

## SEGA CORPORATION

### Consolidated Financial Results for Three Months Ended June 30, 2003

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#### 1. Consolidated Results for 3 months ended June 30, 2003

##### 1) Consolidated Results

(millions of yen)

	Net Sales	Operating Income	Recurring Profit	Net Income
3 months ended June 30, 2003	42,373	2,690	2,625	1,889
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
3 months ended June 30,	12.19	10.99
Year ended March 31,	19.73	18.71

##### 2) Consolidated Financial Data

(millions of yen)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per share (yen)
As of June 30, 2003	222,777	89,377	40.1%	577.38
As of March 31, 2003	222,067	86,886	39.1%	560.40

#### (Reference) Non-consolidated business results for 3 months ended June 30, 2003

(millions of yen)

	Net Sales	Operating Income	Recurring Profit	Net Income (Loss)
3 months ended June 30,	22,482	1,569	3,243	3,300
Year ended March 31,	100,042	2,093	1,944	(2,536)

	Total Assets	Shareholders' Equity
As of June 30, 2003	182,628	82,508
As of 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
First half of the year ending September 30, 2003	88,000	1,200	200
Year ending March 31,	193,000	10,500	7,500

(Reference) Net income per share for the year ending March 31, 2003 is forecast to be 48.37 yen on consolidated basis.

(Reference) Non-consolidated business results for the year ending March 31, 2004

(millions of yen)

	Net Sales	Recurring Profit	Net Income
First half of the year ending September 30, 2003	43,000	250	1,400
Year ending March 31,	86,000	250	2,450

(Notes)

1. Figures less than one million yen have been omitted.
2. The forecast is based on the management's assumptions regarding the economic environment and the Company's operating environment as of the date of the issuance of this information and involve various risks and uncertainties. Actual business results may differ materially from forecasts herein.

The documents or audiovisual files that you are going to access may contain information subject to the regulation concerning insider trading in Securities Transaction Regulation No. 166. If you trade equity-related securities, including derivative instruments, of the Company within 12 hours of the announcement ( before August 8, 2003 04:00-JST) of related information, you may violate the insider trading regulation

## **1. Overview of the Business Results for three months ended June 30, 2003**

During the term under review, the Japanese economy did not recover, due to the continued deflation. Moreover, the European and American economy weakened overall, and the Asian economy faced negative impact caused by Severe Acute Respiratory Syndrome (SARS).

Under the above business environment, SEGA and its consolidated subsidiaries did their business as a leading company in the entertainment and amusement industries. Consolidated business results for the term under review consolidated business results remained as planned. Especially, amusement machine sales and consumer business showed favorable performance.

As a result, consolidated net sales amounted to 42,373 million yen, operating income recorded 2,690 million yen, recurring profit totaled 2,625 million yen and net income amounted to 1,889 million yen.

## **2. Review of Operations**

(Amusement Machine Sales)

In Japan, the Company released the new products, *F-Zero AX*, and *Virtua Cop 3* as scheduled. In addition, there was a trend toward open of the mid-and large-scale amusement facilities in industry-wide, and the market showed demand for the Company's main products including *UFO Catcher 7*, and *Star Horse 2002*. Thanks to the above favorable market condition, the Company far exceeded the initial target.

In addition, the Company introduced the new business model for Kochu-Oja Mushi-King, which was combined equipment rental system and card sales. Its card sales results also far exceeded our initial target.

Overseas business performed as planned. Especially, *Initial D 2* recorded the top sales in driving game category in Asia, though Asian market faced the severe market conditions.

(Amusement Center Operations)

During the term under review, revenue was slightly below the initial target. This was due to several factors including that we did not introduce the large products. Though the revenue was below the target, operating income remained as planned, thanks to the efforts for increasing efficiency of the facility operations.

The Company opened 7 facilities and closed 7 for the term under review, thus the

number of amusement facilities as of the end of the term was 498.

(Consumer Business)

By region, the Company released 5 SKUs and sold 1,020 thousand units in Japan, released 2 SKUs and sold 410 thousand units in North, and released 1 SKU and sold 20 thousand units in, thus released 8 SKUs and sold 1,450 thousand units in total during the term under review.

In Japan, sports team management simulation game, *Let's make a J. LEAGUE Soccer Club 3* for PS2, racing game, *Initial D Special Stage* for PS2, and in North America, *Sonic Adventure DX* for GameCube further exceeded the initial projection for the term under review.

### **3. Financial Conditions**

Total assets increased 710 million yen to 221,649 million yen compared with the previous fiscal year-end. Shareholders' equity increased 2,491 million yen to 89,377 million yen. As a result, shareholders' equity ratio rose to 40.1% from the previous fiscal year-end of 39.1%.

Interest-bearing debt as of the end of the term accounted to 95,617 million yen, cash and cash equivalents amounted to 97,957 million yen, then net cash defined cash and cash equivalents less interest-bearing liabilities recorded 2,340 million yen.

Following the redemption of 5 billion yen during the previous fiscal year ended March 31, 2003, the Company purchased the convertible bonds due June 2004 (issue price: 50 billion yen) worth approximately 20.2 billion yen for redemption and already holds funds for redemption of outstanding amount of 25 billion yen.

### **4. Information on the Business Performance Forecast**

The Company expects that the future economic environment and business circumstances continue to be unpredictable. Although the Company recorded the favorable business performance for the term ended June 30, 2003, in view of the uncertainties for the future business circumstances, the Company would not change its forecast for the term ending September 30, 2003 and for the year ending March 31, 2004, announced in May 19, 2003.

**Consolidated Balance Sheets**

SEGA CORPORATION and Consolidated Subsidiaries

As of June 30, 2003 and March 31, 2003

(millions of yen)

	2003.6	2003.3
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and time deposits	¥77,742	¥101,366
Notes and accounts receivable	21,128	17,515
Inventories	10,331	8,838
Held-to-retirement convertible bonds	20,215	-
Other current assets	9,831	11,059
Less allowance for doubtful accounts	(1,280)	(1,379)
Total current assets	137,968	137,401
<b>Property and Equipment</b>		
Amusement machines and facilities	10,235	9,893
Building and structure	17,627	18,126
Land	9,290	9,290
Others	4,393	4,085
Total property and equipment	41,546	41,396
<b>Intangible Fixed Assets</b>	5,825	5,846
<b>Investments and Advances</b>		
Investment in securities	13,211	12,431
Fixed Leasehold deposits	16,689	17,012
Other investments	15,263	15,668
Less allowance for doubtful accounts	(8,294)	(8,406)
Total investments and advances	36,868	36,705
<b>Deferred Charges</b>	568	717
Total Assets	¥222,777	¥22,067

(millions of yen)

	2003.6	2003.3
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Notes and accounts payable	¥16,209	¥14,762
Short-term bank loans	2,403	1,510
Current portion of straight bonds	2,450	2,450
Current portion of convertible bonds	45,000	-
Current portion of long-term bank loans	4,934	4,939
Accrued expenses	8,777	9,981
Income taxes payable	392	1,194
Other current liabilities	5,807	7,541
Total current liabilities	58,974	42,379
<b>Long-Term Liabilities</b>		
Straight bonds	15,050	15,550
Convertible bonds	6,806	51,806
Long-term debt	18,974	19,005
Deferred income taxes	536	330
Accrued employees' retirement benefits	3,900	3,679
Accrued retirement benefits for directors and corporate directors	145	122
Other	1,077	1,256
Total long-term liabilities	46,491	91,750
Total Liabilities	132,465	134,129
<b>Minority Interests in Consolidated Subsidiaries</b>	935	1,051
<b>Shareholders' Equity</b>		
Common stock	127,582	127,582
Additional paid-in capital	2,171	2,171
Adjustment on revaluation of land	8,587	6,816
Accumulated deficit	(6,264)	(6,264)
Unrealized gain (loss) on investments in securities	240	(551)
Translation adjustment	(9,298)	(9,227)
Treasury stock	(33,641)	(33,641)
Total Shareholders' Equity	89,377	86,886
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	¥222,777	¥22,067

## Consolidated Statement of Operations

SEGA and Consolidated Subsidiaries

For three months ended June 30, 2003 and the year ended March 31, 2003

(millions of yen)

	2003.6	2003.3
<b>Net Sales</b>	¥42,373	¥197,223
<b>Cost of Sales</b>	30,978	144,161
Gross profit	11,395	53,062
<b>Selling, General and Administrative Expenses</b>	8,704	43,765
Operating income	2,690	9,296
<b>Non-Operating Income</b>	352	1,245
<b>Non-Operating Expenses</b>	417	2,758
<b>Recurring Profit</b>	2,625	7,783
<b>Extraordinary Income</b>	73	6,072
<b>Extraordinary Loss</b>	462	7,408
Income before income taxes and minority interests in earnings of consolidated subsidiaries	2,236	6,447
<b>Income taxes</b>		
Current	376	1,944
Deferred	65	1,395
<b>Minority interests in Earnings of Consolidated Subsidiaries</b>	(94)	53
Net Income for the year (term)	¥1,889	¥3,054

(Notes) 1. The above financial information was prepared using accounting principles generally accepted in Japan

2. Figures less than \1million have been omitted

## Consolidated Statements of Retained Earnings

SEGA CORPORATION and Consolidated Subsidiaries

For three months ended June 30, 2003 and the year ended March 31, 2003

(millions of yen)

	2003.6	2003.3
<b>(Capital Surplus)</b>		
<b>Capital Surplus at Beginning of the Term</b>	¥2,171	¥124,916
<b>Increase in Capital Surplus</b>		
Conversion of convertible bonds	-	1,549
Exercise of warrants	-	622
<b>Decrease in Capital Surplus</b>		
Decrease in capital surplus due to disposition of losses	-	124,916
<b>Capital Surplus at End of the Term</b>	2,171	2,171
<b>(Retained Earnings)</b>		
<b>Deficit at Beginning of the Term</b>	6,816	(118,067)
<b>Increase in Retained Earnings</b>		
Net Income for the Term	1,889	3,054
Increase in retained earnings due to disposition of losses	-	124,916
<b>Decrease in Retained Earnings</b>		
Directors' Bonus	118	101
Adjustment on revaluation of land during the period	-	3,016
<b>Retained Earnings at End of the Term</b>	¥8,587	¥6,816

## SEGA CORPORATION

August 7, 2003

SEGA CORPORATION  
NON-CONSOLIDATED FINANCIAL STATEMENTS  
FOR THREE MONTHS ENDED JUNE 30, 2003 AND THE YEAR ENDED MARCH 31, 2003

	(millions of yen)	
	Three months ended June 30	Year ended March 31
	2003	2003
<b><u>INCOME STATEMENTS</u></b>		
Net sales	¥222,482	¥100,042
Cost of sales	16,319	77,933
Gross profit	6,163	22,109
SG&A expenses	4,594	20,016
<u>Operating income</u>	1,569	2,093
Non-operating income	2,126	3,439
Non-operating expenses	452	3,588
<u>Recurring profit</u>	3,243	1,944
Extraordinary profit	86	4,705
Extraordinary loss	350	12,609
<u>Income (Loss) before income taxes</u>	2,979	(5,959)
Income taxes	(320)	(3,423)
<u>Net income (loss) for the period</u>	3,300	(2,536)
<u>Loss carried forward from the previous term</u>	(10,942)	(5,389)
<u>Undisposed loss for the term</u>	(¥7,641)	(¥10,942)

	(millions of yen)	
	Three months ended June 30	Year ended March 31
	2003	2003
<b><u>BALANCE SHEETS</u></b>		
<b><u>ASSETS</u></b>		
Current assets	¥2,262	¥113,009
Property and equipment	23,061	22,941
Intangible fixed assets	3,330	3,471
Investments and advances	40,528	40,493
Deferred assets	568	717
<u>Total assets</u>	182,628	180,634
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities	70,902	27,618
Long-term liabilities	29,218	74,383
Shareholders' equity	82,507	78,631
<u>Total liabilities and shareholders' equity</u>	¥182,628	¥180,634

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