

## Sega Announce New Corporate Focus on Networked Entertainment Announcement

For further information please contact:

**Miyako Shimizu**  
PR Dept., SEGA Enterprises, Ltd.  
Tel: +81-3-5736-7037  
Fax: +81-3-5736-7059  
ShimizuM@soj.sega.co.jp  
<http://www.sega.co.jp/>

**Charles Bellfield**  
Vice President, Communications, Sega of America, Inc.  
Mobile phone in Japan: 090 3310 2473  
charles.bellfield@sega.com  
<http://www.sega.com>

**Margaret Mathis**  
Access Communications for Sega  
In U.S. (415) 844-6203  
mmathis@accesspr.com

**FOR IMMEDIATE RELEASE**

### SEGA ANNOUNCES NEW CORPORATE FOCUS ON NETWORKED ENTERTAINMENT

*Leading gaming content provider leverages Internet to disseminate content on multiple appliances*

TOKYO -- Oct. 27, 2000 ---- Sega Enterprises, Ltd. today announced it is broadening its network initiatives to reinvigorate the company and make it more competitive globally in the new Internet economy.

Sega has undertaken several restructuring measures, including selling off unused inventory, closing unprofitable amusement facilities, optimizing distribution systems, and integrating overseas subsidiaries. In addition, Sega has started a program of semi-independence of the Software R&D Division and AM Facility Operation Business, which will improve cost management and creative development. Finally, Sega has implemented changes to its management structure and will announce new outside advisors who will sit on its board.

#### An Online Network and Content Company

The most important change is that Sega has transitioned its corporate strategy to an “online network and content company” where the direction of the company will be focused on new Internet opportunities. The market for online gaming is expected to explode from its current

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2% to 24% of the \$7 billion video game market by 2002. To ensure its ability to deliver a unique experience to consumers well ahead of rival companies, Sega has been developing an extensive, global Internet infrastructure and a number of online network games and applications.

Sega's goal was realized with the introduction of the modem-equipped Dreamcast video game console and development of four online network companies in Japan, America, Europe, and greater-Asia. The company has made an aggressive effort to establish a network business by building a worldwide consistent low latency network in four regions to enhance the Dreamcast experience (e.g. Sega's online networks and Voice-Over IP for audio and the Dreameye Camera for video).

In addition, Sega has developed and shipped breakthrough online multi-player network games. This new content has introduced a whole new experience in Japan, U.S. and Europe several years ahead of competitors. As a result, Sega has 1.4 million users on its Sega Dreamcast online network worldwide. Sega is widely recognized as setting the new trend of embracing internet opportunities with video games, as seen by the excitement in the U.S. over Sega Sports' NFL2K1 which has been the top-selling title across all video game platforms for three weeks with more than 400,000 copies sold to date.

The Internet is poised to radically alter consumers entertainment patterns, and as a result redefine the global entertainment industry. By embracing the Internet opportunity, and the changing life styles of our consumers, we are convinced that Sega's position as market leader will allow for huge growth in this new economy. By building the vertical technology, including the network and content, Sega is driving the industry toward this new networked society and is setting a precedent for the industry to follow.

### Personnel change of top executives and implementation of new management structure:

Based on the resolution of the provisional board meeting on October 27th, 2000, Sega announces personnel change of the representative executives as stated below:

As of November 1st, Senior Managing Director Hideki Sato will assume the post of Representative Director and Vice President of Sega. Sato will be responsible for the business and affairs of Sega as chief executive under the direction of Isao Okawa, Representative Director, Chairman and President. Sato, has extensive background in the technical field, and exceptional business sentiment but is also highly knowledgeable about Sega's business affairs, has been responsible for the network business as the director of development at Sega.

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In addition, Toshimichi Oyama, who is currently the board member of Sega and Representative Director and President of ISAO Corporation, will be promoted to Senior Managing Director to be responsible for the network service business of Sega Group. At the same time, Tetsu Kayama, currently the Managing Director of Media Factory, Inc., will be appointed as Strategic Council and will take full responsibility of Sega's content business.

Further, Shoichiro Irimajiri will resign his current post as Executive Vice Chairman, and will assume the post of Executive Senior Advisor.

Representative Director  
and Vice President: Hideki Sato (Senior Managing Director)  
Executive Senior Advisor: Shoichiro Irimajiri (Executive Vice Chairman)  
Senior Managing Director: Toshimichi Oyama  
(board member / Director and President of ISAO Corporation)  
Strategic Council: Tetsu Kayama (Managing Director of Media Factory, Inc.)

### 1. SEMI-ANNUAL HIGHLIGHTS AND AMENDMENT OF BUSINESS PLAN

Sega amends business plan for Year 2001 as follows.

#### Amendment of non-consolidated business plan from Apr. 1<sup>st</sup> to Sep. 30<sup>th</sup>, 2000:

	Net Sales	Ordinary Income (loss)	The net Income (loss) for the period	<Million of Yen>
Previous prospect (A)	140,000	1,200	1,100	
Today's announcement (B)	127,000	(14,000)	(17,900)	
(B) - (A)	(13,000)	(15,200)	(19,000)	
rate of change	(9.3%)	-	-	

#### Amendment of non-consolidated business plan from Apr. 1<sup>st</sup> to Mar. 31<sup>st</sup>, 2001:

	Net Sales	Ordinary Income (loss)	The net Income (loss) for the period	<Million of Yen>
Previous prospect (A)	240,000	3,600	3,100	
Today's announcement (B)	224,000	(11,300)	(14,800)	
(B) - (A)	(16,000)	(14,900)	(17,900)	
rate of change	(6.7%)	-	-	

#### Amendment of consolidated business plan from Apr. 1<sup>st</sup> to Sep. 30<sup>th</sup>, 2000:

	Net Sales	Ordinary Income (loss)	The net Income (loss) for the period	<Million of Yen>
Previous prospect (A)	133,000	300	600	
Today's announcement (B)	113,000	(27,800)	(29,200)	
(B) - (A)	(20,000)	(28,100)	(29,800)	
rate of change	(15.0%)	-	-	

#### Amendment of consolidated business plan from Apr. 1<sup>st</sup> to Mar. 31<sup>st</sup>, 2001:

	Net Sales	Ordinary Income (loss)	The net Income (loss) for the period	<Million of Yen>
Previous prospect (A)	336,000	2,600	1,500	
Today's announcement (B)	320,000	(16,800)	(22,100)	
(B) - (A)	(16,000)	(19,400)	(23,600)	
rate of change	(4.8%)	-	-	

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- **Amusement Business**

The completed reorganization of the amusement operation management has resulted in increased revenue and profits, exceeding initial expectations.

Sega is the only company that can consistently supply new products of all genres to the amusement customers. Specifically, Sega has focused on producing such original and creative new products as Derby Owners Club, Star Horse, and Super GuruGuru Station, which require players to actively participate, thus increasing revenue significantly.

Sega's new opportunities for growth include "net@," an experimental broadband service using a fiber optic network between arcade and amusement locations.

- **Consumer Business**

Dreamcast sold a total of 5.98 million machines worldwide. The geography breakout is 1.95 million in Japan, 2.70 million sold-in in the U.S., 930,000 in Europe, and 290,000 in Asia by September 30, 2000. The current number of Dreamcast that have been registered online are: 750,000 in Japan, 400,000 in North America and 400,000 in Europe, totaling 1.55 million worldwide by October 27, 2000.

Sega is building programs to further increase Dreamcast sales, expand network service subscriptions, and to increase the sales of network games and services. Below are Sega's network strategies which were rolled-out in the U.S. and Europe in September:

- 1 Introduced SegaNet ISP and gaming network service in the U.S.
- 2 Instigated a "Free Dreamcast" rebate program for subscribers who signed up for 18 months on SegaNet
- 3 Set a new price for Dreamcast hardware in the US and Europe (\$149.95 dollars in the U.S., \$149.99 pounds in Europe)
- 4 Shipping more than 20 network games, such as Phantasy Star Online, NFL2K1, NBA2K1, and QUAKE III ARENA, by the end of the fiscal year.

The U.S. market is a good barometer of the potential of this strategy. For example, a top analyst in the U.S., PJ McNealy of Gartner Group said, "Sega has five things going for it that Sony doesn't: They have hardware in stock. They have plenty of hardware in stock. They have a modem that comes with the machine. They have games online. And they are half of the price of PlayStation 2."

Building upon this strategy, Sega is targeting the cumulative total of 10 million Dreamcasts and the online membership of over 3 million subscribers worldwide by the end of this fiscal year.

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These strategies have already spurred critical acclaim and significantly increased sales in the US and Europe. Many industry analysts and press have reinforced the opportunity Sega has in the U.S. and Europe, and believe the company can easily achieve these objectives.

For example, in the five weeks since the US price reduction, Sega's share of the market has increased to 29.9 percent of all unit sales. Further sales success is expected this holiday season, especially as Sony is struggling to recover from a significant reduction in shipments of PS2.

In Europe the Dreamcast is also receiving enthusiastic response from consumers and the video game industry alike. "The Dreamcast is the essential Christmas purchase and the games players console of choice this Christmas. Retailers are making sure they can fulfill Christmas demand for a new console, by promoting Dreamcast and demand has never been higher, eagerly awaited console masterpieces like Shenmue are guaranteed to make it a Dreamcast Christmas," said Dean Van Velson, Gem Distribution.

With the adoption of a new price point for the U.S. and European market, Sega will experience an 18.5 million deficit during this coming year. However, Sega is taking an aggressive stance to increase software sales and network subscribers, increasing revenue per customer and establishing a network community a year and a half before any competitor. Many industry analysts and media have noted that the widespread availability of Dreamcast consoles, combined with a compelling price point, superior games and online gaming capabilities, position Sega very well for the upcoming holiday selling season and beyond.

### **2 BUSINESS VISION**

Sega expects to have completed a strong foundation for its online network business by the end of this year, and has set its business vision for the future as laid out below:

1. The Internet is causing fundamental changes:

In this great tide of change, CSK/Sega Group is focused to broaden its Internet businesses, embarking on a new program, "ES (Electronic Service) Changes The World," focused on delivering services and content over the internet.

2. Vision of Sega in 2003:

With the aim of sustaining growing and stable profits with our content and amusement businesses while embracing the Internet, Sega's vision is to become "the world's leading network gaming content provider" in the year 2003. And, in doing so, Sega will be centered around these three core businesses: 1) Online network video game content; 2)

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Narrow and Broadband electronic services to the online community and 3) Location-based amusement centers featuring Sega's unique content.

### **3. Business Strategies:**

Sega has always been a pioneer in providing the newest video game experience to consumers. Sega was the first company to introduce real-time simulation games and 3-D graphics, and most recently, has pioneered the development of Internet-based games and services. For example, Sega Sports, NFL 2K1, a sports network game that was released in the U.S. on September 7, sold 350,000 units within a month. SegaNet has already gained over 110,000 members in the US, and the membership is growing rapidly, clearly showing gamers' keen interest in network gaming. Also, Phantasy Star Online, an RPG network game available in five different languages, is coming out this winter. Sega believes that its creative and interactive content will remain critically unsurpassed and in demand.

#### **A. Content Business Strategy**

Sega's strength lies in its huge content library, its ability to develop compelling content, and experience in building a high-performance, low-latency gaming network. Sega sees new market opportunities in leveraging its content to take advantage of a multitude of new Internet appliances.

Sega's content is universally acknowledged as being the industry's best. Sega has always been an innovator in developing creative content using unique ideas with market potential. For its content business, Sega plans to employ a multi-application and protocol strategy within the digital appliance and consumer market to increase profitability.

Connection to the Internet always been central to Dreamcast, making it beyond compare with other next generation gaming consoles. As Sega moves forward, the online experience of video games will become the central focus for the company. And, the online network itself will become the gaming platform. Sega is in the process of building this online community of gamers that realize the online network and content allows for greater entertainment enjoyment, not the hardware itself. The scenario that Sega envisions to support the content business is as follows:

- Step 1: Sega will provide content to existing platforms such as PCs, mobile phones, and handheld PDAs.

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- Step 2: Sega will provide an online network and content to today's wireless devices and the next generation Broadband wireless products.
- Step 3: Sega will provide content to Set Top Boxes (STBs) and consumer entertainment devices in conjunction with hardware manufacturers.

Following these steps, Sega will attain the goals described below for packaged game software, network content and mobile device games.

- 1 Packaged game software: With its existing and new software titles, Sega plans to gain the largest global market share possible.
- 2 Network game software: Sega continues to lead the industry and aims to be the largest online gaming community for multiple devices across the world.
- 3 Mobile game software: Sega will enter into alliances with top companies in the mobile business to become the leading game software provider in the handheld market.

Further, Sega will take other strategic measures such as utilizing its vast software library of more than 1,000 titles to develop content for other consumer entertainment and mobile devices, making full use of Sega's renowned brand and characters to expand its game software business.

### **B. Network Business**

Sega has already launched its own ISP and gaming networks providing high speed, low-latency and true online gaming services for Sega's content. The ISP companies are: ISAO in Japan, SEGA.COM in the U.S., Dreamarena in Europe, and SEGA.COM ASIA.

Furthermore, Sega will supply the online community through different hardware devices with popular games and services at the best consumer price points. There are five key elements of the Network Business strategy: (1) Create a global networked gaming community by continuing to develop innovative game software, providing tools and software to ASPs, and developing alliances with ISPs; (2) Strengthening the network business for mobile phones through a multi-protocol strategy by forming alliances with industry leaders, providing content for the formats interlocking with i-mode and other network technologies, developing technological know-how for API (application programming interface) and server development operations and promoting business expansion overseas; (3) Electronic distribution and download of content; (4) Developing Broadband content and fiber optic network with strategic partners; (5) Internet video conferencing and telephone business.

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### **C. Sega Platform Business**

Sega is embracing an ingredient technology strategy. The Dreamcast chip-set and APIs will be optimized to perform inside a myriad of other Internet-enabled devices. Through this multi-device, multi-protocol strategy Sega will be able to expand its business into other consumer devices including mobile phones, PCs and Set Top Boxes that offer Dreamcast-formatted content.

Steps Sega will take to expand its business include: minimize the Dreamcast architecture to a single chip, provide the Dreamcast architecture for manufacturers of Wireless devices, PCs and Set Top Boxes, promote Dreamcast as a network content technology and supply Dreamcast network content to appropriate amusement businesses.

### **C. Amusement Business**

Sega's share of this consolidating market is increasing along with larger revenue and profitability due to the unique nature of compelling content and consistent delivery. A series of completed restructuring plans have helped to restore the amusement operations' business and machine sales to profitability.

To maximize growth potential, Sega will promote hybrid amusement centers with a variation of integrated amusement services and products, creating diversified entertainment for a new market and customers. Sega will forge alliances with companies in such industries as motion pictures, music, animation, broadcasting, network infrastructure, food service, and video.

Sega is leading the development of Broadband fiber optic networks, linking arcade centers together and delivering a new compelling experience of competition between different locations. Sega is developing new technologies and content embracing Broadband that will be made available in 2001.

## **3 FUTURE VISION**

Sega's vision is to build upon its 40 years of creating industry innovations and compelling content and extend it into a myriad of strategies all designed to capture the business potential of the Internet and online gaming. All of Sega's management resources will be focused on delivering against the company's network and amusement business strategies in order to achieve the ultimate goal of becoming the leading network game content provider in the world.

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