



Sega Enterprises, Ltd.
2-12, Haneda 1-chome, Ohta-ku
Tokyo 144-8531, Japan

1. Management Policy

1. Principles of Corporate Management

SEGA Enterprises, Ltd., has developed and maintained a firm position in the entertainment industry by consistently creating innovative 'amusement' for their consumer products, amusement machine sales and amusement facility operation businesses. Furthermore, we have continued to accumulate technologies as the forerunner of the Internet and networking age, a literal powder keg of business opportunity. In particular, the Company early on predicted the transition to an Internet society and quickly added an internal modem to its 128-bit 'Dreamcast' video-game console as a standard feature. SEGA has also concentrated on developing network games with dynamic communications features and such peripherals as a system that uses the Company's 'Dreameye,' Internet digital video camera for Dreamcast to enable video-mail and TV conference. We are convinced of the imminent arrival of an era that will make enormous use of the technologies and content that we have stockpiled in anticipation of the Internet and networking age.

The CSK SEGA Group values the maxims that "the Internet will change the world" and "ES (electronic service) will change the world." Under these basic maxims, SEGA envisions the creation of new network entertainment in the three fundamental lifestyle arenas of 'Street (out on the town,)' 'Mobile (on the move,)' and 'Home (in the home,)' exemplified by arcade centers, mobile phones, and Dreamcast, respectively.

With its sights set firmly on the networking society of the 21st century, SEGA, together with its Group affiliates, will convert the whole of its operational resources to a networked model and further solidify the unique essential technologies that it has hitherto established, in Japan, North America, Europe, and other regions in Asia. Thus aligned, the Company will strive to be a corporation meeting the demands of each and every customer, delighting them, and supporting a truly bountiful human lifestyle.

2. Profit-Sharing Policy

SEGA considers the return of profit to its shareholders to be one of its most crucial policies and ranks proactive profit sharing among its top operational responsibilities. Moreover, to enhance future corporate value it is our wish to aggressively invest internal undistributed profits in our network-related business.

3. Medium-Term Management Strategy

SEGA views a network as not merely the linking of users through communications technology but the formation of a community composed of those users. The tools required to reach the users in this community are infrastructure, access terminals, and content. All three of these elements are already in the possession of SEGA and its Group affiliates, who also maintain a firm and powerful foundation in the Internet and networking society.

With regard to infrastructure, Isao Corporation in Japan, Sega.com, Inc. in the United States, and Dreamarena, Ltd. in Europe have commenced network services and have already amassed more than 1.2 million subscribers. Hereafter, we will strive to increase subscribers through the enhancement of network games and online interactive content and the thorough implementation of such new communications and Internet/interactive services as our 'DreamCall' VoIP Internet telephone service and video-mail, photo-mail and video chat functions using Internet digital video and camera, Dreameye. Furthermore, the Company is already engaged in Dreamcast Internet connection trials using cable television connection cables and is steadily proceeding toward broadband and wide-band access.

In preparation for the conversion of business from narrow-band to broadband/wide-band access, SEGA is rolling out its ES business, for which it has set the firm target of establishing a 'live community' of 10 million subscribers.

As for access terminals, Dreamcast sales promotion is proceeding on a worldwide basis. Already, 5.55 million units have been shipped around the world and have received wide support for their performance and affordability. Moreover, Dreamcast possesses outstanding features as a user-friendly, affordable, and versatile network terminal, and SEGA is striving to promote its sales as the only presently available network video game console. The Company is also pushing through a variety of measures to comply with the digitization of television broadcasts and wide-band access.

In terms of content, we are confident that the technologies we have accumulated thus far and our world-class developmental prowess will have an enormous part to play. Content is generally considered the most crucial of the three major network elements, and our many creators, infused with an abundantly sensible and entrepreneur spirit, are dynamically proceeding with the development of a variety of online games and content in their own individual fields of specialty. Hereafter, SEGA will continue to provide the network-based community with such network entertainment content as games incorporating videos, sounds, and photographs taken with Dreameye as well as revolutionary software titles using voice- and image-recognition technologies.

Market-oriented management that is capable of responding shrewdly to social trends is essential to the concrete execution of the aforementioned operational strategy. SEGA also recognizes deft responses to such market

changes as Internet speed as another essential element and, as such, is striving to adopt the most efficient operational scheme possible. As already announced, the Company is sectioning off its Amusement Facility Operations Business Division and will establish its Software R&D Divisions as separate companies. Eventually, SEGA's corporate structure will approach that of a holding company and assume a flat and efficient operational layout.

Additionally, with regard to their operations SEGA Group affiliates including SEGA TOYS, Ltd., the 'Pico,' 'Poo-chi' and other digital toys manufacturing and sales company, S.G.S. Co., Ltd., the pachinko and slot machines distribution company and SEGA Music Networks, Ltd., the karaoke services company are steadily enhancing their network businesses and fortifying their administrative structures and financial standings in preparation for public stock offerings.

With 'network' as its key word, SEGA and its Group affiliates will generate new entertainment and strive for increased corporate value as a networking Group of companies supplying dynamic content and service.

4. Matters Demanding Corporate Attention

Amusement Business

Owing to improvements in home game console performance and the complexity of social entertainment, the market itself for SEGA's entertainment business has contracted in recent years. As part of its policies to revamp its conventional business model, the Company has already started to put forward such new game playing paradigms as "Derby Owners Club." Hereafter, we will promote and increase the stimulation to introduce optic fiber networks into our amusement facilities, providing more events firmly rooted in their local communities and wide range of contents. Sega will be able to offer a latent community life space and creative network services, 'Entertainment Cyber Space' on an enhanced broad-band network environment which users, until now have not been able to experience at home.

As the first phase of this development, coinciding with the July 2000 'The Exhibition of Dream Technologies for the 21st Century,' SEGA will fiber-optically link three of its amusement facilities and 150 terminals and commence networked games and a variety of other interactive content or services there. Thereafter, the Company will expand these new operations to a multi-location chain, including both its own facilities and other amusement operator's facilities.

Furthermore, to create a one-stop entertainment destination meeting a variety of amusement demands, SEGA will proactively enhance its ties to other industries and convert its amusement facilities into hybrid enterprises.

Consumer Products

In SEGA's consumer products business, of the 5.55 million units of Dreamcast already shipped throughout the world, approximately 1.2 million users are now

linked to our networking community due to the efforts of Isao Corporation in Japan, Sega.com, Inc. in the United States, and Dreamarena, Ltd., in Europe. Hereafter, the Company will strive for expanded worldwide sales of Dreamcast and place top priority on increasing the number of network subscribers. Furthermore, we will provide these subscribers with such revolutionary communications tools as video chat and Internet telephony using Dreameye, the first networked console-based RPG and worldwide massive multi-player game play 'Phantasy Star Online,' 'Far Nation,' 'Sonic Square,' and other never-before-known network entertainment and real time communication. Through such efforts, SEGA will deliver numerous electronic services that will lead the 21st century Internet and networking society of truly abundant new human and electronic experiences.

Establishment of SEGA's Software R&D Divisions as Separate Companies

SEGA already possesses powerful content development abilities and has generated numerous world-famous as well as many Japanese number-one software titles. Hereafter, the Company seeks to further strengthen its online title and network content development prowess, link and fuse it with video, audio, comics, animation, and many other content fields, and on the operations side establish and institutionalize greater awareness of quality, cost, and delivery performance. To this end, SEGA will establish its Software R&D Divisions as separate companies and more effectively leverage its software development abilities and network development strength.

Establishment of SEGA's Amusement Facility Operations Division as Separate Companies

Since amusement facilities will become the heart of local communities in the networking society, effective and speedy facility operations, even more rooted in their respective communities, will be crucial. Therefore, SEGA will establish its amusement facility operations business as separate companies and adopt franchise operations, thereby liberating itself from the conventional "scrap and build" expansion policy, exposing the latent potential of existing facilities and stimulating facility operations through hybridization.

2. Operational Results

1. Term Review

Overall Business Results

Severe conditions persisted in the industry to which SEGA belongs, being adversely affected by the increasing complexity in time-consuming recreation styles among the younger generation and competition from mobile phones and other portable devices.

Reflecting the unfavorable conditions in the amusement and consumer video game industries, overall business results were characterized by an increase in sales and a decrease in profits. In the Company's amusement facility operations, although conditions are still delicate, the market appears to have bottomed out and is slowly recovering. However, the lackluster performance of Dreamcast in Japanese market, particularly during the year-end sales rush, took an enormous toll on results for the term.

As a result, consolidated net sales for the term increased 27.5%, to ¥339,055 million, of which Japan-based sales rose 1.1%, to ¥211,802 million, and overseas sales grew 124.5%, to ¥127,253 million. These results can be attributed principally to the September and October 1999 launches of Dreamcast in the United States and Europe, respectively. On the profit side, the Company recorded an ordinary loss of ¥44,271 million, with the net loss for the term amounting to ¥42,880 million.

Furthermore, to recover profitability through corporate streamlining, the Company liquidated its non-performing overseas amusement subsidiaries and wrote off inferior inventories—actions that, combined with the payment of special retirement benefits incurred in its voluntary retirement policy, resulted in the recording of ¥14,632 million in extraordinary losses. The Company also recorded ¥15,477 million in extraordinary income from profits on the sales of investment securities and the transfer of network businesses.

In light of the ordinary and net losses incurred due to the temporary advance investments in the launch of Dreamcast in Europe and North America as well as the maturing of the Japanese video game market, the Company has regrettably elected to forego the payment of a dividend for the term.

Results of Individual Divisions

Amusement Machine Sales Division

- Net sales: ¥73,653 million (down 16.6% year-on-year)
- Operating loss: ¥2,664 million

SEGA's amusement machine sales operations suffered from the industry-wide decline in amusement facilities and the prolonged severe contraction in operator investments. Nevertheless, the Company continued to promote its new genre of games that provide real and dynamic simulations of a variety of professions and strove to expand sales of its popular 'Airline Pilots' and 'Crazy Taxi' games as well as stimulate the market with its new 'Brave Firefighters' and 'Emergency! Call An Ambulance' games. SEGA also concentrated on developing new products using its 'NAOMI' system board and won particular praise for its 'Ferrari F355 Challenge,' which very authentically simulates the experience of driving a Ferrari sports car. In addition, our 'Derby Owners Club' is making an enormous impact as a post music game era industry stimulator. This game, which is currently enjoying healthy sales, simulates racehorse breeding and allows players to store the racehorses they have bred on a portable memory card, which

may be used for continued enjoyment at a later time at any place. The Company also strove to reach such new market segments as the children, family, and women's markets through the sale of such game room sets as our 'Disney Fun Square' and 'Kids Amusement Corner,' which feature popular animated characters.

In overseas operations, although the downsizing of the Company's competitors' operations in the United States led to an enormous increase in market share, new product sales did not grow to the extent forecast owing to the reentry of used products into the market. This factor, combined with the sluggish amusement markets in Europe and Asia resulted in a decline in sales for the term.

Amusement facility Operations Division

- Net sales: ¥79,212 million (down 14.9% year-on-year)
- Operating profit: ¥4,602 million

SEGA's amusement facility operations suffered from a contracting market caused by changes in the consumption expenditure trends of the younger generation—the segment's primary target—and the Company closed 246 locations, focusing on low-efficiency, small-scale operations. The market environment remained severe during the term with the natural weeding out of small-scale operations continuing in the face of sudden changes in market conditions. Against this backdrop, the Company accelerated its detailed locally rooted operational policies and special patron-gathering measures. Thanks to these efforts and the continuing popularity of SEGA's 'Derby Owners Club,' patron numbers are recovering, and operational results are steadily rising. As a result of these factors, although sales declined due to the closing of several amusement locations, the Company succeeded in aligning its operations for future profit gain.

Consumer Products Division

- Net sales: ¥186,188 million (up 119.8% year-on-year)
- Operating loss: ¥43,032 million

In the Dreamcast home video game console segment of SEGA's Consumer Products Division, sales in the Japanese market, now in their second year, was 950,000 hardware units and 7.04 million softwares. In their first year, sales in the United States amounted to 2.5 million consoles and 13.83 million softwares and in Europe, 1.04 million consoles and 3.99 million softwares. Sales in other Asian regions totalled 160,000 hardware and 1.18 million softwares, while total worldwide sales amounted to 4.65 million hardware units for the fiscal year under review (cumulative total is 5.55 million) and 26.04 million softwares for the fiscal year under review (cumulative total is 29.05 million).

In the markets of the United States and Europe, sales of Dreamcast dramatically exceeded initially projected figures. However, in the Japanese market, although the Company introduced numerous exciting software titles,

including 'Shenmue,' 'Space Channel 5' and 'Virtua Striker 2 Ver.2000' that would normally be considered killer titles, sales figures for all of these titles fell below projections, owing to the maturity of the market. Particularly during the year-end sales rush, although the Company's market share grew, results fell well below target figures. Dreamcast network subscribers, as of March 31, 2000, numbered 1.12 million worldwide, respectively 550,000 in Japan, 330,000 in the United States and 240,000 in Europe.

2. Outlook for Fiscal 2001

Looking ahead to fiscal 2001, the Company has scheduled the separation of its Software R&D Division and its Amusement Facility Operations Division as independent companies in the first and second halves of the term, respectively, and it will strive to enhance profitability through the large-scale leasing of operating rights and the franchising of each companies. Furthermore, we will improve the productivity of each and every employee and implement thorough cost reductions for the enhancement of corporate structure and cash flow. At the same time, the Company will thoroughly implement product-specific and software title specific profit and loss control in its Amusement and Consumer Products divisions and strive to improve profitability.

Fiscal 2001 will also mark the third year of Dreamcast sales in Japan and the second year in the United States and Europe, and the Company expects improvements in total unit sales and profit structure.

For fiscal 2001, SEGA Enterprises, Ltd., foresees consolidated net sales of ¥336,000 million (down 1%), consolidated ordinary profit of ¥2,600 million, and consolidated net income of ¥1,500 million.

3. Change in Top Management

The change at Sega's top management is effective on June 1, 2000.

- Isao Okawa

Current position : representative director and chairman

New : representative director, president and chairman

- Shoichiro Irimajiri

Current position : representative director and president

New : representative director and vice chairman

NEWS RELEASE

SEGA ENTERPRISES, LTD. CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31 2000

	Millions of yen		%Increase (Decrease)
	Year ended March 31		
	2000	1999	
INCOME STATEMENTS			
Net sales	339,055	266,194	27.4%
Cost of sales	290,492	201,819	43.9%
SG&A expenses	88,917	62,286	42.8%
<u>Operating income(loss)</u>	<u>(40,354)</u>	<u>2,087</u>	<u>(2033.6%)</u>
Other income	4,729	3,718	27.2%
Other expenses	8,643	13,081	(33.9%)
<u>Recurring income(loss)</u>	<u>(44,271)</u>	<u>(7,279)</u>	<u>508.2%</u>
Extraordinary gain	15,477	277	5487.4%
Extraordinary loss	14,632	25,644	(42.9%)
<u>Income(Loss) before income taxes</u>	<u>(43,429)</u>	<u>(32,649)</u>	<u>33.0%</u>
Income taxes	1,531	10,573	(85.5%)
Minority interests in earnings of Consolidated Subsidiaries	2,080	342	508.2%
<u>Net income(loss) for the period</u>	<u>(42,880)</u>	<u>(42,880)</u>	<u>0.0%</u>
<u>Net income(loss) per share(yen)</u>	<u>(390.57)</u>	<u>(425.27)</u>	<u>(8.2%)</u>
BALANCE SHEETS			
<u>ASSETS</u>			
Total current assets	211,378	255,874	(17.4%)
Property and equipment	74,718	79,940	(6.5%)
Intangible fixed assets	14,189	9,498	49.4%
Investments and advances	65,533	70,292	(6.8%)
Deferred assets	743	1,446	(48.6%)
Translation adjustment	8,777	8,560	2.5%
<u>Total assets</u>	<u>375,341</u>	<u>425,613</u>	<u>(11.8%)</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Total current liabilities	196,583	124,618	57.7%
Total long-term liabilities	98,440	220,206	(55.3%)
Minority interests in consolidated subsidiaries	(407)	148	(375.0%)
Shareholders' equity	80,724	80,640	0.1%
<u>Total liabilities and shareholders' equity</u>	<u>375,341</u>	<u>425,613</u>	<u>(11.8%)</u>
NET SALES BY SEGMENT			
Year ended March 31			
	2000	1999	
Consumer products	186,188	84,694	119.8%
Amusement center operations	79,212	91,781	(13.7%)
Amusement machine sales	73,919	90,735	(18.5%)
Eliminations	(265)	(1,018)	(74.0%)
<u>Total</u>	<u>339,055</u>	<u>266,194</u>	<u>27.4%</u>

Note: The above financial information was prepared using accounting principles generally accepted in Japan and more specifically in conformity with the Consolidated Financial Statements Regulations.

NEWS RELEASE

SEGA ENTERPRISES, LTD. NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31 2000

	Millions of yen		%Increase (Decrease)
	Year ended March 31		
	2000	1999	
INCOME STATEMENTS			
Net sales	272,585	214,546	27.1%
Cost of sales	258,088	170,593	51.3%
SG&A expenses	49,022	41,870	17.1%
<u>Operating income</u>	(34,525)	2,081	(1759.1%)
Other income	3,005	3,618	(16.9%)
Other expenses	4,195	5,267	(20.4%)
<u>Recurring income</u>	(35,715)	431	(8386.5%)
Extraordinary gain	13,558	338	3911.2%
Extraordinary loss	14,292	33,903	(57.8%)
<u>Income(Loss) before income taxes</u>	(36,449)	(33,137)	10.0%
Income taxes	350	245	42.9%
<u>Net income(loss) for the period</u>	(36,799)	(33,383)	10.2%
Net income(loss) per share(yen)	(335.17)	(331.08)	1.2%
BALANCE SHEETS			
<u>ASSETS</u>			
Total current assets	178,158	234,006	(23.9%)
Property and equipment	68,351	74,868	(8.7%)
Intangible fixed assets	6,754	1,899	255.7%
Investments and advances	109,096	105,541	3.4%
Deferred assets	743	1,446	(48.6%)
<u>Total assets</u>	363,105	417,762	(13.1%)
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Total current liabilities	167,964	100,179	67.7%
Total long-term liabilities	89,615	216,946	(58.7%)
Shareholders' equity	105,524	100,636	4.9%
<u>Total liabilities and shareholders' equity</u>	363,105	417,762	(13.1%)

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