments in the Japanese amusement industry remained weak in general, owing to the sluggish economy; sales of prize games and demand for amusement machine cabinets suffered as a result.

Overseas, sales of computer graphic-intensive games and our efforts to develop markets for amusement centers contributed to a notable increase in export sales.

New Technologies in Focus in Consumer Product Activities

In Japan, next-generation products and technologies hold the key to success. To raise our presence in the emerging domestic multimedia market, we are concentrating on enlarging our share of the market for 32-bit products by expanding sales of our SegaSaturn console and software. We plan to focus on broadening demand for PICO, bringing our edutainment operations fully on stream.

Overseas, we will strengthen not only export sales but also activities through our subsidiaries and affiliates. To stimulate markets, our strategy relies on next-generation products such as SegaSaturn. In the United States and Europe, we will focus our energies on sales of SegaSaturn and the Super Genesis 32X booster. Our objective in Europe is to revitalize demand by introducing products—such as SegaSaturn and PICO—that meet market needs. We will take the lead in the growing Asian market and expand our business in untapped markets such as India.

Enhancing Our Leadership Position in Amusement Center Operations

According to the Japanese government's White Paper on the Leisure Industry, the size of the amusement market shrank to ¥360.0 billion in fiscal 1995, compared with ¥420.0 billion in fiscal 1994. Nevertheless, SEGA was able to increase its sales and profits substantially in these categories.

SEGA has responded to challenging conditions by strengthening its position of dominance in the domestic amusement center market. Our existing facilities are maintaining strong sales, and we continue to apply a scrap-and-build strategy in facility development to further enhance high profitability. As part of this effort, we expanded the size of our individual facilities and streamlined our operations. Consequently, the number of amusement facilities we operated was reduced to 970 in fiscal 1995, from 1,108 the previous year, yet the total number of amusement machines installed at our facilities has

VIRTUA FIGHTER 2

PICO

grown to 72,327, from 68,131 a year ago. Strong sales indicate that our large-scale, comprehensive amusement centers are becoming accepted as part of the lifestyles of consumers in Japan.

In fiscal 1996, high-tech amusement theme parks and GIGO amusement centers opened during the period under review will contribute fully to sales. We plan to open four high-tech amusement theme parks.

As a pioneer in amusement center operations, our goal is to enhance our overall capabilities. For our current amusement centers, we are formulating strategies to ensure repeat visits by customers, improving and renovating existing attractions, developing new attractions, reinforcing our planning capabilities and building on our facility management know-how. Overseas, we will take advantage of our strengths as a leading company in amusement markets. We will step up activities related to the opening of amusement centers in North America, Asia, Oceania and Europe.

Responding to Market Needs in Amusement Machine Sales

To solidify our position as a manufacturer of advanced amusement machines, our objectives are to enhance our technological and creative abilities, especially those related to computer graphic-intensive games, and to continue developing core technologies for future products. For example, we have received high praise in the market for Sega Rally Championship, a new-concept computer graphic-intensive game that uses virtual-reality techniques and our active shock generator.

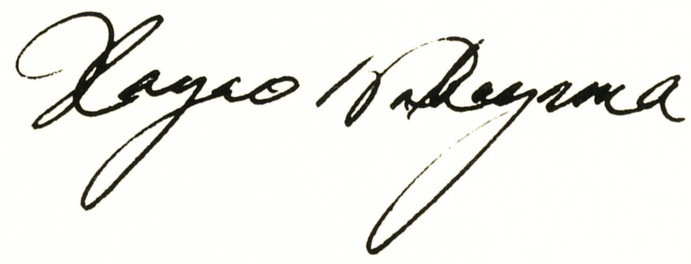
We are the leader in computer graphic-intensive games—the foundation of our worldwide success. Because such games are the dominant force in the global amusement machine industry, our lead in this area gives us a continuing advantage over all our competitors as we move forward into the future.

In Japan's highly competitive *karaoke* market, we have released the Prologue 21 on-line *karaoke* system, enhanced software availability and stepped up marketing to advance our market share. These actions position us well to benefit from the tremendous growth of on-line *karaoke* as well as the shift from conventional *karaoke* to on-line *karaoke*.

In our overall management plans, we are striving to realize a flexible organization that can respond effectively to changes in our operating environment. To deal with the high yen and fierce competition, we continue to shift production and procurement overseas, and we plan to produce all our SegaSaturn consoles offshore.

As we respond to the challenges ahead, I ask for the ongoing support of our employees, shareholders and business associates worldwide.

August 1, 1995

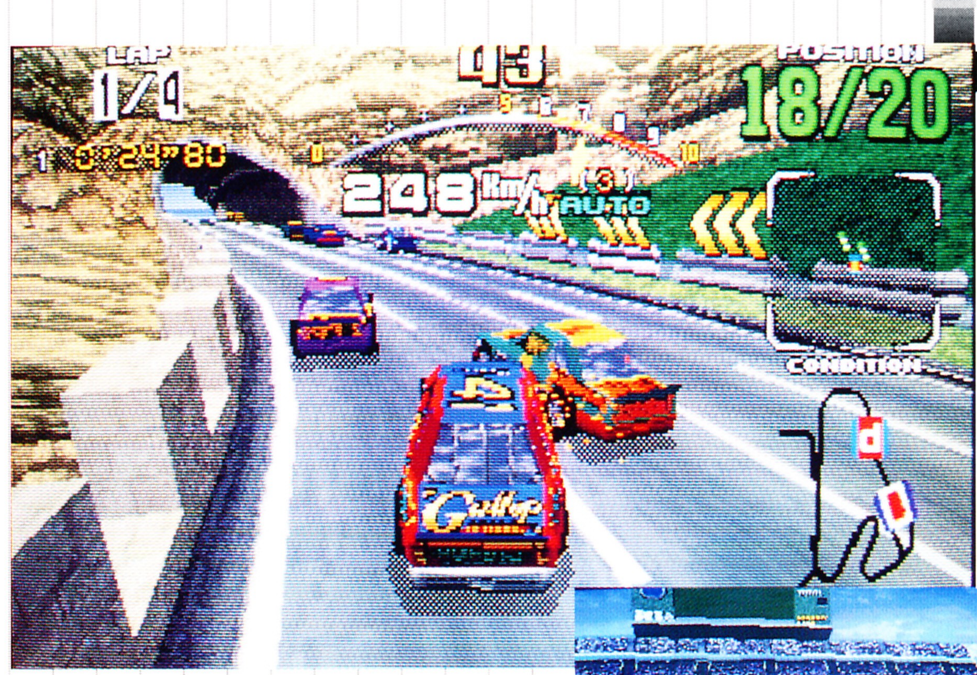


Hayao Nakayama
Representative Director, President and Chief Executive Officer

The "In-Home" Multimedia Developer

VIRTUA FIGHTER

(SOFTWARE FOR SEGASATURN)



DAYTONA USA

(SOFTWARE FOR SEGASATURN)

VICTORY GOAL

(SOFTWARE FOR SEGASATURN)

SEGASATURN

PICO

Leisure has become an essential of life—as important as food, clothing and shelter—and entertainment is rapidly turning into a major industry. SEGA, aiming to become a comprehensive high-tech entertainment company, is applying the experience gained through interactive entertainment activities to the "in-home" and "outside-the-home" entertainment markets.

In-home entertainment, or multimedia, a market comprising companies involved in infrastructure preparation, multimedia terminal equipment production and content provision. In this market, we are working to establish ourselves as the world's leading content provider.

STAR WARS ARCADE

(SOFTWARE FOR SUPER GENESIS 32X)

LION KING

(SOFTWARE FOR GAME GEAR)
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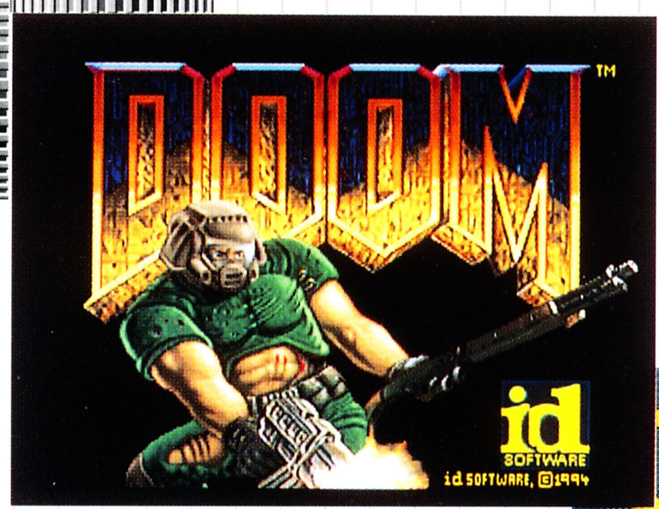
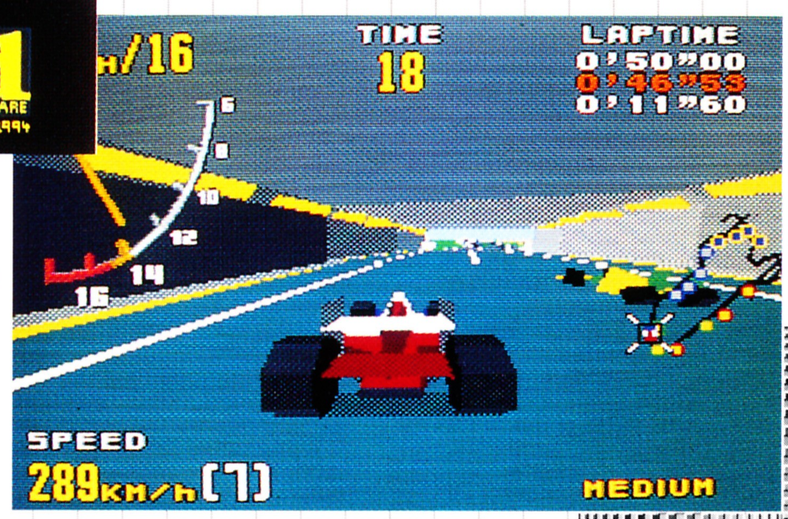


DOOM

(SOFTWARE FOR SUPER GENESIS 32X)

SONIC & KNUCKLES

(SOFTWARE FOR MEGA DRIVE AND GENESIS)



VIRTUA RACING

(SOFTWARE FOR MEGA DRIVE AND GENESIS)

GAME GEAR

MEGA DRIVE 2 AND MEGA CD2

(GENESIS 2 AND SEGA CD2)

Today, the fastest-growing multimedia market is that for software packages, such as CD-ROMs. SEGA developed and markets its SegaSaturn 32-bit console to perform far above conventional game consoles. We are not only the world's largest software publisher but the top manufacturer of hardware, realizing the full potential of multimedia.

The multimedia market in the coming years will be characterized by the rapid development of telecommunications infrastructures. We therefore see the market moving in the direction of "network multimedia." To enhance our skills and attain leadership in this emerging market, we are introducing game distribution systems that use cable television networks and *karaoke* systems in which songs are transmitted via telephone lines.

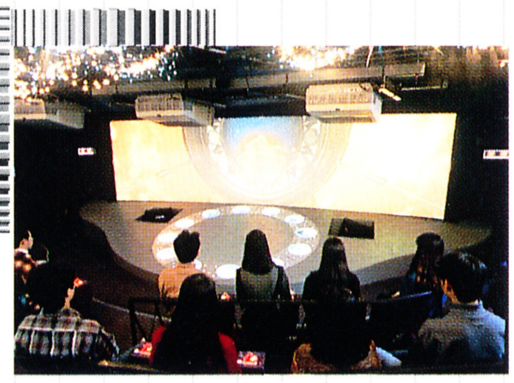
SEGA's Amusements Outside the Home

YOKKAICHI GALBO

VR-1

(YOKOHAMA JOYPOLIS)

VIRTUAL SHOOTING



ASTRONOMICON

GHOST HUNTER

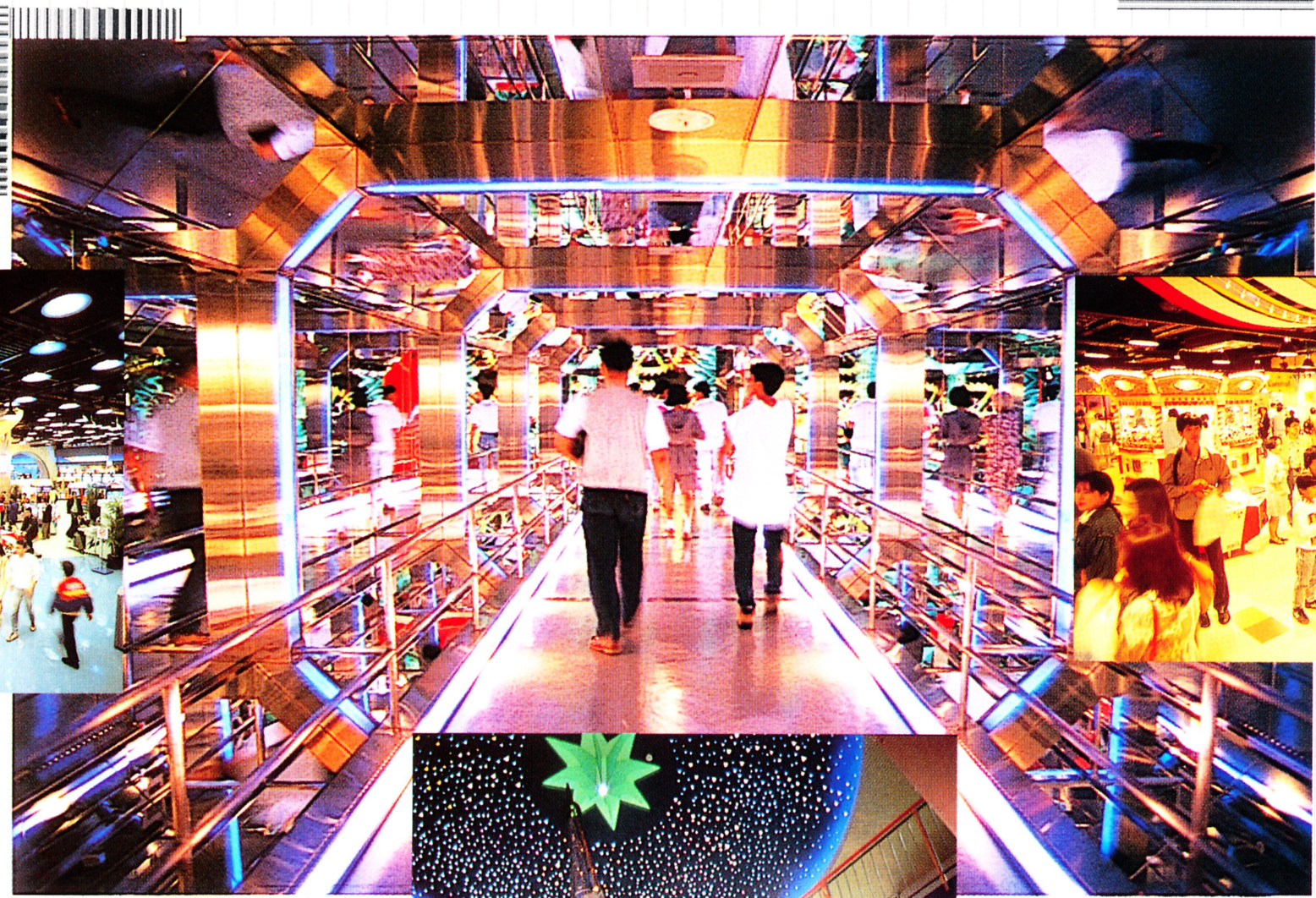
SEGA RALLY CHAMPIONSHIP

Our focus in the outside-the-home entertainment market will be fixed on the concept of the entertainment complex, a multifunctional amusement facility comprising an amusement theme park, theme-specific restaurants, and shops dedicated to selling character goods available nowhere else. Backed by years of operations expertise, SEGA is working to become the anchor of this market.

Centered on its years of experience in managing amusement centers, in the past 10 years we have revolutionized the concept of game centers by opening high-tech amusement centers in metropolitan and suburban areas. Furthermore, in the fiscal year under review we took our largest step yet, into the field of high-tech amusement theme parks. The popularity and robust operating efficiency of these facilities, such as Galbo and Joypolis, show that the trend in large-scale commercial facilities is moving in the direction we anticipated.

In the current fiscal year, we plan to expand our entertainment complex business, widening the scope of target customers to include people of all ages and thereby entering the family entertainment business.

YOKOHAMA JOYPOLIS



ICHIKAWA GALBO

OSAKA GALBO

YOKKAICHI GALBO

In addition, using the experience and expertise we are gaining through activities in the Japanese market, we are introducing our high-tech amusement facilities overseas, taking the lead in developing markets with high potential for future growth. Target locations include Europe and the United States as well as rapidly growing economies in Asia.

We are combining skills related to facility development and operation with our proven product development and technological capabilities. In this way, we will clearly place ourselves above the contenders in a position of firm leadership in the outside-the-home entertainment market.

We are strengthening our business base, revitalizing existing markets and exploring new possibilities. Our goal is to turn SEGA family entertainment facilities into social venues as common as movie theaters and restaurants. To this end, we have coined the term "entertainment complex" and applied it to all our amusement facilities.

Results of Operations

In fiscal 1995, ended March 31, 1995, SEGA's non-consolidated net sales decreased 5.8% from the previous fiscal term, to ¥333.3 billion ($3.7 billion), as sales of consumer products fell 20.1%, to ¥188.5 billion ($2.1 billion), or 56.5% of the total. Sales of consumer products expanded markedly in Japan, but exports dropped as the high yen combined with maturity in the U.S. market—SEGA's primary source of consumer product sales—sluggishness in the European market and illegal hardware and software copying in Asia.

Revenues from amusement center operations expanded 20.2%, to ¥74.2 billion ($830.5 million). These revenues comprised 22.3% of net sales, compared with 17.4% the previous year. The primary reasons for this increase were our opening of popular new high-tech amusement facilities and successful launching of amusement theme parks.

Amusement machine sales were ¥61.4 billion ($687.2 million), a 17.8% rise, equal to 18.4% of the total. High demand for computer graphic-intensive games, such as Virtua Fighter 2 and Daytona USA, supported this growth.

Royalties on game software grew 116.0%, to ¥9.2 billion ($103.3 million), or 2.8% of net sales.

The ratio of cost of sales to net sales climbed to 77.2%, from 76.4% the previous year, primarily because of the soaring yen. The ratio of selling, general and administrative expenses to net sales was 13.4%, compared with 10.5% the previous year, primarily owing to costs incurred in line with the commencement of sales of the SegaSaturn home video game system.

Operating income decreased 33.0%, to ¥31.2 billion ($349.3 million), and operating income as a percentage of net sales was 9.4%, a decline from 13.2% a year earlier. Other expenses surpassed other income by ¥944 million ($10.6 million). Other expenses included a net loss on foreign exchange, amortization of discounts on bonds and interest expense.

Income before income taxes slid to ¥30.3 billion ($338.7 million), a 36.2% drop, and net income decreased 39.3%, to ¥14.1 billion ($157.6 million). Net income per share was ¥140.2 ($1.57), compared with ¥232.8 per share the previous year.

In fiscal 1995, cash dividends applicable to the year remained at ¥38.0 ($0.43) per share. The payout ratio was 27.1%, compared with 16.4% a year earlier.

SIX-YEAR FINANCIAL SUMMARY

SEGA Enterprises, Ltd.*

	Millions of yen						Thousands of U.S. dollars
	1990	1991	1992	1993	1994	**1995**	**1995**
Net sales:							
Consumer products	¥39,153	¥ 58,277	¥135,124	¥229,270	¥235,880	**¥188,486**	**$2,109,524**
Amusement center operations	17,325	24,627	41,410	58,914	61,734	**74,204**	**830,487**
Amusement machine sales	21,606	23,290	36,427	57,558	52,144	**61,400**	**687,185**
Royalties on game software	550	386	356	1,195	4,274	**9,233**	**103,335**
Total	78,634	106,580	213,317	346,937	354,032	**333,323**	**3,730,531**
Cost of sales	54,594	73,162	150,873	251,834	270,305	**257,371**	**2,880,481**
Gross profit	24,040	33,418	62,444	95,103	83,727	**75,952**	**850,050**
Selling, general and administrative expenses	11,854	15,548	23,153	32,563	37,132	**44,744**	**500,772**
Operating income	12,186	17,870	39,291	62,540	46,595	**31,208**	**349,278**
Net income	4,845	8,244	14,014	28,017	23,223	**14,085**	**157,639**
Depreciation and amortization	3,715	5,579	9,067	15,591	20,049	**22,164**	**248,058**
Total assets	98,450	115,512	226,065	295,153	300,968	**426,457**	**4,772,882**
Total shareholders' equity	69,090	77,075	90,318	116,511	165,469	**175,641**	**1,965,764**
Financial ratios:							
Return on average assets	5.9%	7.7%	8.2%	10.8%	7.8%	**3.9%**	
Return on average equity	8.4	11.3	16.7	27.1	16.5	**8.3**	
Payout ratio	4.2	6.5	8.9	8.7	16.4	**27.1**	
	Yen						U.S. dollars
Net income per share	¥ 53.6	¥ 85.0	¥ 144.4	¥ 288.7	¥ 232.8	**¥ 140.2**	**$ 1.57**
Cash dividends per share (adjusted)	4.2	5.5	12.8	25.0	38.0	**38.0**	**0.43**
Number of employees	1,695	1,786	2,324	3,034	3,492	**3,758**	

* For the year ended April 30, 1990, for the 11-month period ended March 31, 1991, and for the years ended March 31, 1992, 1993, 1994 and 1995.

On a consolidated basis, net sales declined 7.9%, to ¥383.6 billion ($4.3 billion), and net income fell 54.4%, to ¥5.1 billion ($57.2 million). The primary reason for these decreases was the drop in overseas sales of consumer products. Revenues from amusement center operations and amusement machine sales expanded. On a geographical segment basis, overseas sales to outside customers fell in fiscal 1995.

Analysis of Financial Position

At March 31, 1995, SEGA's total assets were up 41.7% over the previous year, to ¥426.5 billion ($4.8 billion).

Total current assets advanced 43.6%, to ¥247.5 billion ($2.8 billion), owing to increases in time deposits, marketable securities and short-term investments, notes and accounts receivable, and other current assets. Cash was up 7.5%, to ¥12.8 billion ($143.5 million), and time deposits grew 51.5%, to ¥95.9 billion ($1.1 billion), greatly improving the Company's liquidity. Inventories fell to ¥32.6 billion ($364.7 million). Prepaid expenses expanded 20.2%, to ¥8.1 billion ($91.2 million), which was devoted primarily to R&D expenses and prepayments on royalties.

Total investments and advances rose 80.0%, to ¥78.7 billion ($880.9 million), the result of increased investments in securities, and investments in and advances to subsidiaries and affiliates.

Total property and equipment advanced 15.6%, to ¥65.6 billion ($733.9 million), in line with the Company's purchase of a building for its Kyushu office and land for its Shinsaibashi GIGO high-tech amusement center in Osaka.

Total current liabilities increased to ¥98.3 billion ($1.1 billion), from ¥63.6 billion a year earlier, chiefly owing to a rise to ¥19.8 billion ($221.8 million) of the current portion of long-term debt, which represented the Company's convertible bonds issued in June 1991 that were allotted to the short term. Total long-term liabilities were ¥152.5 billion ($1.7 billion), a growth of 112.2%, reflecting an increase in long-term debt, mainly due to the portion of the ¥100.0 billion ($1.1 billion) 0.55% yen-denominated convertible bonds issued by the Company in June 1994 that was allotted to the long term.

Total liabilities were ¥250.8 billion ($2.8 billion) at fiscal year-end, an 85.1% expansion. Total shareholders' equity advanced 6.1%, to ¥175.6 billion ($2.0 billion). The ratio of interest-bearing debt to shareholders' equity was 97.6%, versus 42.9% a year earlier. The equity ratio was 41.2%, down from 55.0% a year earlier, and return on average equity fell to 8.3%, from 16.5% at the previous fiscal year-end. Return on average assets was 3.9%, compared with 7.8% a year earlier.

Analysis of Cash Flow

Cash and cash equivalents at the close of fiscal 1995 were ¥123.4 billion ($1.4 billion), a 48.9% increase from a year earlier. Cash-basis income, equal to the sum of net income, depreciation and amortization, came to ¥36.2 billion ($405.7 million). Net cash provided by operating activities dropped 59.7%, to ¥17.3 billion ($193.4 million).

Net cash used in investing activities expanded 44.2%, to ¥73.0 billion ($816.5 million). Acquisition of property and equipment, or capital expenditure, amounted to ¥28.9 billion ($323.0 million), compared with ¥28.0 billion the previous year. The Company expects to invest approximately the same amount next fiscal year. Investment in R&D, for both hardware and software, was ¥20.0 billion ($223.8 million), compared with ¥20.2 billion the year before. SEGA expects to spend approximately ¥24.0 billion on R&D in fiscal 1996.

Net cash provided by financing activities totaled ¥96.2 billion ($1.1 billion), compared with net cash used in financing activities of ¥4.1 billion the previous year.

	Billions of yen		Millions of U.S. dollars
Sales by division	1994	**1995**	**1995**
Net sales:	¥354.0	**¥333.3**	**$3,730.5**
Consumer products	235.9	**188.5**	**2,109.5**
Domestic sales	25.7	**57.3**	**641.2**
Exports	210.1	**131.2**	**1,468.3**
Amusement center operations	61.7	**74.2**	**830.5**
Amusement machine sales	52.1	**61.4**	**687.2**
Domestic sales	37.0	**41.2**	**461.1**
Exports	13.2	**20.2**	**226.1**
Royalties on game software	4.3	**9.2**	**103.3**

NON-CONSOLIDATED BALANCE SHEETS

SEGA Enterprises, Ltd.
March 31, 1994 and 1995

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1994	1995	1995
ASSETS			
Current Assets:			
Cash	¥ 11,926	¥ 12,822	$ 143,503
Time deposits	63,260	95,852	1,072,770
Marketable securities and short-term investments (Note 5)	7,673	14,692	164,432
Notes and accounts receivable:			
Trade	19,700	33,198	371,550
Subsidiaries and affiliates	27,376	42,559	476,318
Other	1,213	3,717	41,600
	48,289	79,474	889,468
Less allowance for doubtful accounts	(340)	(543)	(6,077)
	47,949	78,931	883,391
Inventories (Note 4)	33,776	32,586	364,701
Prepaid expenses	6,775	8,145	91,158
Other current assets	948	4,455	49,860
Total current assets	172,307	247,483	2,769,815
Investments and Advances:			
Investments in securities (Note 5)	4,632	28,994	324,499
Investments in and advances to subsidiaries and affiliates (Note 6)	37,098	45,929	514,035
Other investments	2,003	3,787	42,384
Total investments and advances	43,733	78,710	880,918
Property and Equipment, at Cost:			
Amusement machines and facilities	45,705	53,216	595,590
Buildings and structures	31,156	35,921	402,026
Machinery and equipment	14,704	18,404	205,976
	91,565	107,541	1,203,592
Less accumulated depreciation	(46,746)	(59,471)	(665,596)
	44,819	48,070	537,996
Land	10,211	17,500	195,859
Construction in progress	1,718	3	34
Total property and equipment	56,748	65,573	733,899
Fixed Leasehold Deposits (Note 7)	20,420	21,555	241,242
Deferred Charges	7,760	13,136	147,018
Total assets	¥300,968	¥426,457	$4,772,882

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1994	1995	1995
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Current portion of long-term debt (Note 9)	¥ —	¥ 19,816	$ 221,780
Notes and accounts payable:			
Trade	37,369	56,627	633,766
Subsidiaries and affiliates	675	305	3,414
Other	1,947	1,097	12,277
	39,991	58,029	649,457
Accrued expenses	12,905	12,295	137,605
Income taxes payable (Note 8)	9,302	6,451	72,199
Other current liabilities	1,429	1,748	19,563
Total current liabilities	63,627	98,339	1,100,604
Long-Term Liabilities:			
Long-term debt (Note 9)	70,948	151,550	1,696,139
Accrued employees' retirement benefits (Note 10)	734	709	7,935
Accrued retirement benefits for directors and statutory auditors (Note 10)	190	218	2,440
Total long-term liabilities	71,872	152,477	1,706,514
Shareholders' Equity:			
Common stock:			
Authorized—200,000,000 shares at March 31, 1994 and 1995			
Issued, par value ¥50 per share—100,488,673 shares at March 31, 1994 and 1995	38,839	38,839	434,684
Additional paid-in capital	38,385	38,385	429,603
Legal reserve (Note 11)	805	1,196	13,385
Voluntary reserves (Note 11)	61,892	80,892	905,339
Special tax-purpose reserves (Note 2 [10])	348	336	3,760
Retained earnings (Note 14)	25,200	15,993	178,993
Total shareholders' equity	165,469	175,641	1,965,764
Total liabilities and shareholders' equity	¥300,968	¥426,457	$4,772,882

NON-CONSOLIDATED STATEMENTS OF INCOME

SEGA Enterprises, Ltd.
For the years ended March 31, 1993, 1994 and 1995

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1993	1994	1995	1995
Net Sales (Notes 12 and 13)	¥346,937	¥354,032	¥333,323	$3,730,531
Cost of Sales (Note 12)	251,834	270,305	257,371	2,880,481
Gross profit	95,103	83,727	75,952	850,050
Selling, General and Administrative Expenses	32,563	37,132	44,744	500,772
Operating income	62,540	46,595	31,208	349,278
Other Income/(Expenses) (Note 13):				
Interest and dividend income	3,475	2,736	3,239	36,251
Interest expense	(1,973)	(1,250)	(1,342)	(15,020)
Gain (loss) on sales of marketable securities and short-term investments	(189)	699	(8)	(90)
Gain on conversion of convertible bonds	—	564	—	—
Loss on valuation of marketable securities and short-term investments	(292)	—	(10)	(112)
Loss on sale or disposal of property and equipment	(283)	(360)	(456)	(5,103)
Loss on valuation of investment securities	(310)	(64)	(1,134)	(12,692)
Gain on sales of investments in subsidiaries and affiliates	—	—	5,247	58,724
Net loss on foreign exchange	(522)	(30)	(4,617)	(51,673)
Amortization of discounts on bonds	(1,515)	(2,087)	(1,623)	(18,165)
Amortization of bond and note issue expenses	—	—	(715)	(8,002)
Bond issue expenses	(687)	—	—	—
Loss on settlement of litigation	(2,308)	—	—	—
Other, net	556	617	475	5,317
Total other income (expenses)	(4,048)	825	(944)	(10,565)
Income before income taxes	58,492	47,420	30,264	338,713
Income Taxes (Note 8)	30,475	24,197	16,179	181,074
Net income	¥ 28,017	¥ 23,223	¥ 14,085	$ 157,639

	Yen			U.S. dollars (Note 3)
Per Share:				
Net income	¥ 288.7	¥ 232.8	¥ 140.2	$ 1.57
Cash dividends:				
Historical, unadjusted	30.0	38.0	38.0	0.43
Adjusted	25.0	38.0	38.0	0.43
Weighted average number of shares (thousands)	97,047	99,773	100,489	

The accompanying notes are an integral part of these statements.

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

SEGA Enterprises, Ltd.
For the years ended March 31, 1993, 1994 and 1995

		Millions of yen					
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserves	Voluntary reserve	Special tax-purpose reserves	Retained earnings
Balance at March 31, 1992	62,207,863	¥ 24,363	¥ 23,909	¥ 301	¥ 26,892	¥ 374	¥ 14,479
Net income for the year 1993	—	—	—	—	—	—	28,017
Cash dividends	—	—	—	—	—	—	(1,904)
Transfer to legal reserve	—	—	—	197	—	—	(197)
Bonuses to directors and statutory auditors	—	—	—	—	—	—	(68)
Provision for/reversal of special tax-purpose reserves (Note 2 [10])	—	—	—	—	—	(13)	13
Transfer to voluntary reserves	—	—	—	—	11,000	—	(11,000)
Stock split (1 into 1.3)	18,662,358	—	—	—	—	—	—
Proceeds from conversion of convertible bonds	14,723	74	74	—	—	—	—
Balance at March 31, 1993	80,884,944	24,437	23,983	498	37,892	361	29,340
Net income for the year 1994	—	—	—	—	—	—	23,223
Cash dividends	—	—	—	—	—	—	(2,961)
Transfer to legal reserve	—	—	—	307	—	—	(307)
Bonuses to directors and statutory auditors	—	—	—	—	—	—	(108)
Provision for/reversal of special tax-purpose reserves (Note 2 [10])	—	—	—	—	—	(13)	13
Transfer to voluntary reserves	—	—	—	—	24,000	—	(24,000)
Stock split (1 into 1.2)	16,176,988	—	—	—	—	—	—
Proceeds from conversion of convertible bonds	3,426,741	14,402	14,402	—	—	—	—
Balance at March 31, 1994	100,488,673	38,839	38,385	805	61,892	348	25,200
Net income for the year 1995	—	—	—	—	—	—	14,085
Cash dividends	—	—	—	—	—	—	(3,818)
Transfer to legal reserve	—	—	—	391	—	—	(391)
Bonuses to directors and statutory auditors	—	—	—	—	—	—	(95)
Provision for/reversal of special tax-purpose reserves (Note 2 [10])	—	—	—	—	—	(12)	12
Transfer to voluntary reserves	—	—	—	—	19,000	—	(19,000)
Proceeds from conversion of convertible bonds	—	—	—	—	—	—	—
Balance at March 31, 1995	**100,488,673**	**¥38,839**	**¥38,385**	**¥1,196**	**¥80,892**	**¥336**	**¥15,993**

		Thousands of U.S. dollars (Note 3)					
Balance at March 31, 1994	100,488,673	$ 434,684	$ 429,603	$ 9,009	$ 692,692	$ 3,894	$ 282,037
Net income for the year 1995	—	—	—	—	—	—	157,639
Cash dividends	—	—	—	—	—	—	(42,731)
Transfer to legal reserve	—	—	—	4,376	—	—	(4,376)
Bonuses to directors and statutory auditors	—	—	—	—	—	—	(1,063)
Provision for/reversal of special tax-purpose reserves (Note 2 [10])	—	—	—	—	—	(134)	134
Transfer to voluntary reserves	—	—	—	—	212,647	—	(212,647)
Proceeds from conversion of convertible bonds	—	—	—	—	—	—	—
Balance at March 31, 1995	**100,488,673**	**$434,684**	**$429,603**	**$13,385**	**$905,339**	**$3,760**	**$178,993**

The accompanying notes are an integral part of these statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

SEGA Enterprises, Ltd.
For the years ended March 31, 1993, 1994 and 1995

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1993	1994	1995	1995
Cash Flows from Operating Activities:				
Net income	¥28,017	¥23,223	¥ 14,085	$ 157,639
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	13,770	17,456	18,885	211,360
Amortization	1,821	2,594	3,279	36,698
Provision for retirement benefits for directors and statutory auditors	32	39	27	302
Loss on sale or disposal of property and equipment	283	360	456	5,104
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	(17,314)	18,683	(30,983)	(346,760)
(Increase) decrease in inventories	(5,164)	(5,868)	1,190	13,318
(Increase) decrease in prepaid expenses and other current assets	(4,224)	(300)	(4,875)	(54,561)
Increase (decrease) in notes and accounts payable	(2,957)	(3,654)	18,038	201,880
Increase (decrease) in income taxes payable	6,011	(10,695)	(2,851)	(31,908)
Increase (decrease) in accrued expenses and other current liabilities	5,482	1,741	(292)	(3,268)
Other payments	(249)	(669)	322	3,604
Net cash provided by operating activities	25,508	42,910	17,281	193,408
Cash Flows from Investing Activities:				
Acquisition of property and equipment	(28,862)	(27,993)	(28,856)	(322,955)
Proceeds from sale of property and equipment	642	575	690	7,722
Increase in investments in securities	(1,748)	(464)	(24,362)	(272,658)
Increase in investments in subsidiaries	(6,188)	(18,016)	(8,831)	(98,836)
Increase in other investments	(263)	(346)	(1,784)	(19,966)
Increase in fixed leasehold deposits	(3,481)	(3,449)	(1,135)	(12,703)
Additions to deferred charges and intangible assets	(5,332)	(890)	(8,677)	(97,112)
Net cash used by investing activities	(45,232)	(50,583)	(72,955)	(816,508)
Cash Flows from Financing Activities:				
Proceeds from issuances/borrowings of long-term debt	35,520	—	80,184	897,415
Increase (decrease) in short-term bank loans	(864)	(1,168)	19,816	221,779
Cash dividends	(1,904)	(2,961)	(3,818)	(42,731)
Net cash provided by (used in) financing activities	32,752	(4,129)	96,182	1,076,463
Changes in Cash and Cash Equivalents	13,028	(11,802)	40,508	453,363
Cash and Cash Equivalents at Beginning of Year	81,632	94,660	82,858	927,342
Cash and Cash Equivalents at End of Year	¥94,660	¥82,858	¥123,366	$1,380,705

The accompanying notes are an integral part of these statements.

1. Basis of Presenting the Non-Consolidated Financial Statements

(1) ACCOUNTING PRINCIPLES

The accompanying non-consolidated financial statements have been prepared from accounts and records maintained by SEGA Enterprises, Ltd. (the "Company"), in accordance with the provisions set out in the Japanese Commercial Code and in conformity with accounting principles generally accepted in Japan.

Relevant notes have been added, and certain reclassifications of account balances as disclosed in the non-consolidated financial statements in Japan have been made so as to present them in a form which is more familiar to readers outside Japan.

(2) SIGNIFICANT SHAREHOLDER

The Company is an affiliate of CSK Corporation, Japan, which owned 20,149 thousand shares of common stock of the Company at March 31, 1994 and 1995, representing 20.05% of shares outstanding at such dates. In addition, the president of CSK, Mr. Isao Okawa, and the president of the Company, Mr. Hayao Nakayama, personally owned 2.17% and 3.62%, respectively, of the issued shares of the Company as of March 31, 1995.

There have been no material transactions and account balances outstanding, other than the shareholdings, between the Company and CSK Corporation.

2. Summary of Significant Accounting Policies

(1) INVENTORIES

Inventories are stated at cost, cost being determined by the moving-average method. When the net realizable value of certain classes of inventories is substantially lower than the carrying value (cost) and such decline of value is considered to be permanent, appropriate write-downs are recorded on such items.

(2) VALUATION OF SECURITIES

Securities with quoted market values are valued at the lower of cost or market on an individual basis, the cost being determined by the moving-average method. Other securities are valued at cost, which is determined by the moving-average method.

(3) INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries (majority-owned companies) are valued at cost. The equity method of accounting for investments in common stock of subsidiaries has not been followed by the Company in the non-consolidated financial statements under Japanese accounting practices.

(4) PROPERTY AND EQUIPMENT

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of assets, as prescribed by the Japanese income tax laws. The range of useful lives is principally from three to 65 years for buildings and structures and from two to 20 years for machinery, equipment, furniture and tools and from two to five years for amusement machines and facilities.

The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income.

(5) CONSUMPTION TAX

The consumption tax is imposed at the flat rate of 3% on all domestic consumption of goods and services (with certain exemptions).

The consumption tax imposed on the Company's sales to customers is withheld by the Company at the time of sale and is paid to the national government subsequently. The consumption tax withheld upon sale is not included in the amount of "net sales" in the accompanying non-consolidated statements of income but is recorded as a liability, "consumption tax withheld." The balances of "consumption tax withheld" and "consumption tax paid" (an asset item), which is borne by the Company on the purchases of products, merchandise and services from vendors, are not included in the amounts of costs and expenses but are offset and the net balance is included in "Other current assets" or "Other current liabilities" of the non-consolidated balance sheets at March 31, 1994 and 1995.

(6) AMORTIZATION

Amortization of deferred charges and intangible assets is computed on the straight-line method, principally over seven years.

New share issue expenses and debt securities issue expenses are charged to income as incurred.

"Bond discount" arising from the issue of the zero coupon discount bonds (see Note 9 below), is recorded as a deferred charge and is amortized to expenses on a straight-line basis over the period up to the maturity of the bonds. When the discount bonds are converted into common stock of the Company, appropriate amortization is made in proportion to the balance of converted bonds.

Bond and note issue expenses incurred for the year ended March 31, 1993, were charged to income as incurred. However, effective in the year ended March 31, 1995, the Company adopted a policy of accounting for bond and note expenses to be deferred and amortized on a straight-line basis over a three-year period as the amount of the bond and note expenses became significant. As a result, other expenses for the year ended March 31, 1995 decreased and income before income taxes for the year ended March 31, 1995, increased by ¥1,429 million as compared with the amount which would have been reported if the previous method had been applied.

(7) FOREIGN CURRENCY TRANSLATION

Foreign currencies and short-term receivables and payables denominated in foreign currencies are translated into yen at the current exchange rate prevailing at the respective balance sheet dates. Resulting translation gains or losses are included in the determination of net income for the year.

Long-term receivables denominated in foreign currencies, including investments in overseas subsidiaries, are generally translated at the historical rates prevailing at the transaction dates.

Accounts denominated in foreign currencies which are hedged by forward exchange contracts are translated into yen at the contracted rate of exchange.

(8) INCOME TAXES

Income taxes are provided for based on the amount required by the tax returns for the financial year. No tax effect is recorded for timing differences in the recognition of certain expenses between tax and financial reporting.

(9) RESERVE FOR DOUBTFUL ACCOUNTS

The reserve for doubtful accounts is provided for on the basis of the amount allowed for deduction by the tax laws. In addition, the amount deemed necessary to cover uncollectible receivables is provided when appropriate.

(10) SPECIAL TAX-PURPOSE RESERVES

The Company has provided special tax-purpose reserves which resulted in the deferral of income tax payments in accordance with the provisions of the Special Taxation Measures Law of Japan. The provisions for and reversals of the special tax-purpose reserves are made through appropriation of retained earnings and are deducted from/added back to the taxable income of the year to which the appropriation relates.

The reserves of the Company are in respect of the postponement of income tax payments by reason of export sales and deferred capital gains arising from qualified asset replacements.

(11) APPROPRIATION OF RETAINED EARNINGS

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including year-end cash dividend payments) proposed by the Board of Directors should be approved by the shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying non-consolidated financial statements represents the results of such appropriations which are applicable to the immediately preceding financial year but were approved by the shareholders' meeting and disposed of during that year. Year-end dividends are paid to shareholders on the shareholders' register at the end of each financial year.

(12) NET INCOME AND DIVIDENDS PER SHARE

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Cash dividends per share shown for each year in the non-consolidated statements of income represent dividends declared as applicable to the respective period.

(13) COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

Under the amended provisions of the Japanese Commercial Code, it is required that at least 50% of the issue price of new shares be transferred to the "Common stock" account, provided 50% of the issue price is greater than the par value of common stock. In accordance with such requirements, 50% of the proceeds from new share issues sold in public offerings at market price are transferred to the "Common stock" account and the remaining 50% are credited to the "Additional paid-in capital" account.

3. United States Dollar Amounts

The Company maintains its accounting records in yen. The dollar amounts included in the non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥89.35=US$1. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at ¥89.35=US$1 or at any other rate.

4. Inventories

Inventories as of March 31, 1994 and 1995, consisted of:

	Millions of yen		Thousands of U.S. dollars
	1994	1995	1995
Merchandise	¥ 674	¥ 521	$ 5,831
Products	21,429	12,888	144,242
Material	7,576	12,793	143,179
Work-in-process	2,938	5,265	58,925
Supplies	1,159	1,119	12,524
	¥33,776	¥32,586	$364,701

5. Marketable Securities and Investments in Securities

Marketable securities (current portfolio) and investments in securities (non-current portfolio) of the Company at March 31, 1994 and 1995, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1994	1995	1995
Marketable securities owned:			
Listed corporate shares	¥ 218	¥ 210	$ 2,350
Corporate bonds	—	9	101
Lease-backed notes	2,000	5,500	61,556
Other securities	5,455	8,973	100,425
	¥7,673	¥14,692	$164,432
Investments in securities:			
Listed corporate shares	¥ 579	¥ 3,917	$ 43,839
Unlisted corporate shares	2,923	5,525	61,835
Corporate bonds	—	—	—
Other securities	202	19,001	212,658
	3,704	28,443	318,332
Shares and convertible bonds issued by CSK Corporation	928	551	6,167
	¥4,632	¥28,994	$324,499

Market value of listed corporate shares (except for CSK Corporation's shares) included in current and non-current portfolios as of March 31, 1994 and 1995, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1994	1995	1995
Market value of listed corporate shares in:			
Current portfolio	¥267	¥ 222	$ 2,485
Non-current portfolio	¥674	¥4,052	$45,350

6. Investments in and Advances to Subsidiaries and Affiliates

Investments in and advances to subsidiaries and affiliates as of March 31, 1994 and 1995, were as follows:

	Percentage of ownership	Millions of yen		Thousands of U.S. dollars
		1994	1995	1995
Subsidiaries:				
SEGA Amusements Europe Ltd.:				
Investment in capital stock	100.0%	¥ 42	¥ 838	$ 9,379
Advances		107	—	—
SEGA of America, Inc.:				
Investment in capital stock	—	2,350	—	—
Advances		300	107	1,198
Daio Shinko Co., Ltd.:				
Investment in capital stock	100.0	290	290	3,246
SEGA Tech. Co., Ltd.	100.0	10	10	112
Deith Leisure Ltd.	100.0	184	184	2,059
SEGA Europe Group Ltd.	100.0	24,487	24,487	274,057
SEGA Europe Ltd.:				
Advances		2,140	—	—
SONIC Co., Ltd.	85.0	34	34	381
SIMS Co., Ltd.	100.0	101	101	1,130
SEGA FALCOM Co., Ltd.	55.0	17	0	0
MEGA SOFT Co., Ltd.:				
Investment in capital stock	100.0	0	0	0
G-SAT Inc.	60.0	0	0	0
S-AI Electronics Co., Ltd.	100.0	100	100	1,119
SEGA Amusements Taiwan Ltd.	51.0	355	475	5,316
SEGA Ozisoft Pty. Ltd.:				
Investment in capital stock	88.2	391	618	6,917
Advances		130	—	—
SEGA Singapore Pte Ltd.	100.0	103	103	1,153
SEGA International Finance B.V.	100.0	11	11	123
Nextech Co., Ltd.	70.0	70	70	783
Tokyo Movie Shinsha Co., Ltd.	—	1,901	—	—
T.M.S. Kousan Co., Ltd.	—	475	—	—
TREASURE Co., Ltd.	—	21	—	—
SEGA Holdings U.S.A., INC.	100.0	—	15,800	176,833
SEGA Huahan Culture Entertainment Co., Ltd.	94.9	—	150	1,679
SEGA Yonezawa Co., Ltd.	100.0	—	301	3,369
SEGA Kousan Co., Ltd.	19.0	—	4	45
SEGA United Co., Ltd.	58.7	—	128	1,433
Affiliates:				
Linguaphone Japan Ltd.	50.0	350	350	3,917
Joytech Tokai, Ltd.	20.0	20	20	224
Ado Electronic Industrial Co., Ltd.	—	1,811	—	—
A-Wave Co., Ltd.	20.0	4	4	45
Light Printing Co., Ltd.	25.4	1,294	1,294	14,482
SEGA Digital Communication Co., Ltd.	35.0	—	140	1,567
SEGA Music Networks Co., Ltd.	50.0	—	200	2,238
BUILD UP Co., Ltd.	50.0	—	50	559
SG MEDIA Co., Ltd.	20.0	—	60	671
		¥37,098	¥45,929	$514,035

7. Fixed Leasehold Deposits

The Company conducts amusement center operations on property leased from the lessors on a long-term cancelable basis.

Japanese lessors require large amounts of leasehold deposits relative to the amount of annual lease rental payments. Such leasehold deposits do not bear interest and are generally returnable only when the lease is terminated. Such leasehold deposits are shown in the non-consolidated balance sheets as "Fixed leasehold deposits."

8. Income Taxes

Income taxes in Japan applicable to the Company for the years ended March 31, 1993, 1994 and 1995, consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	1993	1994	1995
Standard rates:			
Corporate income tax	38.4%	38.4%	37.5%
Enterprise tax	12.6	12.6	12.6
Resident income taxes	7.8	7.8	7.8
	58.8%	58.8%	57.9%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	52.2%	52.2%	51.4%

Unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid. Although the enterprise tax is presented as a part of selling, general and administrative expenses in the basic financial statements disclosed in conformity with the accounting practices in Japan, a reclassification has been made to present income taxes in their entirety in the accompanying non-consolidated statements of income.

Income tax expenses as shown in the accompanying non-consolidated statements of income differ from the amounts computed by applying the above-mentioned statutory tax rates to "Income before income taxes." Such differences arise partly from entertainment expenses which are not allowable tax deductions. In addition, the differences arise because no tax effects have been recognized on certain timing differences between financial accounting and tax reporting primarily in relation to accrued enterprise tax not deductible until paid, write-down of inventories not deductible until actually disposed of, reserve for doubtful accounts provided in excess of the limit of deduction established by the tax laws and other factors.

9. Long-Term Debt

Long-term debt at March 31, 1994 and 1995, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1994	1995	1995
3.90% convertible bonds due 1995	¥19,816	¥ 19,816	$ 221,780
Zero coupon convertible discount bonds due 1999	19,897	19,897	222,686
Zero coupon convertible discount bonds due 1996	30,620	30,620	342,697
0.55% convertible bonds due 2000	—	100,000	1,119,194
Other long-term debt	615	1,033	11,562
	70,948	171,366	1,917,919
Less: Portion due within one year	—	19,816	221,780
	¥70,948	¥151,550	$1,696,139

The 3.90% convertible bonds due September 29, 1995 in yen were issued on June 27, 1991, in the principal amount of ¥20,000 million. The bonds are convertible into shares of common stock of the Company at the current conversion price of ¥8,671.90 per share.

The zero coupon convertible discount bonds due March 31, 1999, were issued on January 30, 1992, in the principal amount of ¥20,000 million at a discount of ¥75 per par value ¥100. The bonds are convertible into shares of common stock of the Company at the current conversion price of ¥8,548.10 per share.

The zero coupon convertible discount bonds due September 30, 1996, were issued on July 31, 1992, in the principal amount of ¥35,000 million at a discount of ¥87 per par value ¥100. The bonds are convertible into shares of common stock of the Company at the current conversion price of ¥8,304.20 per share.

The 0.55% convertible bonds due September 29, 2000, in yen were issued on June 24, 1994, in the principal amount of ¥100,000 million. The bonds are convertible into shares of common stock of the Company at the current conversion price of ¥7,913.00 per share.

10. Retirement Plan and Severance Indemnities

The employees of the Company are generally entitled to receive lump-sum payments or pension payments upon retirement, under the Company's retirement benefit plans. The amounts of such retirement benefits are determined by reference to the latest rate of pay, length of service and whether the retirement is voluntary or involuntary.

In order to prepare for such retirement benefits, the Company had a funded noncontributory tax qualified pension plan which covered 50% of the retirement benefits payable to employees. Until April 30, 1990, the "Accrued employees' retirement benefits" account had been provided to cover the remaining 50% of the retirement benefits with amortization of excess provisions resulting from the shift of retirement benefits to be covered by the pension plan.

In June 1990, the Company's funded noncontributory tax qualified pension plan was revised to cover 100% of the retirement benefits available to employees.

In November 1993, together with the SEGA Group Companies, the Company transferred 100% of the retirement benefit to a separate contributory pension program which was established as a pension trust fund, pursuant to the welfare pension insurance laws in Japan, whereby the pension fund has substituted for a portion of the government pension program.

As a result, the balance of the "Accrued employees' retirement benefits," which became no longer necessary due to the change, is being amortized to income over a period for which the past service costs of the pension plan are being amortized.

As of March 31, 1995, the past service costs amounted to ¥2,399 million ($26,849 thousand), which will be amortized over 20 years.

With respect to directors and statutory auditors, while the Company has no legal obligation, as is customary practice in Japan, the Company makes lump-sum payments to a director or statutory auditor upon retirement with the approval of a general meeting of shareholders. The amounts are determined on a basis similar to that used for employees' payments. The Company has provided a reserve for such payments to directors and statutory auditors, on an accrual basis.

11. Legal Reserve and Appropriation of Retained Earnings

The Japanese Commercial Code provides that an amount equal to at least 10% of cash distributions (cash dividends and bonuses to officers, etc.) paid out of retained earnings should be appropriated to legal reserve until such reserve equals 25% of the amount of common stock. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit by a resolution of a shareholders' meeting, but is not available for dividend payments.

The Company's Board of Directors, with subsequent approval by shareholders, has made annual appropriations of retained earnings for various purposes, the accumulated balance of which is presented as "Voluntary reserves" in the accompanying financial statements. Any disposition of such appropriations shall be at the discretion of the Board of Directors and shareholders.

12. Analysis of Sales and Cost of Sales

The breakdown of the Company's net sales and cost of sales for the years ended March 31, 1993, 1994 and 1995, is as follows:

	Millions of yen			Thousands of U.S. dollars
	1993	1994	**1995**	**1995**
Net sales:				
Product sales	¥284,966	¥285,185	**¥248,093**	**$2,776,642**
Merchandise sales	1,862	2,839	**1,793**	**20,067**
	286,828	288,024	**249,886**	**2,796,709**
Revenues from amusement center operations	58,914	61,734	**74,204**	**830,487**
Royalties on game software	1,195	4,274	**9,233**	**103,335**
	¥346,937	¥354,032	**¥333,323**	**$3,730,531**
Cost of sales:				
Cost of products and merchandise sold	¥213,816	¥228,764	**¥210,321**	**$2,353,900**
Cost of amusement center operations	38,018	41,541	**47,050**	**526,581**
	¥251,834	¥270,305	**¥257,371**	**$2,880,481**

13. Related Party Transactions

The Company's transactions with its subsidiaries and affiliates for the years ended March 31, 1993, 1994 and 1995, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	1993	1994	**1995**	**1995**
Sales to subsidiaries and affiliates (products)	¥168,022	¥175,062	**¥140,160**	**$1,568,663**
Sales to subsidiaries and affiliates (merchandise)	1	14	**0**	**0**
Revenues from amusement center operations	484	434	**313**	**3,503**
Royalty income	3	108	**243**	**2,720**
Interest income	362	338	**142**	**1,589**
Gain on sales of investment in subsidiaries and affiliates			**1,644**	**18,400**

14. Subsequent Event

APPROPRIATIONS OF RETAINED EARNINGS

The appropriations of retained earnings in respect of the year ended March 31, 1995, proposed by the Board of Directors and approved by the shareholders' meeting held on June 29, 1995, are as follows:

	Millions of yen	Thousands of U.S. dollars
Retained earnings as of March 31, 1995	¥15,993	$178,993
Reversal of special tax-purpose reserves	12	134
	16,005	179,127
Appropriations:		
Cash dividends (¥38 per share)	(2,311)	(25,864)
Transfer to legal reserve	(242)	(2,709)
Bonuses to directors and statutory auditors	(113)	(1,264)
Transfer to voluntary reserves	(8,000)	(89,536)
Total appropriations	(10,666)	(119,373)
Retained earnings to be carried forward	¥ 5,339	$ 59,754

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE NON-CONSOLIDATED FINANCIAL STATEMENTS

To: The Board of Directors of
SEGA Enterprises, Ltd.

We have audited the non-consolidated balance sheets of SEGA Enterprises, Ltd., as of March 31, 1994 and 1995, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years ended March 31, 1993, 1994 and 1995, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of SEGA Enterprises, Ltd. as of March 31, 1994 and 1995, and the results of its operations and cash flows for the years ended March 31, 1994 and 1995, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

June 29, 1995
Tokyo, Japan

Chuo Audit Corporation

Chuo Audit Corporation
Independent Certified Public Accountants

BOARD OF DIRECTORS

(As of June 29, 1995)

Director and Chairman
Isao Okawa

Representative Director, President and Chief Executive Officer
Hayao Nakayama

Representative Director and Executive Vice President
Shoichiro Irimajiri

Executive Vice President
Tokuzo Komai

Senior Managing Director, Consumer Products Domestic
Ren Mori

Senior Managing Director, Consumer Products Overseas
Naoyoshi Takeshita

Senior Managing Director, Administration
Katsuhiko Nishimura

Senior Managing Director, Amusement Machine Marketing
Takenori Ogata

Managing Director, Research and Development
Hisashi Suzuki

Representative Director and Managing Director, Amusement Center Operations
Akira Nagai

Managing Director, Management Strategy
Daizaburo Sakurai

Managing Director, President's Office
Shunichi Nakamura

Managing Director, Management Strategy
Tsuneo Naito

Managing Director, Research and Development
Hideki Sato

Director, Amusement Center Development
Yasuo Tazoe

Director, Research and Development
Mamoru Shigeta

Director, Manufacturing
Tadahiko Ono

Director, Accounting and Finance
Kazutada Ieda

Director, Research and Development
Shigeru Kurasawa

Director, Research and Development
Yu Suzuki

Director, Amusement Center Operations
Hajime Funakoshi

Director, Consumer Products Domestic
Shigeo Kamata

Director, Amusement Machine Marketing Overseas
Nobuo Nakanishi

Director, Consumer Products Domestic
Toshiro Kezuka

Director, Distribution, Maintenance and Support
Rinshichi Tago

Other Directors
David Rosen
Keizo Fujimoto
Hidekazu Yukawa
Junkyo Fujieda

Auditors
Shinkichi Kobayashi
Masanao Ishikawa
Kinsuke Miyazaki
Kenji Hashidate

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Printed in Japan