

**SEGA CORPORATION**  
**Consolidated Financial Results**  
**for Nine Months Ended December 31, 2003**

Company Name: SEGA CORPORATION  
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1. Consolidated Results for Nine Months Ended September 30, 2003

1) Consolidated Results

(millions of yen)

	Net Sales	Operating Income	Recurring Profit	Net Income
Nine Months Ended December 31, 2003	144,512	12,504	10,626	7,655
Nine Months Ended December 31, 2002	150,697	9,396	8,869	3,981
Fiscal Year Ended March 31, 2003	197,223	9,296	7,783	3,054

(yen)

	Net Income per share	Net Income per share after full dilution
Nine Months Ended December 31, 2003	49.38	44.13
Nine Months Ended December 31, 2002	25.74	23.27
Fiscal Year Ended March 31, 2003	19.73	18.71

2) Consolidated Financial Data

(millions of yen)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per share (yen)
Nine Months Ended December 31, 2003	198,833	95,411	48.0%	615.41
Nine Months Ended December 31, 2002	219,441	87,995	40.1%	567.55
Fiscal Year Ended March 31, 2003	222,067	86,886	39.1%	560.40

(Reference) Non-consolidated Financial Results for Nine Months Ended December 31, 2003

(millions of yen)

	Net Sales	Operating Income	Recurring Profit	Net Income
Nine Months Ended December 31, 2003	74,505	6,359	6,924	8,201
Nine Months Ended December 31, 2002	77,432	3,720	3,856	(180)
Fiscal Year Ended March 31, 2003	100,042	2,093	1,944	(2,536)

(millions of yen)

	Total Assets	Shareholders' Equity
Nine Months Ended December 31, 2003	155,247	87,401
Nine Months Ended December 31, 2002	176,861	80,894
Fiscal Year Ended March 31, 2003	180,634	78,631

2. Forecast for the Consolidated Financial Results for the Year Ending March 31, 2004

(millions of yen)

	Net Sales	Recurring Profit	Net Income
Fiscal Year Ending March 31, 2004	190,000	11,500	8,000

(Reference) Forecast for Net Income per Share:51.60 yen

(Reference) Forecast for the Non-consolidated Financial Results for the Year Ending March 31, 2004

(millions of yen)

	Net Sales	Recurring Profit	Net Income
Fiscal Year Ending March 31, 2004	95,500	6,300	9,000

## 1. Overview

### 1) Overview of Nine Months Results

The three quarter ended September 31, 2003 brought encouraging signs of improvement in Japan's economic situation, including recovery trends in corporate capital investments and share price. However, consumer spending continued to stagnate in the industry.

Under these circumstances, SEGA and its group companies focused on the development of their business activities as leaders in the entertainment and amusement industries.

Consolidated results for nine months were as follows;

Net Sales: ¥144,512 million (down 4.1% YoY)

Operating Income: ¥12,504 million (up 33.1% YoY)

Recurring profit: ¥10,626 million (up 19.8 % YoY)

Net Income: ¥7,655 million (up 92.3% YoY)

### 2) Results by Business Segment

#### (Amusement Machine Sales)

In amusement machine sales in Japan, An industry trend toward the aggressive establishment of new large-scale facilities was reflected in strong demand for SEGA's regular products including Prize machines, print seal photo booth and medal machines. In addition, the Company released the new products with SEGA's cutting-edge technologies. During the term, the Company released its legendary driving game, *Outrun 2*, and *Starhorse progress*. These new products also contributed to the company's favorable earnings. The Company's earnings in this term were above projection.

In overseas, the Company introduced high value-added products and struggled to spread of the new games. As a result, the Company amounted to the results as planned.

#### (Amusement Center Operations)

In amusement center operations, the Company recorded the favorable results in sales and profit. Especially, *Kochu-oja Mushi-King*, continues to record favorable results. During third quarter ended December 31, 2003, the Company opened 7 new facilities and closed 14 ones. As a results, during nine months , the Company opened 18 new facilities and closed 28 ones, thus, as of the end of the term, the number of the facilities was 488.

#### (Consumer Business)

In nine months ended September 31, 2003, the Company sold 760 thousand units of 13 SKUs in

Japan, 1,150 thousand units of 5 SKUs, and 520 thousand units in Europe. Total Sales units amounted to 5,950 thousand units of 49 SKUs. Though the market condition in Japan was severe, new launch titles including sport management simulation game, *Let's make a professional baseball team! 2003 (PS2)*, and racing horse development simulation game, *Dabitsuku 3 (PS2)*, and existing titles recorded a favorable sales.

Though U.S. Sports titles were received good reputations toward their quality and held No. 2 position, sales units were below the projection. This was mainly due to that the Company could not penetrate the ESPN brand, which was introduced this year.

On the other hand, the results of entertainment titles were above the projection, due to that the repeat orders of already released titles including *SONIC Series* exceeded the projection. As a results, overall sales was similar to the projection.

In Europe, the results were below the projection due to that the Company delayed *Sonic Heroes* (PS2, Xbox, GC) to fourth quarter.

The Company reduced development cost, advertisement cost, and other SG&A cost as planned.

## 2. Financial Conditions

Total assets decreased ¥23,234 million to ¥198,833 million, compared with the previous year-end. Shareholders' equity increased ¥8,525 million to ¥95,411 million. Thus, shareholders' equity ratio rose 8.9 percent point to 48.0%. This improvement was mainly from the reduction of interest-bearing debt in line with financial reform plan.

As of December 31, 2003, interest-bearing debt was ¥60,647 million and cash and cash equivalent was ¥71,819 million. As a result, net cash (cash and cash equivalents less interest-bearing debt) was ¥11,172 million.

The Company retired ¥37,860 million of ¥50 billion convertible bonds due June 2004 in the previous fiscal year and interim term of the current fiscal year. As a result, amount outstanding was ¥12,140 million as of September 30, 2003. In addition, the Company purchased ¥679 million of the above convertible bonds for retirement during three months ended December 31, 2003.

## 3. Forecast for the Current Fiscal Year

Results in the three quarter were almost same level as projection. The Company forecasts that in the entertainment industry and amusement industry, it seems to continue uncertainty of consumer behavior.

The Company forecasts the earnings for the year ending March 2004 as follows.

Consolidated Nat Sales: ¥190,000 million

Consolidated Recurring Profit: ¥11,500 million

Consolidated Net Income: ¥8,000 million

In Consumer business, the Company expects to sell over 1 million units of *SONIC Heroes*. In addition, the Company expects to improve the profit, thanks to the structural reform. However, to increase the products' quality, the Company delayed the launch of titles including *Dororo* and *Headhunter 2*, and consolidated subsidiary SEGA TOYS Co., Ltd. revised its results forecast. As a result, the Company revised net sales forecast for the year ending March 2004.

The Company revised non-consolidated results forecasts. This was due primarily to the favorable sales in amusement machine sales. The revised forecasts were as follows: Net sales: ¥95,500 million, Recurring profit: ¥6,300 million, and Net income: ¥9,000 million. In amusement business, to contribute to the facility operations and customer satisfaction, the Company will provide the new enjoyment with network, establish the new business model, and sell new category machines.

In addition, in consumer business, to adjust to the new era, the Company will work to strengthen the profitability and marketability and introduce full-fledged online games centered in Japan and Asia, strengthen the home network entertainment.

## Consolidated Balance Sheets

SEGA CORPORATION and Consolidated Subsidiaries  
As of December 31, 2002 and 2003, and March 31, 2003

(millions of yen)

ASSETS	2003.12	2002.12	2003.3
<b>Current Assets:</b>			
Cash and time deposits	71,819	70,787	101,366
Notes and accounts receivable	25,933	28,374	17,515
Inventories	10,188	10,359	8,838
Other current assets	9,506	13,390	11,059
Less allowance for doubtful accounts	(1,125)	(1,575)	(1,379)
Total current assets	116,322	121,336	137,401
<b>Property and Equipment</b>			
Amusement machines and facilities	11,428	11,523	9,893
Building and structure	17,571	20,295	18,126
Land	9,335	11,834	9,290
Others	3,935	4,118	4,085
Total property and equipment	42,270	47,772	41,396
<b>Intangible Fixed Assets</b>	4,507	5,833	5,846
<b>Investments and Advances</b>			
Investments in securities	13,265	18,809	12,431
Fixed Leasehold deposits	15,909	16,918	17,012
Other investments	15,155	16,399	15,668
Less allowance for doubtful accounts	(8,797)	(8,257)	(8,406)
Total investments and advances	35,533	43,870	36,705
<b>Deferred Charges</b>	199	629	717
Total Assets	198,833	219,441	222,067

(millions of yen)

LIABILITIES	2003.12	2002.12	2003.3
<b>Current Liabilities:</b>			
Notes and accounts payable	20,860	20,471	14,762
Short-term bank loans	2,545	2,821	1,510
Current portion of debentures	2,930	1,000	2,450
Current portion of convertible bonds	12,140	-	-
Current portion of long-term bank loans	4,988	4,326	4,939
Accrued expenses	7,996	7,834	9,981
Income taxes payable	543	314	1,194
Other current liabilities	6,363	12,548	7,541
Total current liabilities	58,367	49,318	42,379
<b>Long-Term Liabilities</b>			
Debentures	14,480	2,000	15,550
Convertible bonds	6,806	56,806	51,806
Long-term debt	16,757	17,246	19,005
Deferred income taxes	536	99	330
Accrued employees' retirement benefits	4,359	3,764	3,679
Accrued retirement benefits for directors and corporate directors	177	130	122
Other	1,071	1,321	1,256
Total long-term liabilities	44,188	81,367	91,750
Total Liabilities	102,555	130,685	134,129
<b>Minority Interests in Consolidated Subsidiaries</b>	866	760	1,051
<b>Shareholders' Equity</b>			
Common stock	127,582	127,582	127,582
Additional paid-in capital	2,171	2,171	2,171
Retained earnings	14,353	10,759	6,816
Adjustment of revaluation of land	(6,265)	(9,280)	(6,264)
Unrealized gain on investments in securities	288	(741)	(551)
Translation adjustment	(9,073)	(8,856)	(9,227)
Treasury stock	(33,646)	(33,639)	(33,641)
Total Shareholders' Equity	95,411	87,995	86,886
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	198,833	219,441	222,067

## Consolidated Statement of Operations

SEGA CORPORATION and Consolidated Subsidiaries

For the Nine Months Ended September 30, 2002 and 2003 and the Year Ended March 31, 2003

(millions of yen)

	2003.12	2002.12	2003.3
<b>Net Sales</b>	<b>144,512</b>	150,697	197,223
<b>Cost of Sales</b>	<b>104,035</b>	107,588	144,161
Gross profit	<b>40,476</b>	43,109	53,062
<b>Selling, General and Administrative Expenses</b>	<b>27,972</b>	33,712	43,765
Operating income	<b>12,504</b>	9,396	9,296
<b>Non-Operating Income</b>	<b>650</b>	1,351	1,245
<b>Non-Operating Expenses</b>	<b>(2,528)</b>	(1,878)	(2,758)
<b>Recurring Profit</b>	<b>10,626</b>	8,869	7,783
<b>Extraordinary Income</b>	<b>1,906</b>	3,972	6,072
<b>Extraordinary Loss</b>	<b>(3,442)</b>	(5,691)	(7,408)
Income before income taxes and minority interests in earnings of consolidated subsidiaries	<b>9,090</b>	7,150	6,447
<b>Income taxes</b>			
Current	<b>1,275</b>	1,900	1,944
Deferred	<b>194</b>	1,133	1,395
<b>Minority interests in Earnings of Consolidated Subsidiaries</b>	<b>(35)</b>	134	53
Net Income for the term	<b>7,655</b>	3,981	3,054

(Notes) 1. The above financial information was prepared using accounting principles generally accepted in Japan.  
2. Figures less than 1million yen have been omitted.

## Consolidated Statements of Capital Surplus

SEGA CORPORATION and Consolidated Subsidiaries

For Nine Months ended December 31, 2002 and 2003, and the Year Ended March 31, 2003

(millions of yen)

	2003.12	2002.12	2003.3
<b>(Capital Surplus)</b>			
<b>Capital Surplus at Beginning of the Term</b>	2,171	124,916	124,916
<b>Increase in Capital Surplus</b>			
Conversion of convertible bonds	-	1,549	1,549
Exercise of warrants	-	622	622
<b>Decrease in Capital Surplus</b>			
Decrease in capital surplus due to disposition of losses	-	124,916	124,916
<b>Capital Surplus at End of the Term</b>	2,171	2,171	2,171
<b>(Retained Earnings)</b>			
<b>Deficit at Beginning of the Term</b>	6,816	(118,037)	(118,037)
<b>Increase in Retained Earnings</b>			
Net Income for the Term	7,655	3,981	3,054
Increase in retained earnings due to disposition of losses	-	124,916	124,916
Adjustment on revaluation of land during the period	0	-	-
<b>Decrease in Retained Earnings</b>			
Directors' Bonus	118	101	101
Adjustment on revaluation of land during the period	-	-	3,016
<b>Retained Earnings at End of the Term</b>	14,353	10,759	6,816



**Non-consolidated Balance Sheets**

SEGA CORPORATION

As of December 31, 2002 and 2003, and March 31, 2003

(millions of yen)

	2003.12	2002.12	2003.3
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits	52,238	46,860	79,386
Notes and accounts receivable	18,219	21,363	14,804
Inventories	5,002	5,422	4,371
Other current assets	13,836	20,485	14,995
Less allowance for doubtful accounts	(331)	(620)	(549)
Total current assets	88,966	93,512	113,009
<b>Property and Equipment</b>			
Amusement machines and facilities	830	589	708
Building and structure	10,590	12,803	10,912
Land	8,968	11,453	8,924
Others	2,445	2,570	2,396
Total property and equipment	22,835	27,416	22,941
<b>Intangible Fixed Assets</b>	3,136	3,438	3,471
<b>Investments and Advances</b>			
Investments in securities	6,905	6,897	5,728
Fixed Leasehold deposits	1,993	1,508	1,535
Other investments	43,880	82,546	69,061
Less allowance for doubtful accounts	(12,652)	(39,089)	(35,832)
Total investments and advances	40,126	51,864	40,493
<b>Deferred Charges</b>	182	629	717
Total Assets	155,247	176,861	180,634

(millions of yen)

	2003.12	2002.12	2003.3
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Notes and accounts payable	14,081	13,738	9,194
Short-term bank loans	749	-	841
Current portion of long-term bank loans	600	-	600
Current portion of debentures	2,900	1,000	2,450
Current portion of convertible bonds	12,140	-	-
Accrued expenses	6,636	11,220	12,341
Income taxes payable	39	41	54
Other current liabilities	3,096	7,979	2,135
Total current liabilities	40,245	33,979	27,618
<b>Long-Term Liabilities</b>			
Debentures	13,600	2,000	15,550
Convertible bonds	6,806	56,806	51,806
Long-term debt	3,600	-	3,900
Deferred income taxes	206	-	-
Accrued employees' retirement benefits	2,429	2,326	2,290
Accrued retirement benefits for directors and corporate directors	94	71	59
Other	864	782	777
Total long-term liabilities	27,600	61,987	74,383
Total Liabilities	67,845	95,966	102,002
<b>Shareholders' Equity</b>			
Common stock	127,582	127,582	127,582
Additional paid-in capital	2,171	2,171	2,171
Retained earnings	(2,740)	(5,570)	(10,942)
Adjustment of revaluation of land	(6,265)	(9,280)	(6,264)
Unrealized gain on investments in securities	300	(367)	(274)
Treasury stock	(33,646)	(33,639)	(33,641)
Total Shareholders' Equity	87,401	80,894	78,631
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	155,247	176,861	180,634

## Non-consolidated Statement of Operations

SEGA CORPORATION

For Nine Months Ended September 30, 2002 and 2003 and the Year Ended March 31, 2003

(millions of yen)

	2003.12	2002.12	2003.3
<b>Net Sales</b>	<b>74,505</b>	77,432	100,042
<b>Cost of Sales</b>	<b>54,089</b>	59,286	77,933
Gross profit	<b>20,415</b>	18,145	22,109
<b>Selling, General and Administrative Expenses</b>	<b>14,055</b>	14,425	20,015
Operating income	<b>6,359</b>	3,720	2,093
<b>Non-Operating Income</b>	<b>2,903</b>	2,767	3,439
<b>Non-Operating Expenses</b>	<b>2,338</b>	2,631	3,588
<b>Recurring Profit</b>	<b>6,924</b>	3,856	1,944
<b>Extraordinary Income</b>	<b>1,580</b>	3,213	4,705
<b>Extraordinary Loss</b>	<b>1,956</b>	9,915	12,609
Income before income taxes and minority interests in earnings of consolidated subsidiaries	<b>6,548</b>	2,844	(5,959)
<b>Income taxes</b>	(1,652)	(2,663)	(3,423)
Net income (loss) for the term	8,201	(180)	(2,536)
Loss Carried Forward from the previous fiscal year	(10,942)	(5,389)	(5,389)
Adjustment of revaluation of land	0	-	(3,016)
Undisposed Loss	(2,740)	(5,570)	(10,942)

- (Notes)
1. The above financial information was prepared using accounting principles generally accepted in Japan.
  2. Figures less than 1million yen have been omitted.