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Sega Corp.

CURRENT ADDRESS

FORMER NAME

NEW ADDRESS

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FISCAL YEAR

3-31-03

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SEGA CORPORATION

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ANNUAL REPORT 2003



The Excitement Company, SEGA



12345
OK! Come on!
Challenger Wun

NEW!
スズキエディット
RENSIDE
new!
HU
キャラクターを編集してください。
◎ S键 B キャンセル 毎カ

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Profile

Since its founding in 1951 and incorporation in 1960, **SEGA CORPORATION** has defined the fundamental images, challenges and adventures of the amusement and game software industries. Every day, millions of people all over the world play our games at home and at our amusement facilities, making us one of the leading amusement companies in the world.

Our assets include over 40 years' experience in the industry, an extensive software library of approximately 1,000 titles that is the largest of any single company, and more than 3,000 employees with over 1,000 highly skilled game software creators. Together, they provide the critical mass not only for driving our growth, but also for leading the evolution of the industry itself, with highly valued products and technologies.

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Cautionary Statement:

This annual report contains forecasts of business results, statements regarding business plans and other forward-looking statements. These statements are based on management's assumptions regarding the economic environment and the Company's operating environment as of the date of publication and involve various risks and uncertainties. Actual business results may differ materially from forecasts herein.

To Our Stakeholders



Hisao Oguchi, President

Second Year of Structural Reform Plan

The year ended March 31, 2003 was the second year of our Structural Reform Plan, and we continued to improve both our operational and financial structure.

With regard to operational reform, we endeavored to revitalize the Japanese amusement market, to develop worldwide markets in Amusement Machine Sales, to create and expand new markets in Amusement Center Operations, and to improve profitability through the reorganization of business structure in Consumer Business.

As for financial reform, we strengthened our overall financial position and achieved solid progress.

Marked First Net Income in Six Years

During the year under review, Amusement Machine Sales showed results far exceeding our initial target. This was due primarily to the immense popularity in Japan of the *World Club Champion Football Serie A 2001-2002 (WCCF)*—a novel arcade soccer game that incorporates trading cards—and *Virtua Fighter 4™ Evolution*, along with the stable sales of such machines as video game machines, prize products and photo print booths.

In Amusement Center Operations, in spite of a downturn in the number of visitors in the beginning of the fiscal year due to the effects of severe summer weather in Japan and 2002 FIFA World Cup Korea/Japan™, we were essentially able to meet our initial

Consolidated Financial Highlights

SEGA CORPORATION and Consolidated Subsidiaries—
For the years ended March 31, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note)
	2001	2002	2003	2003
For the year:				
Net Sales:				
Amusement Machine Sales	¥ 52,503	¥ 52,664	¥ 61,344	\$ 510,350
Amusement Center Operations	74,657	68,534	69,331	576,797
Consumer Business	115,753	85,136	66,549	553,652
Total	¥ 242,913	¥ 206,334	¥ 197,224	\$ 1,640,799
Cost of Sales	¥ 218,235	¥ 144,717	¥ 144,162	\$ 1,199,351
Gross Profit	24,678	61,617	53,062	441,448
Selling, General and Administrative Expenses	76,697	47,416	43,765	364,102
Operating Income (Loss)	(52,019)	14,201	9,297	77,346
Net Income (Loss)	(51,730)	(17,829)	3,054	25,408
Depreciation and Amortization	24,163	18,589	15,757	129,576
At year-end:				
Total Assets	284,466	243,910	222,067	1,847,479
Total Shareholders' Equity	91,687	83,570	86,886	922,845
Per share:				
	Yen			U.S. dollars (Note)
Net Income (Loss)—basic	¥ (341.6)	¥ (119.2)	¥ 19.7	\$ 0.16
Cash Dividends	—	—	—	—

Note:
U.S. amounts are translated from Japanese yen, for convenience only, at the rate of ¥120.20 to U.S.\$1, the exchange rate prevailing at March 31, 2003.

targets, thanks to the introduction of successful titles including *WCCF* and *Virtua Fighter 4™ Evolution*.

However, in Consumer Business, we released 106 SKUs and sold 10,660 thousand units in worldwide, below the initial target as sales of Sports titles in North America market fell considerably short of our initial projections.

As a result, consolidated net sales fell 4.4% from the previous year to ¥197,224 million and operating income decreased 34.5% to ¥9,297 million.

Nevertheless, we recorded net income of ¥3,054 million, marking a recovery from the previous year's net loss of ¥17,829 million. That was the first net income in six years.

Outlook for Fiscal 2004

In the year ending March 31, 2004, we will further focus on the Consumer Business segment, which recorded a significant loss in fiscal 2003. We began addressing the urgent issue of recovering the performance of this segment by streamlining sales efforts during the year under review. In addition, we initiated a fundamental revision of our cost structure and began building a business framework that will generate profits based on such revisions.

At the same time, to enhance product marketabilities, we began reforming and reorganizing our software development structures during the year under review, including the establishment of the Development Strategy Division to strengthen

the screening of unreleased software and to prevent the production of software not aligned with market demand. We expect these measures will enable us to launch software with higher market appeal in fiscal 2004.

Although we were able to achieve a net income for the first time in six years due to the progress in our Structural Reform Plan, the trust of shareholders and investors was negatively impacted by two revisions in earnings forecasts and the abrupt modification of business integration plans, which also caused concern both inside and outside the company.

In response, we are reviewing our management structure and actively working to clarify the functions and roles of our management and operations.

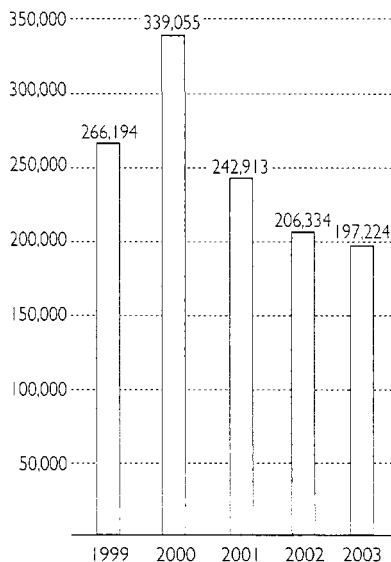
Looking ahead, we will continue to implement reforms and work towards further improving profitability and accumulating net cash to strengthen our financial structure. In fiscal 2004 we will make the utmost effort to fulfill our commitments. We are deeply grateful for the continued support of our shareholders and customers.

小口久雄

Hisao Oguchi, President

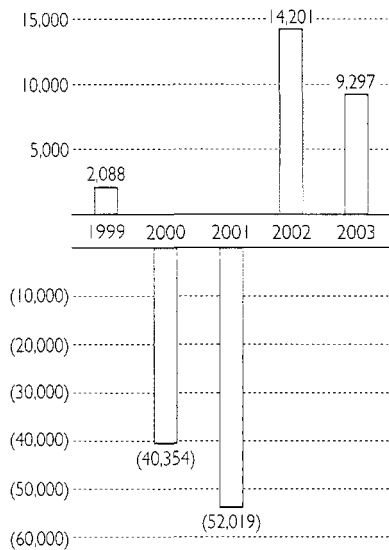
Net Sales

(Millions of yen)



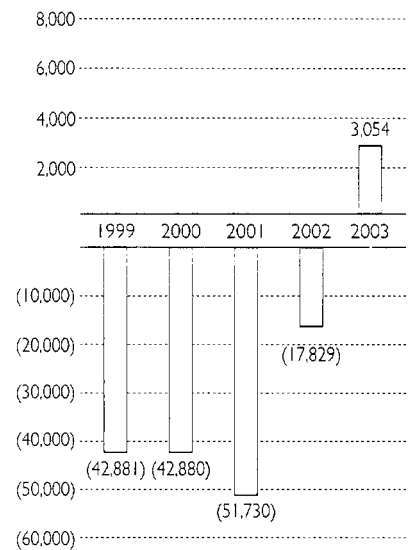
Operating Income (Loss)

(Millions of yen)



Net Income (Loss)

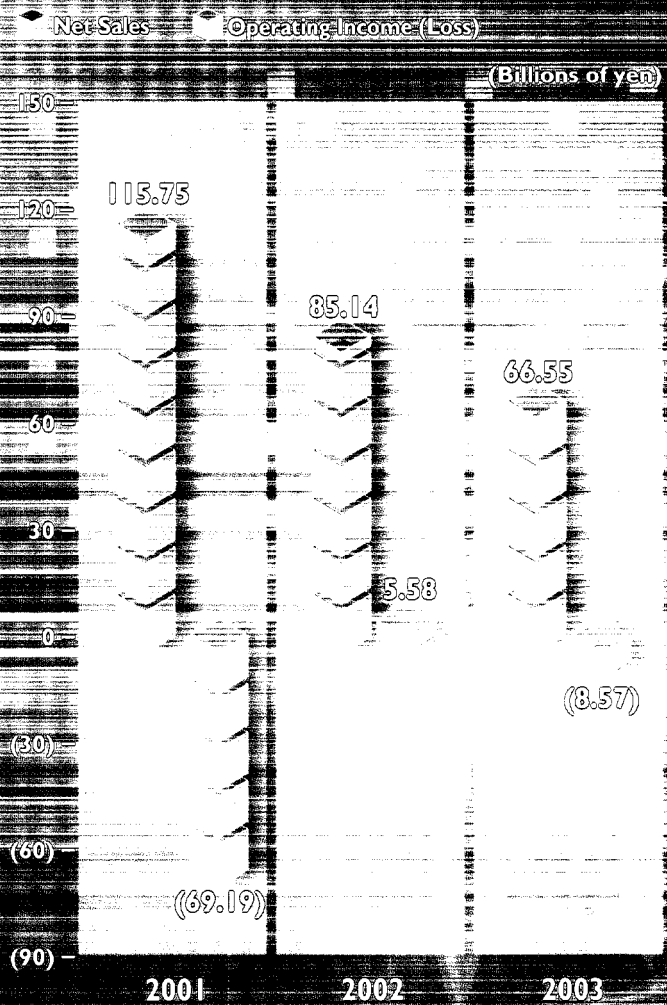
(Millions of yen)



Operational Reform — Consumer Business

Sales volume of home-use game software during the year under review fell significantly short of our initial target, with a combined total of 10,660 thousand units from 106 SKUs, representing 2,440 thousand units from 36 SKUs in Japan, 5,600 thousand units from 38 SKUs in the U.S., and 2,620 thousand units from 32 SKUs in Europe. As a result, both net sales and operating income for Consumer Business decreased considerably from the previous fiscal year. To seriously address these results, the Company intends to reinforce its efforts for business reform focusing on reorganizing its development structures in the fiscal year ending March 2004.

Net Sales and Operating Income of Consumer Business



Second year as a Multi-platform Content Publisher

SEGA has identified two factors behind the downturn in consumer business during fiscal 2003.

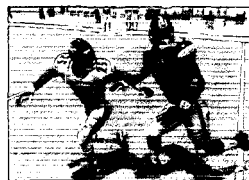
Firstly, fiscal 2003 was the first year to publish the game content for other companies' game console as an independent content publisher. After the withdrawal of *Dreamcast* business, SEGA transferred its platform holder business to content publisher business. During fiscal 2002, SEGA issued the software for other platform as well as *Dreamcast*, but in fiscal 2003, SEGA quit publishing the game software for *Dreamcast* and released only for other companies' console. In the progress, SEGA was not able to catch up with other independent content publishers and to release several titles in a timely fashion. Utilizing this experiences, we expect that software to be released during this period will begin contributing to performance.

Secondly, the Company was unable to complete the shift from a profit base structure centered around the manufacturing and sales of *Dreamcast* game hardware to independent content publisher.

A business structure focusing on the manufacturing and sales of game consoles involves significantly higher fixed costs than those for a business structure focusing on the development and sales of game software. In the year under review, SEGA was unable to flexibly adjust such fixed costs in response to the changes in sales.

Given this background, the Company will focus on reviewing its cost structure and strive to improve profitability. In addition, since sales of Sports titles such as SEGA Sports *NFL 2K3* released in the U.S. market were significantly lower than planned, SEGA intends to renew its efforts to strengthen market appeal as part of its response.

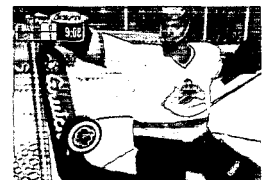
In the year ending March 2004, the Company will concentrate on these two factors to firmly establish its business as a multi-platform content publisher.



ESPN NFL FOOTBALL



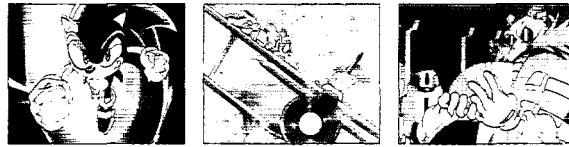
ESPN NBA BASKETBALL



ESPN NHL® HOCKEY

To Increase Profitability and Product Marketability in Fiscal 2004

To increase profitability, SEGA streamlined the framework of its sales divisions and its U.S. sales subsidiaries in fiscal 2003. Along with other actions, such measures are expected to reduce selling, general and administrative expenses in fiscal 2004.



In addition to reducing development costs as well as advertisement and promotion expenses, the Company is reinforcing screening functions to avoid

producing software which is either not well-aligned with market demand or unprofitable. The Company has decided to reduce the number of SKUs by approximately 27% compared with 106 SKUs in the previous fiscal year to 77 SKUs. This will allow SEGA to concentrate management resources on only developing promising software to raise efficiency.

By reducing fixed costs and applying stringent control over variable costs, SEGA intends to build a structure to more intensively focus on sales and marketing activities in fiscal 2004.

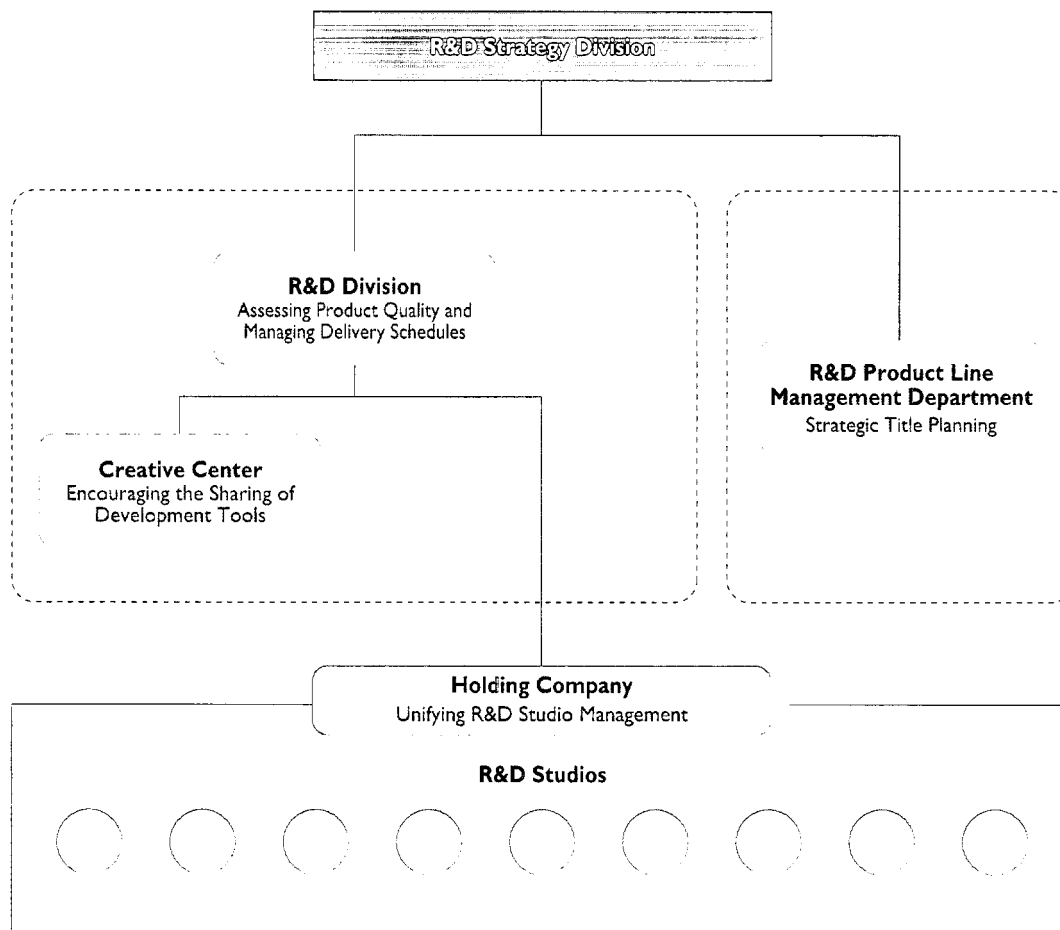
Meanwhile, to enhance product marketability, SEGA established the R&D Strategy Division, directly under the control of the president, to oversee the R&D studios and their products. Through these actions, the Company will establish an agile product development system that can promptly respond to market needs. The Division will also be responsible for screening functions.

With regard to new challenges involving *Sonic*, our corporate character, SEGA plans to broadcast *Sonic X* worldwide—already on the air in Japan—in pursuit of marketing and promotion activities utilizing multiple media channels.

Furthermore, SEGA will promote software development that utilizes intellectual property (IP) available both inside and outside the Company. Such efforts will involve its own Sonic character and *Billy Hatcher and the Giant Egg*, a new title scheduled for release this autumn, as well as *Dororo*, utilized Osamu Tezuka's IP, the father of *Astroboy*, for which SEGA already owns the copyright. We will also pursue collaboration with Hollywood movies, mainly in an alliance with John Woo and his company, Tiger Hill Entertainment.



New R&D Structure —To Strengthen Product Marketability—



To strengthen the product marketability and quality, SEGA announced its reorganization plan for R&D structure. As its first step, SEGA established R&D Strategy Division led by president Oguchi. And it is comprised of the R&D Division under Yuji Naka, the father of *Sonic The Hedgehog*, and Toshihiro Nagoshi, the creator of *DAYTONA U.S.A.*; and the R&D Product Line Management Department led by Yukio Sugino, a corporate officer of the Company. In addition,

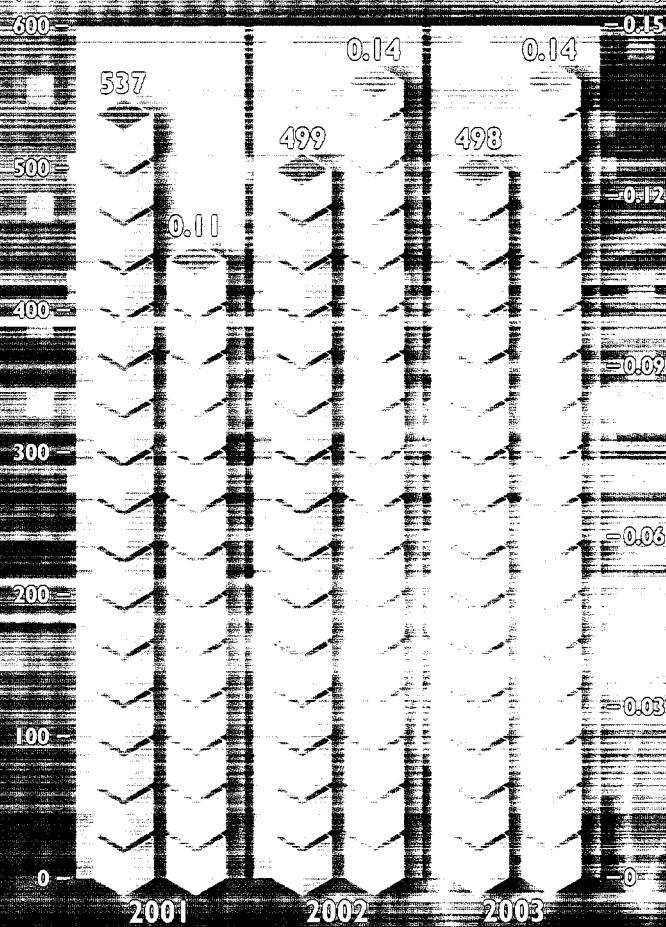
SEGA announced that it would reorganize its nine of eleven R&D studios, into six studios and establish one company. Thus under the new organization, SEGA holds nine R&D studios. The objectives of the reorganization are 1) to strengthen product marketability, 2) to create new titles as the drivers for future growth, and 3) to enhance productivity.

The new R&D studio structure is effective October 1, 2003.

Further Strengthening Profitability -- Amusement Business

SEGA's Amusement Machine Sales and Amusement Center Operations businesses are both highly competitive in the Japanese market, with stable profitability that generates ample cash-flows. As this industry currently operates in a winner-takes-all environment, SEGA is taking full advantage of its competitive edge to maintain and strengthen its stable profit bases. With regard to amusement machine sales, we intend to aggressively develop business activities in Europe and the U.S. towards driving further growth.

The Number of Amusement Centers (Arcades)
 Sales Per Center (Billions of yen)



Developing SEGA's Proven Product Development and Supply System to Accelerate the Delivery of a Rich, Multi-platform Product Line

In the current amusement industry in Japan, competitive market environment leads the more competitive companies to aggressively expand their amusement centers to capture greater market share.

At the same time, each amusement center is seeking distinctive amusement environments with greater visitor appeal by selecting and installing game machines to meet the consumers' needs, and standard products such as the crane game, *UFO Catcher*, and photo print booths.

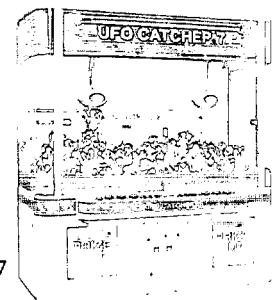
Consequently, SEGA will build partnerships for sharing strategies with large-scale amusement centers by providing an abundant product line that meets every need, from video games and medal games to prize products and photo print booths.

SEGA is currently developing large-scale products, such as *World Club Champion Football Serie A 2001-2002 (WCCF)* that enjoyed enormous popularity during the year under review, to introduce similar products into the market starting in fiscal 2004 or after. The Company also plans to secure stable sales focusing on popular standard products, including photo print booths, *UFO Catcher*, *WCCF* and *Star Horse*, as well as new products such as *The Key of Avalon* and *Dragon Treasure*.

In overseas sales of this segment, SEGA reported an operating loss in fiscal 2003. However, it is establishing a profitable structure by reorganizing subsidiaries outside Japan. New products which have enjoyed major success in the Japanese market, such as the *Derby Owners Club* and *WCCF*, have also received highly favorable product reviews in the U.S., European and Asian markets. Therefore we intend to fully launch these products overseas as a means of developing and cultivating new markets.



The Key of Avalon



UFO Catcher 7

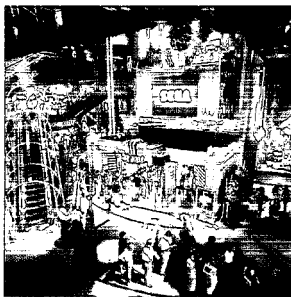
Stable Profit Structures — Amusement Center Operations

SEGA holds a dominating share in the market for amusement center operations in Japan, where uncompetitive small-scale centers can no longer survive, resulting in a rising number of large-scale centers even as the total number of centers declines.

SEGA adopted a scrap-and-build policy ahead of the industry and strengthened its own competitive advantage by expanding the scale of its centers and installing a variety of game machines, providing visitors with a diverse array of entertainment options. SEGA is also establishing amusement centers for specific regions and consumers while actively promoting greater efficiency and highly profitable center management.

In fiscal 2004, SEGA plans to close 18 centers and open 14, for a total of 498 centers that are expected to generate net sales in this segment of ¥70,000 million during the year ending March 31, 2004. However, products with highly variable costs, such as prize products and photo print booths, are expected to grow in terms of the proportion of their contribution to overall sales, leading to a decrease in operating income.

SEGA therefore expects lower profits in both Amusement Machine Sales and Amusement Center Operations than fiscal year 2003. We plan to minimize declines of profit through such efforts as cost reductions.



JOY POLIS

Features of WCCF

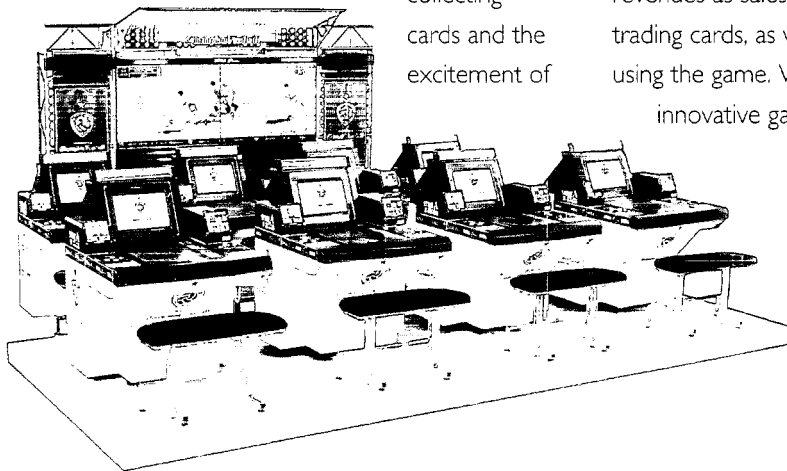


World Club Champion Football Serie A 2001-2002 (WCCF) is a novel soccer game. The player, acting as the coach, places trading cards printed with real-life soccer players on the game board and decides the formation by positioning the cards. This game offers not only the fun of playing soccer, but also the enjoyment of

collecting cards and the excitement of

building up one's own team. In addition, after each game, updated information on the soccer players and the team can be loaded onto an IC card, and the player can continue the game at a later time.

Both of our amusement-related business segments benefit considerably from such revenues as sales of the machines and the trading cards, as well as income from players using the game. We will continue to provide innovative games in the wake of this success.



©Hitmaker/SEGA, 2002

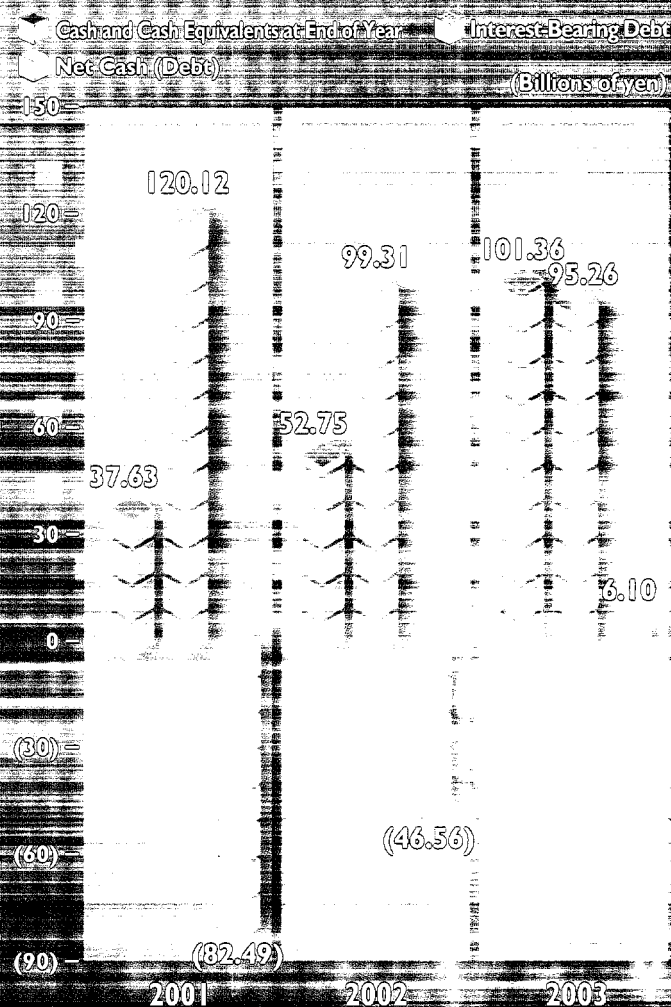
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Improving the Financial Structure

As part of the Structural Reform Plan launched in 2001, the Company has been pursuing financial reform. Concrete targets include: 1) Improving and streamlining the balance sheets; 2) Reducing investments in other companies and restricting investments; 3) Restructuring affiliated companies; and 4) Securing cash flows. The Company has achieved solid results.



Improvement in Our Financial Conditions

While working to raise the liquidity of non-operating assets as part of financial reform, SEGA has also focused on reducing interest-bearing debt and improving and streamlining its balance sheets.

During the year under review, SEGA redeemed part of its convertible bonds due June 2004 through purchases worth ¥50,000 million, which brought down the total outstanding balance of its interest-bearing debt to ¥95,260 million.

The above-mentioned convertible bonds account for ¥45,000 million of ¥95,260 million outstanding. Moreover, another ¥40,000 million will be required for operating funds, thus SEGA will need ¥85,000 million of cash and cash equivalents by the end of fiscal 2004.

Toward addressing these needs, SEGA had ¥101,362 million in cash and cash equivalents as of the end of fiscal 2003. In addition, the Company has also procured long-term funds by issuing straight bonds and achieved additional sources of cash from operating activities.

As a result, the Company possesses an ample net cash to cover the redemption of convertible bonds in June 2004, which will allow for a further reduction in interest-bearing debt and facilitate steady improvement in its financial position.

Streamlined Balance Sheets

(Millions of yen)

Current Assets	96,853	Current Liabilities	155,107
Investments and Advances	88,374	Long-Term Liabilities	36,878
Property and Equipment	66,998	Others	794
Others	32,241	Shareholders' Equity	91,687
Total assets	¥ 284,466	Total liabilities, minority interest in consolidated subsidiaries and shareholders' equity	¥284,466

As of March 31, 2001

(Millions of yen)

Current Assets	137,401	Current Liabilities	42,379
Investments and Advances	19,693	Long-Term Liabilities	91,750
Property and Equipment	41,396	Others	1,052
Other	23,577	Shareholders' Equity	86,886
Total assets	¥ 222,067	Total liabilities, minority interest in consolidated subsidiaries and shareholders' equity	¥222,067

As of March 31, 2003

Accomplishing the Initial Target — Achieving Positive Net Cash

In addition to reductions in interest-bearing debt, SEGA has also focused on securing cash on hand.

During fiscal 2002, the first year of financial reform, SEGA placed priority on securing cash and time deposits. Progress was achieved in accumulating operating cash flows and generating cash from the sale of non-operating assets. As a result, cash and cash equivalents increased ¥15,118 million to ¥52,751 million.

During fiscal 2003, the second year of financial reform, SEGA achieved positive net cash, defined as cash and cash equivalents less interest-bearing debt, and worked to reduce interest-bearing debt and to secure cash and cash equivalents by accumulating cash flows from operating activities, raising cash from the sale of non-operating assets and increasing the liquidity of operating assets.

As a result, the outstanding balance of cash and cash equivalents increased ¥48,611 million to ¥101,362 million with interest-bearing debt decreasing ¥4,052 million to ¥95,261 million compared to the previous fiscal year. This led to an improvement in net cash amounting to ¥52,663 million, from net debt of ¥46,562 million to a surplus of ¥6,101 million, thereby achieving the initial target.

Apart from these measures, SEGA actively pursued its focus of reviewing investments in other companies, restricting investment activities and restructuring affiliated companies. In fiscal 2003, we achieved a net income for the first time in six years, realizing both higher efficiency and overall profitability of our business operations.

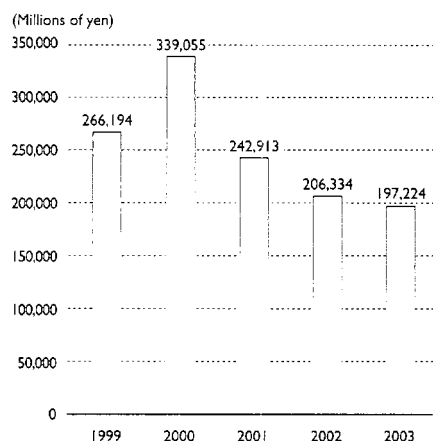
These accomplishments had led us to conclude that initial targets for financial reform were achieved for the most part during the two years of fiscal 2002 and 2003.

Financial Section

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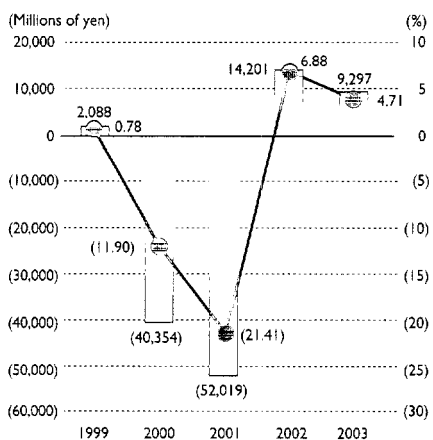
Management's Discussion and Analysis

Net Sales



Net Sales

Operating Income (Loss) / Operating Margin



Operating Income (Loss) Operating Margin

Consolidated Results

Overview

In the year ended March 31, 2003, the Japanese business environment remained uncertain due to a persistent economic downturn and continuing deflationary pressure. Meanwhile, overseas markets especially in North America experienced declining consumption due to the impact of the Iraq War.

Despite this SEGA CORPORATION and its consolidated subsidiaries continued to perform as a leader in the interactive entertainment and amusement industries.

Net Sales

Consolidated net sales for the year ended March 31, 2003, fell 4.4% to ¥197,224 million (U.S.\$1,640,799 thousand) compared to the previous fiscal year. Net sales from domestic operations rose 2.1% to ¥163,425 million (U.S.\$1,359,609 thousand), mainly due to the outstanding performance of Amusement Machine Sales which exceeded our initial targets. On the other hand, overseas sales decreased 26.9% to ¥33,798 million (U.S.\$281,181 thousand) as a result of the slower-than-expected sales in Consumer Business, including SEGA Sports series in the North American market.

Costs, Expenses and Earnings

Cost of sales fell 0.4% to ¥144,162 million (U.S.\$1,199,351 thousand) with a net sales ratio of 73.1%, up from 70.1% in fiscal 2002. This was primarily due to the Company's cost structure, which prevented us from flexibly adjusting the cost of sales to net sales. As a result, gross profit and its ratio fell to ¥53,062 million (U.S.\$441,448 thousand) and 26.9% respectively, compared with the previous year.

Selling, general and administrative (SG&A) expenses decreased 7.7% to ¥43,765 million (U.S.\$364,102 thousand) due to the success of cost reductions including personnel costs.

However, the decrease in SG&A expenses was not enough to offset the increase in the costs of sales, and operating income fell 34.5% to ¥9,297 million (U.S.\$77,346 thousand).

Other net total expenses for the term narrowed from ¥28,495 million to ¥2,849 million (U.S.\$23,702 thousand). This was due to a number of factors, including reduction of interest expenses to ¥738 million (U.S.\$6,140 thousand), gain on sales of property and equipment of ¥1,249 million (U.S.\$10,391 thousand), and others. Consequently, income before income taxes and minority interests in earnings of consolidated subsidiaries amounted to ¥6,448 million (U.S.\$53,644 thousand) and the Company recorded net income of ¥3,054 (U.S.\$25,408 thousand). It was the Company's first net income in six years.

Review of Operations by Segment

	Millions of yen		Increase (Decrease)
	2002	2003	
Net Sales			
Amusement Machine Sales	52,664	61,344	8,680
Amusement Center Operations	68,534	69,331	797
Consumer Business	85,136	66,549	(18,587)
Operating Income (Loss)			
Amusement Machine Sales	1,957	10,893	8,936
Amusement Center Operations	8,114	8,049	(65)
Consumer Business	5,578	(8,570)	(14,148)

Amusement Machine Sales

Net sales rose 16.5% to ¥61,344 million (U.S.\$510,350 thousand) and operating income rose 456.7% to ¥10,893 million (U.S.\$90,625 thousand) compared to the previous fiscal year.

Domestic sales in this segment significantly exceeded our initial targets, thanks to products that spanned every genre, including new products that introduced fresh approaches to game playing, standard products and prize products. In particular, *World Club Champion Football Serie A 2001-2002*, was developed into a mainstay product and a leader in the amusement industry, significantly contributing to profit along with the sales of trading cards.

As for the sales performance of video game machines, *Virtua Fighter 4™ Evolution* and *Initial D Arcade Stage Version 2* contributed to the good performance.

In addition, opening new centers in the amusement industry helped to significantly boost sales performance by increasing the sales of such popular products as *Star Horse 2002*, standard products including *UFO Catcher 7* and *photo print booths*, *Gekiteki Bisha*, as well as consumable supplies like photo ticker print.

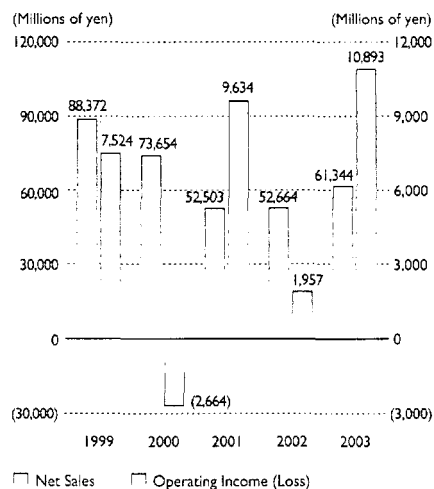
With regard to the sales of prize products, the Company seized the initiative in revitalizing the prize industry by offering attractive character prizes and collaborating with other companies, thereby capturing the top market share.

In overseas sales, while the Company made progress in the reorganization of its local subsidiaries and established a solid base for profitable structures, it was unable to introduce products that matched market needs and therefore reported losses.

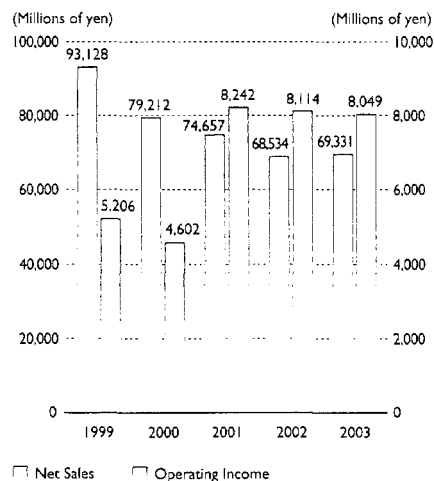
Amusement Center Operations

The year ended March 31, 2003 saw a slow start due to the 2002 FIFA World Cup Korea/Japan™ and the hot summer weather which kept visitors away from the centers. However, on a like for like basis, net sales reached 100.2% of the previous year, thanks to the industry-leading *World Club Champion Football Serie A 2001-2002* and *Virtua Fighter 4™ Evolution* released later in the year, along with the steady growth in the profits due to their high-quality operation.

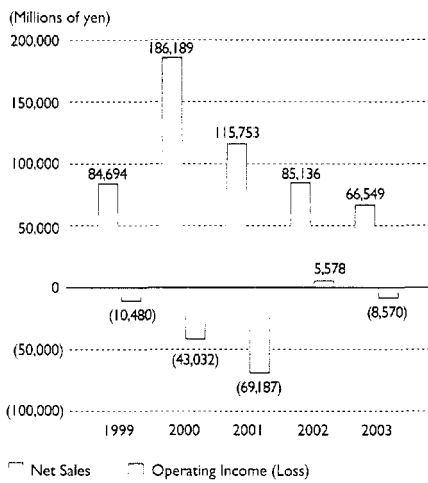
Amusement Machine Sales



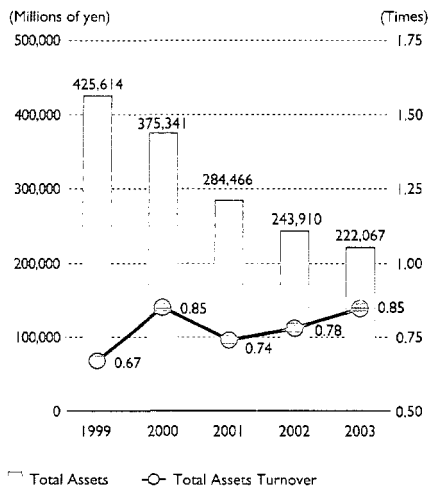
Amusement Center Operations



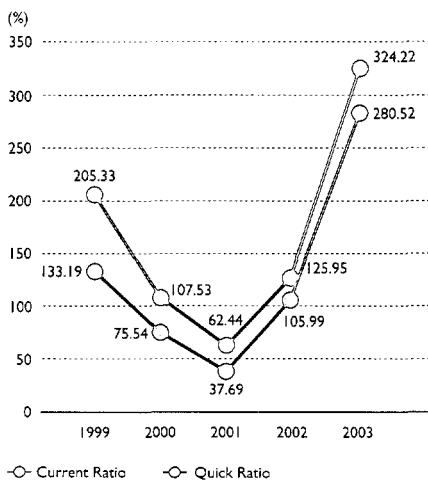
Consumer Business



Total Assets / Total Assets Turnover



Current Ratio / Quick Ratio



Furthermore, our photo print booth series, *Gekiteki Bisha*, *Shogeki Bisha*, *Junshin Bisha*, *Gensou Bisha* and *Bisha*, consistently maintained a favorable performance. These machines attracted new users and contributed considerably to overall profit. As a result, net sales increased 1.2% year-on-year to ¥69,331 million (U.S.\$576,797 thousand), while operating income fell 0.8% to ¥8,049 million (U.S.\$66,963 thousand) compared to fiscal 2002.

Although all of its facilities were profitable, the company promotes a scrap-and-build strategy in pursuit of more efficient amusement center operations. During the year under review, the Company opened 26 new centers, mainly medium and large ones, while closing 27 low-profitable ones. As a result, the number of centers at the end of fiscal 2003 decreased to 498 from the previous year-end. While the total number of centers is roughly equal to that of previous fiscal year-end, the Company is striving to further improve efficiencies in amusement center operation.

Consumer Business

The Company released 2,440 thousand units of 36 SKUs in Japan, 5,600 thousand units of 38 SKUs in North America and 2,620 thousand units of 32 SKUs in Europe, for a grand total of 10,660 thousand units of 106 SKUs during the year ended March 31, 2003.

In the Japanese market, *Sakura Wars* series (PS2), *Shinobi* (PS2) and *Let's Make a Professional Baseball Team 2* (PS2) contributed to favorable sales.

Principal titles in the North America market included sports titles such as *SEGA Sports NFL 2K3* (PS2, Xbox and GameCube), *SEGA Sports NBA 2K3* (PS2, Xbox and GameCube) and *SEGA Sports NCAA Football 2K3* (PS2, Xbox and GameCube), as well as *Shinobi* (PS2), *Super Monkey Ball 2* (GameCube) and *Sonic Collection* (GameCube).

In the European market, *Crazy Taxi 3* (Xbox) and *Phantasy Star Online Episode 1&I* (GameCube) performed strongly.

However, overall results were significantly below our initial targets. In particular, sales of sports titles in the North American market fell considerably short of projections. As a result, net sales fell 21.8% year-on-year to ¥66,549 million (U.S.\$553,652 thousand), with an operating loss of ¥8,570 million (U.S.\$71,299 thousand) compared with an operating income of ¥5,578 million in the previous fiscal year.

Financial Condition

As part of the Structural Reform Plan launched in April 2001, the Company has been promoting financial reform to improve and streamline the balance sheets, to reduce investments in other companies, restructure affiliated companies and to secure cash flows.

Current assets for the year ended March 31, 2003 rose 22.7% to ¥137,401 million (U.S.\$1,143,103 thousand) compared to the previous fiscal year. This was due to a significant increase in cash and time deposits.

Investments and advances fell 34.2% year-on-year to ¥19,693 million (U.S.\$163,835 thousand) due to disposal of investments in securities mainly donated assets from Mr. Okawa.

Property and equipment fell 16.2% year-on-year to ¥41,396 million (U.S.\$344,393 thousand).

Total assets as of the end of fiscal 2003 fell 9.0% to ¥222,067 million (U.S.\$1,847,479 thousand) compared to the previous fiscal year-end.

Furthermore, the Company focused on reducing interest-bearing debt as a major part of its financial reform. The outstanding balance of interest-bearing debt decreased ¥4,052 million (U.S.\$33,710 thousand) to ¥95,261 million (U.S.\$792,521 thousand) from ¥99,313 million at the previous year-end. As a result, the Company achieved positive net cash of ¥6,101 million (U.S.\$50,757 thousand), defined as cash and cash equivalents less interest-bearing debt.

Total liabilities decreased 18.9% year-on-year to ¥134,129 million (U.S.\$1,115,882 thousand), primarily due to the significant decline in current liabilities as a result of the repayment of short-term bank loans. While long-term liabilities increased, the Company redeemed a part of convertible bonds due June 2004, the Company also implemented measures to enhance financial stability.

Total shareholders' equity increased 4.0% to ¥86,886 million (U.S.\$722,845 thousand) compared to fiscal 2002.

Cash Flows

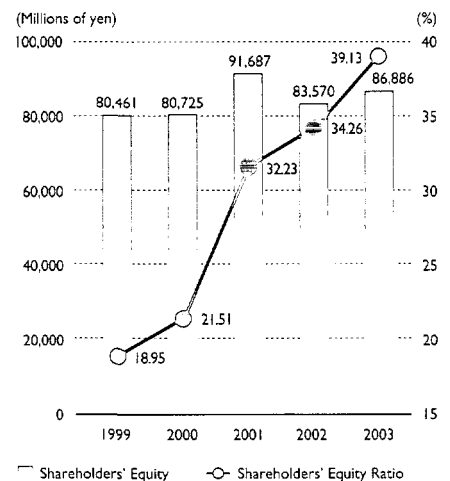
Consolidated cash and cash equivalents at the end of the year rose ¥48,611 million from the previous fiscal year-end to ¥101,362 million (U.S.\$843,278 thousand).

Net cash provided by operating activities rose ¥24,882 million to ¥34,232 million (U.S.\$284,792 thousand) compared with the previous fiscal year. Despite the negative impact of a decrease in accrued expenses, several factors boosted operating cash flows. These included income before income tax and minority interests in earnings of consolidated subsidiaries of ¥6,488 million (U.S.\$53,644 thousand) (previous year negative ¥14,294 million), and increase in notes and accounts receivable of ¥12,538 million (U.S.\$104,309 thousand).

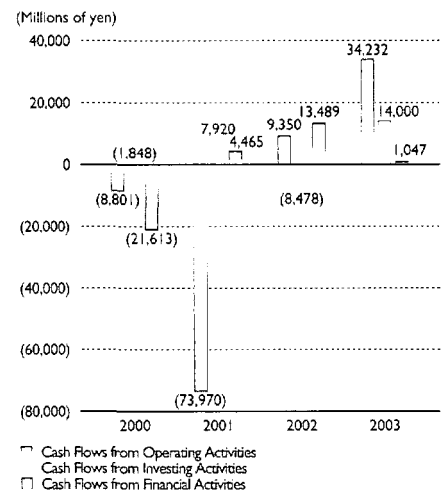
Net cash provided by investing activities increased ¥22,478 million to ¥14,000 million (U.S.\$116,473 thousand) from the previous fiscal year-end. This was due primarily to proceeds from cancellation of time deposits of ¥10,060 million (U.S.\$83,694 thousand) and proceeds from sales of investments in securities of ¥6,946 million (U.S.\$57,787 thousand), although the Company accounted the payments for purchased of property and equipment of ¥7,016 million (U.S.\$58,369 thousand).

Net cash provided by financing activities decreased ¥12,442 million to ¥1,047 million (U.S.\$8,710 thousand) compared with the previous fiscal year-end, owing largely to a decrease in short-term bank loans of ¥27,339 million (U.S.\$227,446 thousand), repayment of long-term debt of ¥12,817 million (U.S.\$106,331 thousand) and payments on redemption debentures of ¥5,000 million (U.S.\$41,957 thousand), although the Company had other factors contributing to the increase including issuance of long-term debt of ¥31,565 million (U.S.\$262,604 thousand), and proceeds from issuants of debentures of ¥17,631 million (U.S.\$146,681 thousand).

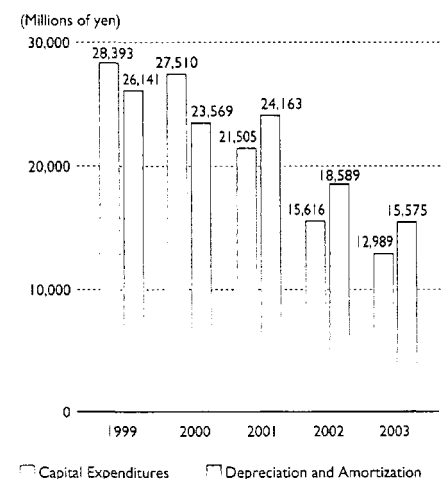
Shareholders' Equity / Shareholders' Equity Ratio



Cash Flows



Capital Expenditures / Depreciation and Amortization



Consolidated Balance Sheets

SEGA CORPORATION and Consolidated Subsidiaries - March 31, 2002 and 2003

Assets	Millions of yen		Thousands of U.S. dollars (Note 1.1)
	2002	2003	2003
Current Assets:			
Cash and time deposits (Note 3)	¥ 62,757	¥ 101,367	\$ 843,319
Notes and accounts receivable (Note 9)	31,496	17,515	145,715
Inventories (Note 4)	9,646	8,839	73,536
Prepaid expenses	2,537	2,456	20,433
Other current assets (Note 19)	7,374	8,603	71,573
Less allowance for doubtful accounts	(1,811)	(1,379)	(11,473)
Total current assets	111,999	137,401	1,143,103
Investments and Advances:			
Investments in securities (Notes 5 and 19)	46,166	12,431	103,419
Long-term loans receivable (Note 19)	3,179	2,547	21,190
Other investments and advances (Note 19)	15,787	13,122	109,168
	65,132	28,100	233,777
Less allowance for doubtful accounts (Note 19)	(7,595)	(8,407)	(69,942)
Total investments and advances	57,537	19,693	163,835
Property and Equipment:			
Amusement machines and facilities	26,868	30,747	255,799
Buildings and structures (Note 19)	38,681	36,469	303,403
Other	15,838	14,578	121,281
	81,387	81,794	680,483
Less accumulated depreciation	(43,828)	(49,688)	(413,378)
	37,559	32,106	267,105
Land (Notes 6 and 19)	11,834	9,290	77,288
Total property and equipment	49,393	41,396	344,393
Fixed Leasehold Deposits (Note 7)	17,771	17,012	141,531
Deferred Charges and Intangible Assets	5,362	5,256	43,727
Excess Investment Costs over Net Assets of Consolidated Subsidiaries	1,848	1,309	10,890
Total assets	¥ 243,910	¥ 222,067	\$ 1,847,479

The accompanying notes are an integral part of these statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 1.1)
	2002	2003	2003
Current Liabilities:			
Short-term bank loans (Note 19)	¥ 29,208	¥ 1,510	\$ 12,562
Current portion of bond (Note 8)	5,000	2,450	20,383
Current portion of long-term debt (Note 8)	1,741	4,939	41,090
Notes and accounts payable (Note 9):			
Trade	19,282	14,763	122,820
Other	2,420	2,923	24,318
	21,702	17,686	147,138
Accrued expenses	17,883	9,982	83,045
Income taxes payable (Note 10)	4,823	1,194	9,933
Other current liabilities (Note 19)	8,569	4,618	38,420
Total current liabilities	88,926	42,379	352,571
Long-Term Liabilities:			
Long-term debt (Note 8)	63,364	86,362	718,486
Accrued employees' retirement benefits (Note 20)	3,414	3,680	30,616
Accrued retirement benefits for directors and corporate auditors	99	122	1,015
Deferred income taxes (Note 10)	2,043	330	2,745
Other	1,628	1,256	10,449
Total long-term liabilities	70,548	91,750	763,311
Minority Interest in Consolidated Subsidiaries	866	1,052	8,752
Contingent Liabilities (Note 17)	—	—	—
Shareholders' Equity: (Note 21)			
Common stock, no par value as of March 31, 2002 and 2003:			
Authorized — 600 million shares at March 31, 2002 and 2003 respectively			
Issued — 172, 262, 477 shares and 174, 945, 690 shares at March 31, 2002 and 2003, respectively	125,406	127,583	1,061,423
Additional paid-in capital	124,917	2,172	18,070
Retained earnings (accumulated deficit)	(118,038)	6,816	56,705
Unrealized gain (loss) on other securities (Note 5)	2,586	(551)	(4,584)
Adjustment on revaluation of land (Note 6)	(9,281)	(6,265)	(52,122)
Translation adjustment (Note 2.2)	(8,435)	(9,228)	(76,772)
Treasury stock, at cost (Note 19)	(33,585)	(33,641)	(279,875)
Total shareholders' equity	83,570	86,886	722,845
Total liabilities, minority interest in consolidated subsidiaries and shareholders' equity	¥ 243,910	¥ 222,067	\$ 1,847,479

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations

SEGA CORPORATION and Consolidated Subsidiaries - For the years ended March 31, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1.1)
	2001	2002	2003	2003
Net Sales	¥ 242,913	¥ 206,334	¥ 197,224	\$ 1,640,799
Costs of Sales	218,235	144,717	144,162	1,199,351
Gross profit	24,678	61,617	53,062	441,448
Selling, General and Administrative Expenses	76,697	47,416	43,765	364,102
Operating income (loss)	(52,019)	14,201	9,297	77,346
Other Income (Expenses):				
Interest and dividend income	2,021	678	268	2,230
Interest expense	(2,414)	(1,713)	(738)	(6,140)
Loss on write-down or disposal of inventories (Note 12)	(52,365)	—	—	—
Gain on sale of property and equipment	—	—	1,249	10,391
Loss on sale or disposal of property and equipment	(3,757)	(502)	(680)	(5,657)
Loss on valuation of investments in securities (Note 14)	(10,237)	(6,236)	(960)	(7,987)
Gain on donated assets from Mr. Okawa (Note 19)	77,913	1,667	—	—
Gain on sales of investments in securities	1,693	1,136	3,078	25,607
Net gain (loss) on foreign exchange	3,585	(5)	(114)	(948)
Additional provision for accrued employees' benefits (Note 20)	(2,386)	—	—	—
Additional benefits for retirees (Note 20)	(945)	—	—	—
Value-added tax exempted	—	733	—	—
Amortization of bond and note issue expenses	(734)	(482)	(595)	(4,950)
Equity in gains (losses) of non-consolidated subsidiaries and affiliates	(2,942)	(828)	440	3,661
Provision for doubtful accounts	(2,110)	—	(1,161)	(9,659)
Amortization of excess investment costs over net assets of consolidated subsidiaries acquired (Note 13)	(6,322)	—	—	—
Impairment charge on goodwill	—	(4,378)	—	—
Loss on settlement of donated assets from Mr. Okawa (Note 19)	—	(16,725)	(2,717)	(22,604)
Other, net	(4,474)	(1,840)	(919)	(7,646)
Total other expenses, net	(3,474)	(28,495)	(2,849)	(23,702)
Income (loss) before income taxes and minority interest in earnings of consolidated subsidiaries	(55,493)	(14,294)	6,448	53,644
Income Taxes (Note 10):				
Current	2,593	4,325	1,945	16,181
Deferred	(3,385)	(951)	1,395	11,606
	(792)	3,374	3,340	27,787
	(54,701)	(17,668)	3,108	25,857
Minority Interest in Earnings of Consolidated Subsidiaries	2,971	(161)	(54)	(449)
Net income (loss)	¥ (51,730)	¥ (17,829)	¥ 3,054	\$ 25,408
		Yen		U.S. dollars (Note 1.1)
	2001	2002	2003	2003
Per Share (Note 2.14):				
Net income (loss)—basic	¥ (341.6)	¥ (119.2)	¥ 19.7	\$ 0.16
—diluted	—	—	18.7	0.16
Cash dividends	—	—	—	—
Weighted average number of shares (thousands)	151,444	149,633	154,784	154,784

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

SEGA CORPORATION and Consolidated Subsidiaries - For the years ended March 31, 2001, 2002 and 2003

	Millions of yen								
	Number of shares of common stock	Common stock	Additional paid-in capital	(Accumulated deficit) Retained earnings	Adjustment on revaluation of land	Unrealized gain (loss) on other securities	Treasury stock	Translation adjustment	Total
Balance at March 31, 2000	122,495,720	¥ 64,149	¥ 63,674	¥ (48,248)	¥ —	¥ 1,160	¥ (10)	¥ —	¥ 80,725
Net loss for the year ended March 31, 2001	—	—	—	(51,730)	—	—	—	—	(51,730)
Increase in retained earnings of newly consolidated subsidiaries	—	—	—	108	—	—	—	—	108
Decrease in retained earnings of newly consolidated subsidiaries	—	—	—	(314)	—	—	—	—	(314)
Bonuses to directors and corporate auditors	—	—	—	(1)	—	—	—	—	(1)
Increase of treasury stock	—	—	—	—	—	—	(33,637)	—	(33,637)
Unrealized holding gain (loss) arising during the period	—	—	—	—	—	(1,137)	—	—	(1,137)
Issuance of common stock	36,000,000	50,688	50,688	—	—	—	—	—	101,376
Conversion of convertible bonds	3,901,244	3,079	3,076	—	—	—	—	—	6,155
Exercise of stock options	1,500	3	2	—	—	—	—	—	5
Increase in translation adjustment	—	—	—	—	—	—	—	(9,863)	(9,863)
Balance at March 31, 2001	162,398,464	117,919	117,440	(100,185)	—	23	(33,647)	(9,863)	91,687
Net loss for the year ended March 31, 2002	—	—	—	(17,829)	—	—	—	—	(17,829)
Bonuses to directors and corporate auditors	—	—	—	(24)	—	—	—	—	(24)
Conversion of convertible bonds	9,681,513	7,320	7,309	—	—	—	—	—	14,629
Exercise of stock options	182,500	167	168	—	—	—	—	—	335
Unrealized holding gain (loss) arising during the period	—	—	—	—	—	2,563	—	—	2,563
Adjustment on revaluation of land during the period	—	—	—	—	(9,281)	—	—	—	(9,281)
Decrease of treasury stock	—	—	—	—	—	—	62	—	62
Increase in translation adjustment	—	—	—	—	—	—	—	1,428	1,428
Balance at March 31, 2002	172,262,477	125,406	124,917	(118,038)	(9,281)	2,586	(33,585)	(8,435)	83,570
Net income for the year ended March 31, 2003	—	—	—	3,054	—	—	—	—	3,054
Bonuses to directors and corporate auditors	—	—	—	(101)	—	—	—	—	(101)
Conversion of convertible bonds	2,059,613	1,553	1,549	—	—	—	—	—	3,102
Exercise of stock options	623,600	624	623	—	—	—	—	—	1,247
Transfer from additional paid-in capital to retained earnings	—	—	(124,917)	124,917	—	—	—	—	—
Unrealized holding gain (loss) arising during the period	—	—	—	—	—	(3,137)	—	—	(3,137)
Adjustment on revaluation of land during the period	—	—	—	(3,016)	3,016	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(56)	—	(56)
Decrease of treasury stock	—	—	—	—	—	—	—	—	—
Increase in translation adjustment	—	—	—	—	—	—	—	(793)	(793)
Balance at March 31, 2003	174,945,690	¥ 127,583	¥ 2,172	¥ 6,816	¥ (6,265)	¥ (551)	¥ (33,641)	¥ (9,228)	¥ 86,886

	Thousands of U.S. dollars (Note 1.1)								
	Number of shares of common stock	Common stock	Additional paid-in capital	(Accumulated deficit) Retained earnings	Adjustment on revaluation of land	Unrealized gain (loss) on other securities	Treasury stock	Translation adjustment	Total
Balance at March 31, 2002	172,262,477	\$ 1,043,311	\$ 1,039,243	\$ (982,013)	\$ (77,214)	\$ 21,514	\$ (279,409)	\$ (70,175)	\$ 695,257
Net income for the year ended March 31, 2003	—	—	—	25,408	—	—	—	—	25,408
Bonuses to directors and corporate auditors	—	—	—	(841)	—	—	—	—	(841)
Conversion of convertible bonds	2,059,613	12,920	12,887	—	—	—	—	—	25,807
Exercise of stock options	623,600	5,192	5,183	—	—	—	—	—	10,375
Transfer from additional paid-in capital to retained earnings	—	—	(1,039,243)	1,039,243	—	—	—	—	—
Unrealized holding gain (loss) arising during the period	—	—	—	—	—	(26,098)	—	—	(26,098)
Adjustment on revaluation of land during the period	—	—	—	(25,092)	25,092	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(466)	—	(466)
Decrease in translation adjustment	—	—	—	—	—	—	—	—	—
Increase in translation adjustment	—	—	—	—	—	—	—	(6,597)	(6,597)
Balance at March 31, 2003	174,945,690	\$ 1,061,423	\$ 18,070	\$ 56,705	\$ (52,122)	\$ (4,584)	\$ (279,875)	\$ (76,772)	\$ 722,845

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

SEGA CORPORATION and Consolidated Subsidiaries - For the years ended March 31, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1.1)
	2001	2002	2003	2003
Cash Flows from Operating Activities:				
Income (loss) before income taxes and minority interest in earnings of consolidated subsidiaries	¥ (55,493)	¥ (14,294)	¥ 6,448	\$ 53,644
Adjustment for:				
Depreciation and amortization	21,471	18,590	14,983	124,651
Transfer of amusement machines and facilities from investing activities	(8,460)	(8,005)	(4,086)	(33,993)
Provision for doubtful accounts	3,138	(558)	445	3,702
Increase in accrued employees' retirement benefits	2,373	301	265	2,205
Interest and dividend income	(2,021)	(678)	(268)	(2,230)
Interest expense	2,414	1,713	738	6,140
Equity in losses of non-consolidated subsidiaries and affiliates	2,942	828	(440)	(3,661)
Amortization of excess investment costs over net assets of consolidated subsidiaries	7,070	374	236	1,963
Impairment charge on goodwill	—	4,378	—	—
Loss on sales or disposal of property and equipment	2,117	691	398	3,311
Gain on sales of property and equipment	—	—	(1,248)	(10,383)
Gain on sales of investments in securities	(1,693)	(2,181)	(3,078)	(25,607)
Loss on valuation of investments in securities	10,237	6,235	960	7,987
Gain on donated assets from Mr. Okawa (Note 19)	(77,913)	(1,667)	—	—
Gain on settlement of donated assets from Mr. Okawa	—	16,725	2,717	22,604
Additional benefits for retirees	945	—	—	—
Increase (decrease) in notes and accounts receivable	17,706	(9,360)	12,538	104,309
Decrease in inventories	29,007	8,913	977	8,128
(Decrease) increase in notes and accounts payable	(31,089)	(7,259)	(2,146)	(17,854)
Decrease in accrued expenses	—	—	(7,745)	(64,434)
Others	5,923	3,482	(856)	(7,121)
Subtotal	(71,326)	18,228	20,838	173,361
Interest and dividends received	2,033	811	330	2,745
Interest paid	(2,209)	(2,078)	(728)	(6,056)
Payments for additional benefits for retirees	(234)	(711)	—	—
Proceeds from donated assets from Mr. Okawa	—	1,205	—	—
Payment on donated assets from Mr. Okawa (Note 19)	—	(6,960)	18,889	157,146
Income taxes paid	(2,234)	(1,145)	(5,097)	(42,404)
Net cash provided by (used in) operating activities	(73,970)	9,350	34,232	284,792
Cash Flows from Investing Activities:				
Proceeds from cancellation of time deposits	—	—	10,060	83,694
(Decrease) increase in amount of times deposits	—	(10,006)	(50)	(416)
Payments for purchases of property and equipment	(7,025)	(3,673)	(7,016)	(58,369)
Payments on acquisition of intangible assets	—	(2,242)	(1,308)	(10,882)
Proceeds from sales of property and equipment	2,952	2,232	5,509	45,832
Payments for purchases of investments in securities	(3,624)	(1,069)	(180)	(1,498)
Proceeds from sales of investments in securities	14,772	3,947	6,946	57,787
Payments for purchases of shares of consolidated subsidiaries	(2,213)	—	—	—
Payments for advances	(504)	(255)	(173)	(1,439)
Proceeds from collections advances	2,390	534	509	4,235
Payments for fixed leasehold deposits	(582)	(1,388)	(2,960)	(24,626)
Proceeds from collections of fixed leasehold deposits	2,950	3,158	2,578	21,448
Other	(1,196)	284	85	707
Net cash provided by (used in) investing activities	7,920	(8,478)	14,000	116,473
Cash Flows from Financing Activities:				
(Decrease) increase in short-term bank loans, net	(6,308)	(15,825)	(27,339)	(227,446)
Issuance of long-term debt	—	5,080	31,565	262,604
Repayment of long-term debt	(2,705)	(261)	(12,817)	(106,631)
Proceeds from issuance of debentures	—	—	17,631	146,681
Payments on redemption debentures	(88,145)	(25,000)	(5,000)	(41,597)
Proceeds from issuance of convertible bonds	—	48,585	—	—
Payment on redemption of convertible bonds	—	(20)	(4,621)	(38,444)
Proceeds from issuance of shares to minority shareholders	—	—	446	3,710
Issuance of common stock	101,376	—	—	—
Dividends paid	(67)	(28)	(8)	(67)
Proceeds from issuance of share under exercise of stock options	—	—	1,246	10,366
Other	314	958	(56)	(466)
Net cash provided by financing activities	4,465	13,489	1,047	8,710
Effect of Exchange Rate Changes on Cash and Cash Equivalents	605	757	(668)	(5,557)
Net Increase (Decrease) in Cash and Cash Equivalents	(60,980)	15,118	48,611	404,418
Cash and Cash Equivalents at Beginning of Year	98,325	37,633	52,751	438,860
Increase of Cash and Cash Equivalents from Newly Consolidated Subsidiaries	427	—	—	—
Decrease of Cash and Cash Equivalents from Exclusion of Consolidated Subsidiaries	(139)	—	—	—
Cash and Cash Equivalents at End of Year (Note 3)	¥ 37,633	¥ 52,751	¥ 101,362	\$ 843,278

Notes to the Consolidated Financial Statements

SEGA CORPORATION and Consolidated Subsidiaries - For the years ended March 31, 2001, 2002 and 2003

1. Basis of Presenting the Consolidated Financial Statements

1.1 Basis of Presentation

The accompanying consolidated financial statements have been prepared based on the accounts maintained by SEGA CORPORATION (the "Company") and its consolidated subsidiaries (collectively, "SEGA") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Accounting Standards. The consolidated statements of shareholders' equity for the years ended March 31, 2001, 2002 and 2003 have been prepared to provide additional information.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to consolidated financial statements include information which is not required under generally

accepted accounting information.

The U.S. dollar amounts stated in the consolidated financial statements are included solely for the convenience of readers outside Japan. The rate of ¥120.20=U.S.\$1, the average rate of exchange as at March 31, 2003, has been used for the purpose of such translations.

Those translations should not be construed as representations that the Japanese yen amounts have been or could be converted into U.S. dollars at that rate or any other rate.

1.2 Significant Shareholder

The Company is an affiliate of CSK Corporation, Japan, which owned 39,148 thousand shares of common stock of the Company at March 31, 2002 and 2003, respectively, representing 22.7% and 22.4% of shares outstanding at such dates. There have been no material transactions and account balances outstanding, other than these shareholdings, between the Company and CSK Corporation.

2. Summary of Significant Accounting Policies

2.1 Scope and Principles of Consolidation

The Company had 56 subsidiaries and 8 affiliates at March 31, 2003 (58 subsidiaries and 13 affiliates at March 31, 2002). The consolidated financial

statements include the accounts of the Company and 47 of its subsidiaries at March 31, 2003 (50 at March 31, 2002), which are mostly listed below.

	Country of incorporation	Equity ownership percentage at March 31, 2003	Fiscal year-end
SEGA Holdings U.S.A., Inc.	U.S.A.	100.0	March 31
SEGA Amusements U.S.A., Inc.	U.S.A.	(100.0)	March 31
SEGA Enterprises, Inc. (U.S.A.)	U.S.A.	(100.0)	March 31
SEGA of America, Inc.	U.S.A.	(100.0)	March 31
Visual Concepts Entertainment, Inc.	U.S.A.	(100.0)	March 31
SEGA Com, Inc.	U.S.A.	100.0	March 31
SEGA Europe Ltd.	U.K.	100.0	February 28
SEGA Amusements Europe Ltd.	U.K.	(100.0)	February 28
JPM International Ltd.	U.K.	(100.0)	February 28
ACE Coin Equipment Ltd.	U.K.	(100.0)	February 28
Crystal Leisure Ltd.	U.K.	(100.0)	February 28
SEGA Gesellschaft für Videospiele mbH	Germany	(100.0)	February 28
SEGA Consumer Products S.A.	Spain	(100.0)	February 28
SEGA France S.A.	France	(100.0)	February 28
SEGA-AM2 Co., Ltd.	Japan	100.0	March 31
Sega Amusement Ltd.	Japan	100.0	March 31
SEGA TOYS, Ltd.	Japan	60.3	March 31
SEGA Music Networks Co., Ltd.	Japan	100.0	March 31
SEGA Logistics Service Ltd.	Japan	100.0	March 31
Hitmaker Co., Ltd.	Japan	100.0	March 31
WOW Entertainment Inc.	Japan	100.0	March 31
Smilebit Corporation	Japan	100.0	March 31
Overworks Ltd.	Japan	100.0	March 31
Sonicteam Ltd.	Japan	100.0	March 31
Amusement Vision Ltd.	Japan	100.0	March 31
Sega Rosso Co., Ltd.	Japan	100.0	March 31
United Game Artists Ltd.	Japan	100.0	March 31
Wavemaster Inc.	Japan	85.3	March 31
Other 19 subsidiaries	Japan	100.0	March 31

*Parentheses indicate indirect ownership by the company.

Major affiliated companies which are recognized to be substantially controlled by the Company under the effective control approach are consolidated regardless of the percentage of ownership. All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation.

Investments in affiliates in which the Company has significant influence are stated using the equity method. Consolidated net income includes SEGA's equity in current earnings after elimination of unrealized inter-company profits.

2.2 Translation of Foreign Currency Transactions and Accounts

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated at the foreign exchange rates prevailing at the respective balance sheet dates. Foreign currency transactions are generally translated using the foreign exchange rates prevailing at the respective transaction dates.

The translation of revenue and expenses in the financial statements of foreign subsidiaries and affiliates into Japanese yen is performed by using the average exchange rate during the year. Assets and liabilities are translated using the foreign exchange rates prevailing at the balance sheet dates, and shareholders' equity at beginning of the year is translated into Japanese yen at the historical rates. Foreign currency financial statement translation differences are presented as "Translation Adjustment" in the shareholders' equity.

In addition, hedge accounting was applied to foreign currency monetary assets/liabilities on foreign exchange forward contracts.

Translation adjustment amounting to debit ¥8,435 million and debit ¥9,228 million (\$76,772 thousand) as of March 31, 2002 and 2003, respectively were classified as a component of shareholders' equity as opposed to a component of assets or liabilities.

2.3 Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand and time deposits able to be withdrawn on demand and highly liquid investments which are principally the investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

2.4 Marketable and Investment Securities

Securities held by SEGA, are classified into three categories: 1) trading securities; 2) held-to-maturity debt securities; and 3) other securities.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities classified as other than trading securities and held-to-maturity debt securities are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of shareholders' equity, net of tax. Other than temporary declines in the value of other securities and unlisted securities are reflected in current income. Marketable securities and other securities are classified as "Investments in Securities" except for trading marketable securities which are included in Current Assets.

2.5 Inventories

Inventories held by the Company and its domestic consolidated subsidiaries are stated at cost, as determined using the moving-average method. Inventories held by the foreign consolidated subsidiaries are

mainly valued at the lower of cost, as determined by the first-in, first-out method, or market value.

2.6 Property and Equipment

Property and equipment, including significant renewals and improvements, are carried at cost less depreciation. Maintenance and repairs including minor renewals and improvements are charged to income as incurred. Depreciation is computed primarily on the declining-balance method at rates based on the estimated useful lives of the assets which are prescribed by the Japanese income tax laws. When retired or disposed of, the difference between the net book value and sales proceeds is charged or credited to income.

2.7 Deferred Charges

Debt issuance costs are amortized over three years.

2.8 Intangible Assets

Amortization of intangible assets was computed using the straight-line method. Amortization of software for self-use was computed using the straight-line method over the estimated useful life of five years.

2.9 Amortization of Goodwill

The Company amortizes goodwill over 5 years using the straight-line method and SEGA Europe Ltd. is amortizing the goodwill brought by acquiring stocks of JPM International Ltd. and three other subsidiaries over 15 years. Immaterial amounts of goodwill are all amortized in a single year.

An impairment loss on goodwill of SEGA Enterprises, Inc. (U.S.A.) was recognized as an Impairment Charge on Goodwill for the year ended March 31, 2002.

2.10 Income Taxes

Income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. Deferred income taxes are provided for temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

The company filed a consolidated income tax return for the year ended March 31, 2003, whereas each of the domestic consolidated subsidiaries filed a separate income tax return prior to the period.

As a result of filing the consolidated income tax return, net income for this fiscal year has increased by ¥2,782 million (\$23,145 thousand), as compared with the amounts which would have been reported if the separate income tax return had been filed consistently.

2.11 Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principals and practices generally accepted in Japan. All

finance leases in overseas subsidiaries are accounted for as finance leases and similarly accounted for as sales transactions.

2.12 Accrued Employees' Retirement Benefits

To provide for the employees' retirement benefits, the Company and domestic consolidated subsidiaries provided the deemed retirement obligations based on the estimated present value of projected benefit obligations in excess of the fair value of the plan assets at the end of this period. Unrecognized actuarial gains and losses are amortized on a straight-line basis over a certain period of 10 years within average remaining service periods of employees, starting from the respective fiscal year immediately subsequent to the year of occurrence.

2.13 Development Costs for Software to Be Sold

Development costs for software to be sold are charged to cost of sales as incurred.

2.14 Net Income per Share

Net income and loss per share are computed based on the

weighted average number of shares of common stock outstanding during each fiscal period. Diluted net loss per share was not disclosed for the years ended March 31, 2001 and 2002, as loss per share was not calculated for the year after the adjustment for dilution.

On September 25, 2002, the Accounting Standards Board of Japan issued new accounting standards concerning accounting for net income per share, effective for fiscal years beginning on or after April 1, 2002. SEGA has adopted these new accounting standards from the fiscal year commencing on April 1, 2002. Under the new accounting standards, "bonuses to directors and corporate auditors", which are determined through appropriation of retained earnings by resolution of a general shareholders' meeting subsequent to fiscal year-end and not reflected in the statement of income of the current year, should be reflected in the calculation of net income per share, as if "bonuses to directors and corporate auditors" was charged to income in the current fiscal year.

2.15 Appropriation of Retained Earnings

The appropriation of retained earnings reflected in the accompanying consolidated financial statements has been recorded after approval by the shareholders as required under the Commercial Code of Japan.

3. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2002 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash and time deposits	¥ 62,757	¥ 101,367	\$ 843,319
Time deposits with original maturity over 3 months	(10,006)	(5)	(41)
Total cash and cash equivalents	¥ 52,751	¥ 101,362	\$ 843,278

Important Non-Cash Transactions

Convertible bonds:

Increase of common stock by conversion of convertible bonds	¥ 7,320	¥ 1,553	\$ 12,920
Increase of additional paid-in capital by conversion of convertible bonds	7,309	1,549	12,887
Decrease of convertible bonds by conversion	¥ 14,629	¥ 3,102	\$ 25,707

4. Inventories

Inventories as of March 31, 2002 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Merchandise	¥ 2,161	¥ 2,090	\$ 17,388
Products	3,924	2,971	24,717
Materials	2,286	2,107	17,529
Work in process	1,000	1,374	11,431
Supplies	275	297	2,471
Total	¥ 9,646	¥ 8,839	\$ 73,536

5. Investments in Securities

The cost, net unrealized gains or losses and fair value for marketable securities classified as investments in securities are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Stock:			
Cost	¥ 16,863	¥ 1,978	\$ 16,456
Carrying amount (fair value)	21,376	¥ 1,659	13,802
Unrealized gain (loss)-net	4,513	(319)	(2,654)
Bonds and Debentures:			
Cost	¥ 537	—	—
Carrying amount (fair value)	526	—	—
Unrealized gain (loss)-net	(11)	—	—

The carrying amounts of non-marketable securities held at March 31, 2002 and 2003 were ¥5,189 million and ¥4,289 million (\$35,682 thousand) for stock, respectively. For bonds, they were held on March 31 2002 only, not 2003, for the carrying amount of ¥200 million.

The proceeds from sales of investments in securities were ¥13,401

million and ¥12,447 million (\$103,552 thousand) and gross gains of ¥4,077 million and ¥3,639 million (\$30,275 thousand) and gross losses of ¥3,353 million and ¥1,312 million (\$10,915 thousand) were realized on the sales for the year ended March 31, 2002 and 2003, respectively.

6. Revaluation of Land Used for Business Operation in Accordance with the Land Revaluation Law

In accordance with the 34th Act issued on March 31, 1998 and the 19th Act issued on March 31, 2001, the Company revalued land for their business relating to the Land Revaluation Law. They recorded the entire differences between carrying amount and revalued amount as Adjustment on Revaluation of Land as a separate component of shareholders' equity. Revaluation of land was performed by making a reasonable adjustment on the standard basis of land in accordance with Article 2-3 of the Enforcement Ordinance of 119th Cabinet Order issued on March 31,

1998 relating to the Land Revaluation Law, and by the real estate appraiser in accordance with the Article 2-5 of the said Enforcement Ordinance.

Date of Revaluation: March 31, 2002

Book value before Revaluation: ¥20,734 million (\$155,602 thousand)

Book value after Revaluation: ¥11,453 million (\$85,951 thousand)

Fair value as of March 31, 2003 was less than revalued book value by ¥427 million (\$3,552 thousand).

7. Fixed Leasehold Deposits

SEGA conducts amusement center operations on property leased from lessors on a long-term cancellable 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 consolidated balance sheets as "Fixed Leasehold Deposits."

8. Long-Term Debt

Long-term debt at March 31, 2002 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
1.70% unsecured notes, due 2002	¥ 5,000	¥ —	\$ —
0.37% unsecured notes, due 2005	—	3,000	24,958
0.73% unsecured notes, due 2008	—	3,000	24,958
0.44% unsecured notes, due 2008	—	3,000	24,958
0.45% unsecured notes, due 2008	—	5,000	41,598
1.06% unsecured notes, due 2008	—	4,000	33,278
0.40% convertible bonds due 2006	9,908	6,806	56,623
Zero-coupon convertible bonds due 2004	50,000	45,000	374,376
Unsecured loans, from banks due 2003 to 2010 with average interest of 1.9% per annum in 2002 and due 2005 to 2010 with average interest of 2.0% per annum in 2003	5,197	23,945	199,200
	70,105	93,751	779,950
Less portion due within one year	6,741	7,389	61,473
Total	¥ 63,364	¥ 86,362	\$ 718,486

The aggregate annual maturities of long-term debt after March 31, 2003, are as follows:

Years ending March 31,	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
2003	¥ 6,741	¥ —	\$ —
2004	1,640	7,389	61,473
2005	51,806	52,828	439,501
2006	9,910	14,625	121,672
2007	2	6,794	56,522
2008	—	12,109	100,740

The zero-coupon convertible bonds due 2004 were issued on June 18, 2001 for a principal amount of ¥50,000 million. The bonds are convertible into shares of common stock of the Company at the current conversion price of ¥2,398 per share effective July 7, 2001. The 0.40% convertible

bonds due 2006 were issued on February 17, 1999 for a principal amount of ¥30,000 million. The bonds are convertible into shares of common stock of the Company at the current conversion price of ¥1,506.10 per share effective June 19, 2001.

9. Accounting Treatment for Notes Receivable/Payable at year-end

Notes receivable/payable maturing at year-end are treated as if they were settled at the clearing date of notes. Consequently, as March 31, 2002 was a holiday for banking institutions, while March 31 2003 was not,

notes receivable and payable maturing on that date could not be settled and were included in the ending balance as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Notes receivable	—	—	—
Notes payable	¥ 2,911	¥ —	\$ —

10. Income Taxes

SEGA is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 42 percent and 44 percent for the years ended March 31, 2002 and 2003,

respectively. The significant components of deferred tax assets and liabilities at March 31, 2002 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets:			
Loss carryforwards	¥ 51,872	¥ 59,250	\$ 492,928
Excess over the limit of allowance for doubtful accounts	20,965	17,670	147,005
Devaluation of investments in securities	49,355	33,614	279,651
Devaluation of inventories	1,944	1,340	11,148
Other	10,911	16,058	133,594
Gross deferred tax assets	135,047	127,932	1,064,326
Less valuation allowance	(133,382)	(127,140)	(1,057,737)
Total deferred tax assets	1,665	792	6,589
Deferred tax liabilities:			
Unrealized gain on investments in securities	2,043	—	—
Special reserve for tax purposes	102	—	—
Other	—	330	2,745
Gross deferred tax liabilities	2,145	330	2,745
Net deferred assets (liabilities)	¥ (480)	¥ 462	\$ 844

11. Research and Development Expenses

Research and development expenses included in manufacturing costs and selling, general and administrative expenses were ¥23,208 million and

¥27,665 million (\$230,158 thousand) for the years ended March 31, 2002 and 2003, respectively.

12. Loss on Write-Down or Disposal of Inventories

The loss derived from write-down or disposal of consumer products and amusement machines, and amortization of software development

costs in line with the restructuring of its business lines for the year ended March 31, 2001 were ¥52,365 million.

13. Amortization of Excess Investment Cost Over Net Assets of Consolidated Subsidiaries Acquired

The amortization included ¥4,502 million for SEGA.Com, Inc. and ¥1,255 million for CSK Research Institute Inc., both of which are

consolidated subsidiaries for the year ended March 31, 2001.

14. Loss on Valuation of Investments in Securities

The valuation loss included ¥2,687 million on TMS Entertainment Ltd. and ¥1,224 million on SOFTBANK CORP. for the year ended March 31, 2001, and included ¥2,720 million on ASCII corporation and ¥1,208

million on CSK ELECTRONICS CORPORATION for the year ended March 31, 2002, respectively.

15. Gain on Sale of Property and Equipment

The gain derived from transferring real estate.

16. Finance Leases

16.1 Lessee

Lease rental expense on finance lease contracts without ownership transfer during the years ended March 31, 2002 and 2003 were summarized as follows:

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2002	2003	2003
Acquisition cost, accumulated depreciation and book value of leased properties as of March 31, 2002 and 2003 were summarized as follows:			
Buildings:			
Acquisition cost	¥ 1,161	¥ 958	\$ 7,970
Accumulated depreciation	(808)	(810)	(6,739)
Book value	¥ 353	¥ 148	\$ 1,231
Other:			
Acquisition cost	¥ 5,673	¥ 3,040	\$ 25,291
Accumulated depreciation	(3,964)	(2,231)	(18,561)
Book value	¥ 1,709	¥ 809	\$ 6,730

The amounts of outstanding future lease payments for finance leases without ownership transfer at March 31, 2002 and 2003 including the interest were summarized as follows:

Future lease payments:			
Within one year	¥ 1,314	¥ 630	\$ 5,241
More than one year	806	380	3,162
	¥ 2,120	¥ 1,010	\$ 8,403

Lease payments and the calculated amounts relevant to depreciation and interest expense for leased properties for the years ended March 31, 2002 and 2003 were summarized as follows:

Lease payments	¥ 2,194	¥ 1,420	\$ 11,814
Depreciation	2,017	1,313	10,923
Interest expense	¥ 111	¥ 111	\$ 923

The amounts of outstanding future lease payments for non-cancellable operating leases at March 31, 2002 and 2003 were summarized as follows:

Future lease payments:			
Within one year	¥ 1,240	¥ 1,200	\$ 9,983
More than one year	5,853	4,470	37,188
	¥ 7,093	¥ 5,670	\$ 47,171

16.2 Lessor

Lease rental income on finance lease contracts without ownership transfer during the years ended March 31, 2002 and 2003 were summarized as follows:

	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars 2003
Acquisition cost, accumulated depreciation and book value of leased properties as of March 31, 2002 and 2003 were summarized as follows:			
Other:			
Acquisition cost	¥ 200	¥ 108	\$ 899
Accumulated depreciation	(161)	(96)	(799)
Book value	¥ 39	¥ 12	\$ 100

The amounts of outstanding future lease receipts for finance leases without ownership transfer at March 31, 2002 and 2003 including the interest were summarized as follows:

	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars 2003
Future lease receipts:			
Within one year	¥ 34	¥ 8	\$ 66
More than one year	7	5	42
	¥ 41	¥ 13	\$ 108

Lease receipts and the calculated amount relevant to depreciation and interest income for the leased properties for the years ended March 31, 2002 and 2003 were summarized as follows:

	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars 2003
Lease receipts	¥ 88	¥ 31	\$ 258
Depreciation	82	30	250
Interest expense	4	—	—

The amounts of outstanding future lease receipts for non-cancellable operating leases at March 31, 2002 and 2003 were summarized as follows:

	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars 2003
Future lease receipts:			
Within one year	¥ 445	¥ 182	\$ 1,514
More than one year	414	157	1,306
	¥ 859	¥ 339	\$ 2,820

17. Commitments and Contingencies

SEGA was contingently liable for obligations of others as of March 31, 2002 and 2003 as follows:

	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars 2003
Notes endorsed	¥ 36	¥ —	\$ —
Guarantees of obligations to banks for:			
Linguaphone Japan, Ltd.	100	—	—
Other guarantee or commitments for:			
SEGA Lease Co., Ltd.	18	—	—
SEGA Game Works LLC.	479	341	2,837
	¥ 633	¥ 341	\$ 2,837

18. Segment Information

18.1 Business Segment Information

SEGA operates principally in the following business segments:

Amusement machine sales, amusement center operations and consumer business. Details of each segment of business are as follows:

>> Amusement machine sales: Manufacturing and selling arcade video games, medal games, prize games, vending machines, change machines, IC

boards and karaoke machines

>> Amusement center operations: Operating amusement centers

>> Consumer business (consumer product sales in prior years): Manufacturing and selling home video games, toys and educational equipment, etc.

Sales of SEGA for the years ended March 31, 2001, 2002 and 2003, classified by business segment were summarized as follows:

	Millions of yen				
Year ended March 31, 2001	Amusement machine sales	Amusement center operations	Consumer business	Eliminations/Corporations	Total
Net sales to:					
Outside customers	¥ 52,503	¥ 74,657	¥ 115,753	¥ —	¥ 242,913
Intersegment sales/transfers	9,722	—	—	(9,722)	—
Total	62,225	74,657	115,753	(9,722)	242,913
Cost of sales and operating expenses	52,591	66,415	184,940	(9,014)	294,932
Operating income (loss)	¥ 9,634	¥ 8,242	¥ (69,187)	¥ (708)	¥ (52,019)
Assets	¥ 44,987	¥ 53,972	¥ 40,866	¥ 144,641	¥ 284,466
Depreciation and amortization	1,805	12,844	9,225	289	24,163
Capital expenditures	925	12,763	7,660	157	21,505

	Millions of yen				
Year ended March 31, 2002	Amusement machine sales	Amusement center operations	Consumer business	Eliminations/Corporations	Total
Net sales to:					
Outside customers	¥ 52,664	¥ 68,534	¥ 85,136	¥ —	¥ 206,334
Intersegment sales/transfers	19,516	469	13	(19,998)	—
Total	72,180	69,003	85,149	(19,998)	206,334
Cost of sales and operating expenses	70,223	60,889	79,571	(18,550)	192,133
Operating income (loss)	¥ 1,957	¥ 8,114	¥ 5,578	¥ (1,148)	¥ 14,201
Assets	¥ 35,141	¥ 58,635	¥ 54,641	¥ 95,493	¥ 243,910
Depreciation and amortization	1,602	12,370	3,853	764	18,589
Capital expenditures	1,871	10,900	2,169	676	15,616

	Millions of yen				
Year ended March 31, 2003	Amusement machine sales	Amusement center operations	Consumer business	Eliminations/Corporations	Total
Net sales to:					
Outside customers	¥ 61,344	¥ 69,331	¥ 66,549	¥ —	¥ 197,224
Intersegment sales/transfers	14,408	53	124	(14,585)	—
Total	75,752	69,384	66,673	(14,585)	197,224
Cost of sales and operating expenses	64,859	61,335	75,243	(13,510)	187,927
Operating income (loss)	¥ 10,893	¥ 8,049	¥ (8,570)	¥ (1,075)	¥ 9,297
Assets	¥ 32,788	¥ 58,621	¥ 33,292	¥ 97,366	¥ 222,067
Depreciation and amortization	1,095	10,512	3,045	923	15,575
Capital expenditures	1,165	9,737	1,561	526	12,989

Thousands of U.S. dollars

Year ended March 31, 2003	Amusement machine sales	Amusement center operations	Consumer business	Eliminations/ Corporations	Total
Net sales to:					
Outside customers	\$ 510,350	\$ 576,797	\$ 553,652	\$ —	\$ 1,640,799
Intersegment sales/transfers	119,867	441	1,031	(121,339)	—
Total	630,217	577,238	554,683	(121,339)	1,640,799
Cost of sales and operating expenses	539,592	510,275	625,982	(112,396)	1,563,453
Operating income (loss)	\$ 90,625	\$ 66,963	\$ (71,299)	\$ (8,943)	\$ 77,346
Assets	\$ 272,779	\$ 487,695	\$ 276,972	\$ 810,033	\$ 1,847,479
Depreciation and amortization	9,110	87,454	25,333	7,679	129,576
Capital expenditures	9,692	81,007	12,987	4,376	108,062

18.2 Geographical Segment Information

Sales of SEGA for the years ended March 31, 2001, 2002 and 2003, classified by geographical segment were summarized as follows:

Millions of yen

Year ended March 31, 2001	Japan	North America	Europe	Other	Total	Eliminations/ Corporations	Consolidated total
Net sales to:							
Outside customers	¥ 167,686	¥ 51,116	¥ 24,076	¥ 35	¥ 242,913	¥ —	¥ 242,913
Intersegment sales/transfers	67,901	5,927	1,082	—	74,910	(74,910)	—
Total	235,587	57,043	25,158	35	317,823	(74,910)	242,913
Cost of sales and operating expenses	255,067	66,409	38,663	46	360,185	(65,253)	294,932
Operating income (loss)	¥ (19,480)	¥ (9,366)	¥ (13,505)	¥ (11)	¥ (42,362)	¥ (9,657)	¥ (52,019)
Assets	¥ 156,328	¥ 31,082	¥ (16,899)	¥ —	¥ 204,309	¥ 80,157	¥ 284,466

Millions of yen

Year ended March 31, 2002	Japan	North America	Europe	Other	Total	Eliminations/ Corporations	Consolidated total
Net sales to:							
Outside customers	¥ 160,090	¥ 34,302	¥ 11,942	¥ —	¥ 206,334	¥ —	¥ 206,334
Intersegment sales/transfers	14,368	6,175	17	—	20,560	(20,560)	—
Total	174,458	40,477	11,959	—	226,894	(20,560)	206,334
Cost of sales and operating expenses	152,336	41,065	13,468	—	206,869	(14,736)	192,133
Operating income (loss)	¥ 22,122	¥ (588)	¥ (1,509)	¥ —	¥ 20,025	¥ (5,824)	¥ 14,201
Assets	¥ 173,295	¥ 25,290	¥ 9,829	¥ —	¥ 208,414	¥ 35,496	¥ 243,910

Millions of yen

Year ended March 31, 2003	Japan	North America	Europe	Other	Total	Eliminations/ Corporations	Consolidated total
Net sales to:							
Outside customers	¥ 163,425	¥ 26,448	¥ 7,351	¥ —	¥ 197,224	¥ —	¥ 197,224
Intersegment sales/transfers	14,239	7,689	4	—	21,932	(21,932)	—
Total	177,664	34,137	7,355	—	219,156	(21,932)	197,224
Cost of sales and operating expenses	161,342	41,108	7,785	—	210,235	(22,308)	187,927
Operating income (loss)	¥ 16,322	¥ (6,971)	¥ (430)	¥ —	¥ 8,921	¥ 376	¥ 9,297
Assets	¥ 144,381	¥ 13,949	¥ 6,976	¥ —	¥ 165,306	¥ 56,761	¥ 222,067

Thousands of U.S. dollars

Year ended March 31, 2003	Japan	North America	Europe	Other	Total	Eliminations/ Corporations	Consolidated total
Net sales to:							
Outside customers	\$ 1,359,609	\$ 220,033	\$ 61,157	\$ —	\$ 1,640,799	\$ —	\$ 1,640,799
Intersegment sales/transfers	118,461	63,969	33	—	182,463	(182,463)	—
Total	1,478,070	284,002	61,190	—	1,823,262	(182,463)	1,640,799
Cost of sales and operating expenses	1,342,280	341,997	64,767	—	1,749,044	(185,591)	1,563,453
Operating income (loss)	\$ 135,790	\$ (57,995)	\$ (3,577)	\$ —	\$ 74,218	\$ 3,128	\$ 77,346
Assets	\$ 1,201,173	\$ 116,048	\$ 58,037	\$ —	\$ 1,375,258	\$ 472,221	\$ 1,847,479

18.3 Overseas Sales Information

Overseas sales of the Company for the years ended March 31, 2001, 2002 and 2003 were summarized as follows:

Year ended March 31, 2001	Millions of yen			
	North America	Europe	Other	Total
Overseas sales	¥ 55,458	¥ 26,043	¥ 8,140	¥ 89,641
Consolidated net sales	—	—	—	242,913
Ratio of overseas sales to consolidated sales	22.8 %	10.7 %	3.4 %	36.9 %

Year ended March 31, 2002	Millions of yen			
	North America	Europe	Other	Total
Overseas sales	¥ 44,973	¥ 16,142	¥ 3,993	¥ 65,108
Consolidated net sales	—	—	—	206,334
Ratio of overseas sales to consolidated sales	21.8 %	7.8 %	1.9 %	31.5 %

Year ended March 31, 2003	Millions of yen			
	North America	Europe	Other	Total
Overseas sales	¥ 35,223	¥ 9,489	¥ 3,689	¥ 48,401
Consolidated net sales	—	—	—	197,224
Ratio of overseas sales to consolidated sales	17.8 %	4.8 %	1.9 %	24.5 %

Year ended March 31, 2003	Thousands of U.S. dollars			
	North America	Europe	Other	Total
Overseas sales	\$ 293,037	\$ 78,943	\$ 30,691	\$ 402,671
Consolidated net sales	—	—	—	1,640,799
Ratio of overseas sales to consolidated sales	17.8 %	4.8 %	1.9 %	24.5 %

19. Restructuring of Business Lines and Assets Donation

At the Meeting of Board of Directors held on January 31, 2001, the Company decided on the discontinuation of the production of Dreamcast, thereafter concentrating its resources on the content and amusement businesses. In January 2001, Mr. Isao Okawa, then chairman and president of the Company who passed away on March 16, 2001, proposed to

contribute his own assets netting ¥77,913 million to the Company to support the development of the business. At the Meeting of Board of Directors held on January 31, 2001, the Company accepted Mr. Okawa's proposal, thereby realizing a gain on donated assets for the year then ended.

19.1 Summary of donated assets by Mr. Okawa (For the year ended March 31, 2001)

	Millions of yen
Treasury stock (19,865,718 shares)	¥ 33,573
Investments in securities	57,525
Long-term loans receivable, net	1,200
Other investments	7,132
Other current assets	9,134
Total donated assets	108,564
Less: Short-term bank loans	21,815
Other current liabilities	8,836
Net donated assets	¥ 77,913

Marketable securities are valued at the market prices prevailing as at January 31, 2001 and non-marketable securities are evaluated at the fair values as at January 31, 2001 by an independent appraiser. The balance of loans receivable has been reduced for uncollected ones.

19.2 Summary of donated assets to be settled

The following donated assets from Mr. Okawa are planned to be settled in the following year:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Building	¥ 104	¥ 98	\$ 815
Land	279	118	982
Investments in securities	31,554	3,699	30,774
Long-term loans receivable	1,900	1,900	15,807
Allowance for doubtful accounts	(700)	(700)	(5,824)
Other investments	5,814	3,301	27,463
Other current liabilities	(5,000)	—	—
Total	¥ 33,951	¥ 8,416	\$ 70,017

19.3 Summary of losses on settlement of donated assets

Gains and losses on settlement of assets from Mr. Okawa are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Gains on sales of investments in securities	¥ 2,376	¥ 576	\$ 4,792
Losses on sales of investments in securities	(3,097)	(869)	(7,230)
Losses on valuation of investments in securities	(14,425)	(1,088)	(9,052)
Losses in investments association	(1,425)	(2,253)	(18,744)
Gains on settlement of other current liabilities	—	869	7,230
Other gains (losses)	(154)	48	400
Total	¥ (16,725)	¥ (2,717)	\$ (22,604)

19.4 Summary of payments on donated assets

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Proceeds from and payment on the donated assets from Mr. Okawa are as follows:			
Payment on notes payable	¥ (3,836)	¥ —	\$ —
Proceeds from sale on investments in securities	9,703	18,690	155,491
Proceeds from collection of short-term loans receivables	8,013	—	—
Payment for notes payable	(20,815)	—	—
Other	(25)	199	1,655
Total	¥ (6,960)	¥ 18,889	\$ 157,146

20. Employee Benefit Plan

Upon terminating employment, employees of the Company and subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pension payments. The Company has adopted an adjusted pension plan to all of the pension and severance plan since

November 1, 1993. The following is a summary of financial information on the pension and severance plan applicable to the years ended March 31, 2002 and 2003.

20.1 Summary of benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Projected benefit obligation	¥ (8,231)	¥ (10,992)	\$ (91,447)
Plan assets	4,164	4,252	35,374
Unrecognized benefit obligation	(4,067)	(6,740)	(56,073)
Unrecognized actuarial differences	1,492	3,787	31,506
Unrecognized prior service cost	(839)	(726)	(6,040)
Accrued employees' retirement benefits	¥ (3,414)	¥ (3,679)	\$ (30,607)

20.2 Summary of pension expense

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Service cost	¥ 981	¥ 801	\$ 6,664
Interest cost	249	202	1,680
Expected return on plan assets	(184)	(103)	(857)
Recognized actuarial differences	50	146	1,215
Amortization of prior service cost	(69)	(90)	(749)
Net periodic pension expense	¥ 1,027	¥ 956	\$ 7,953

20.3 Summary of assumptions on benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Periodic distribution method of expected pension benefit	Straight-line method	Straight-line method	Straight-line method
Discount rate	2.5 %	2.0 %	2.0 %
Expected rate of return on plan assets	2.5 %	2.5 %	2.5 %
Amortization period of prior service differences (within average remaining service years when incurred)	10 years	10 years	10 years
Amortization period of actual loss (within average remaining service years when incurred, but amortization is to commence from the following year)	10 years	10 years	10 years

21. Stock Option Plan

21.1 Under the Plan, which was approved at the General Meeting of Shareholders held on June 27, 2002, directors and employees are entitled

to be granted options for 1,113,600 shares at an exercise price of ¥2,465 at March 31, 2003.

Report of Independent Auditors

Report of Independent Auditors

To The Board of Directors and shareholders of
SEGA CORPORATION

We have audited the accompanying consolidated balance sheets of SEGA CORPORATION and its consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years ended March 31, 2003, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SEGA CORPORATION and its consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan (See Note 1.1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.



ChuoAoyama Audit Corporation

Tokyo, Japan
June 27, 2003

Notice to readers:

The accompanying consolidated financial statements are not intended to present the consolidated financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The standards, procedures and practices used to audit such consolidated financial statements are those generally accepted and applied in Japan.

Non-Consolidated Statements of Operations
SEGA CORPORATION - For the years ended March 31, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars
	2001	2002	2003	2003
Net Sales	¥ 192,713	¥ 106,550	¥ 100,042	\$ 832,296
Costs of Sales	185,573	82,029	77,933	648,361
Gross profit	7,140	24,521	22,109	183,935
Selling, General and Administrative Expense	27,909	20,158	20,016	166,522
Operating income (loss)	(20,769)	4,363	2,093	17,413
Other Income (Expenses):				
Interest and dividend income	2,642	1,477	1,103	9,176
Interest expense	(1,492)	(1,204)	(303)	(2,521)
Gain on sale of property and equipment	—	—	1,249	10,391
Loss on write-down or disposal of inventories	(42,416)	—	—	—
Loss on write-off of loan receivables	(6,536)	—	—	—
Loss on sale or disposal of property and equipment	(1,197)	(2,462)	(359)	(2,987)
Loss on valuation of investments in securities	(4,432)	(5,998)	(938)	(7,804)
Loss on valuation of investments in subsidiaries and affiliates	(41,179)	(5,636)	(2)	(17)
Gain on donated assets from Mr. Okawa	77,913	1,667	—	—
Net gain (loss) on sales of investments in securities	(1,038)	1,447	2,733	22,737
Net (loss) gain on sales of investments in securities of subsidiaries and affiliates	—	376	(91)	(757)
Net (loss) gain on foreign exchange	1,117	(175)	(614)	(5,108)
Income from administration charge to affiliates	—	1,872	1,802	14,992
Expenses on administration charge to affiliates	—	(1,301)	(1,109)	(9,226)
Additional provision for accrued employees' benefits	(2,386)	—	—	—
Additional benefits for retirees	(945)	—	—	—
Reversal of provision for doubtful accounts	—	4,694	—	—
Provision for doubtful accounts	(38,060)	—	(2,338)	(19,451)
Reserve for valuation loss of investments in subsidiaries	—	—	(4,292)	(35,707)
Amortization of bond and note issue expenses	(734)	(482)	(595)	(4,950)
Gain on redemption of convertible bonds	—	—	379	3,153
Loss on settlement of donated assets from Mr. Okawa	—	(16,974)	(3,096)	(25,757)
Other, net	(6,569)	(2,040)	(1,581)	(13,153)
Total other expenses, net	(65,312)	(24,739)	(8,052)	(66,989)
Loss before income taxes	(86,081)	(20,376)	(5,959)	(49,576)
Income taxes	1,160	391	(3,423)	(28,478)
Net loss	¥ (87,241)	¥ (20,767)	¥ (2,536)	\$ (21,098)

	Yen			U.S. dollars
	2001	2002	2003	2003
Per Share:				
Net loss — basic	¥ (559.1)	¥ (138.7)	¥ (16.4)	\$ (0.14)
Cash dividends	—	—	—	—
Weighted average number of shares (thousands)	150,650	149,765	154,784	154,784

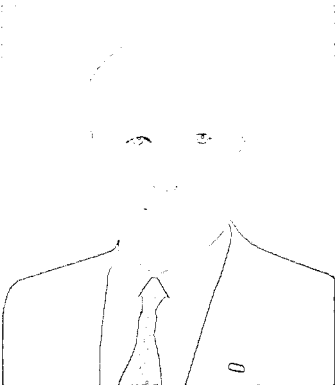
Non-Consolidated Balance Sheets
SEGA CORPORATION - March 31, 2002 and 2003

Assets	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Current Assets:			
Cash and time deposits	¥ 39,581	¥ 79,386	\$ 660,449
Notes and accounts receivable	19,488	14,804	123,161
Inventories	4,356	4,372	36,373
Prepaid expenses	3,443	2,539	21,124
Other current assets	10,666	12,458	103,644
Less allowance for doubtful accounts	(401)	(550)	(4,576)
Total current assets	77,133	113,009	940,175
Investments and Advances:			
Investments in securities	50,733	23,427	194,900
Long-term loans receivable	87,464	47,599	395,998
Other investments and advances	14,192	11,401	94,851
Less allowance for doubtful accounts	(49,707)	(35,832)	(298,103)
Reserve for valuation loss of investments in subsidiaries	—	(7,637)	(63,536)
Total investments and advances	102,682	38,958	324,110
Property and Equipment:			
Amusement machines and facilities	2,861	3,046	25,341
Building and structures	28,641	26,411	219,725
Other	7,586	7,590	63,145
	39,088	37,047	308,211
Less accumulated depreciation	(22,309)	(23,029)	(191,589)
	16,779	14,018	116,622
Land	11,453	8,924	74,243
Total property and equipment	28,232	22,942	190,865
Fixed Leasehold Deposits	1,829	1,536	12,779
Deferred Charges and Intangible Assets	4,681	4,189	34,850
Total assets	¥ 214,557	¥ 180,634	\$ 1,502,779

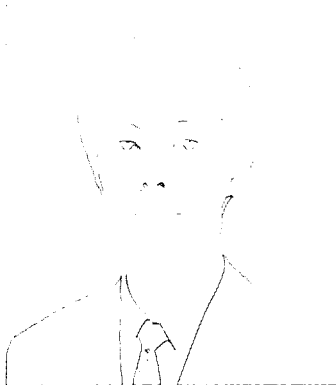
Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Current Liabilities:			
Short-term bank loans	¥ 22,000	¥ 841	\$ 6,997
Current portion of bond	5,000	2,450	20,383
Current portion of long-term debt	1,600	600	4,992
Notes and accounts payable:			
Trade	11,947	8,977	74,684
Subsidiaries and affiliates	476	423	3,519
Other	2,361	672	5,591
	14,784	10,072	83,794
Accrued expenses	15,953	12,342	102,679
Income taxes payable	54	54	449
Other current liabilities	6,412	1,259	10,473
Total current liabilities	65,803	27,618	229,767
Long-Term Liabilities:			
Long-term debt	63,308	71,256	592,812
Accrued employees' retirement benefits	2,196	2,290	19,052
Accrued retirement benefits for directors and corporate auditors	45	60	499
Deferred tax liabilities	2,044	—	—
Other long-term liabilities	1,195	778	6,473
Total long-term liabilities	68,788	74,384	618,836
Shareholders' Equity:			
Common stock, no par value as of March 31, 2002 and 2003:			
Authorized — 600 million shares at March 31, 2002 and 2003, respectively			
Issued — 172,262,477 shares and 174,945,690 shares at March 31, 2002 and 2003, respectively	125,406	127,583	1,061,423
Additional paid-in capital	124,917	2,172	18,070
Legal reserve	3,008	—	—
Voluntary reserves	7,891	—	—
Special tax-purpose reserves	147	—	—
Accumulated deficit	(141,353)	(10,942)	(91,032)
Unrealized (loss) gain on other securities	2,816	(275)	(2,288)
Adjustment on revaluation of land	(9,281)	(6,265)	(52,122)
Treasury stock, at cost	(33,585)	(33,641)	(279,875)
Total shareholders' equity	79,966	78,632	654,176
Total liabilities and shareholders' equity	¥ 214,557	¥ 180,634	\$ 1,502,779

Board of Directors, Auditors and Officers

Board of Directors and Auditors



Chairman
Hideki Sato



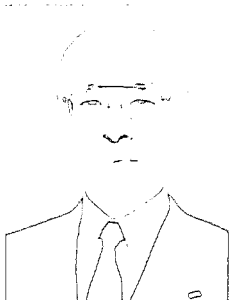
President and Representative Director
Hisao Oguchi



Director
Tetsu Kayama



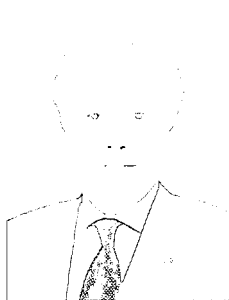
Director
Akira Nagai



Director
Hisashi Suzuki



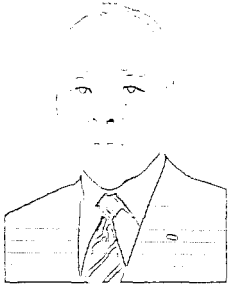
Director
Masahiro Aozono



Director
Makoto Kaneshiro

- Statutory Auditor Kazutada Ieda
- Statutory Auditor Iwao Nishi
- Auditor Kinsuke Miyazaki
- Auditor Yoshiyasu Gemma

Officers



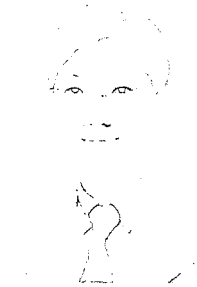
Senior Executive Officer
Keiji Mori



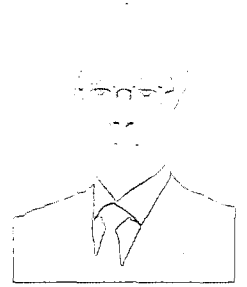
Senior Executive Officer
Hideki Okamura



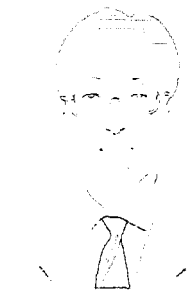
Executive Officer
Yasuo Tazoe



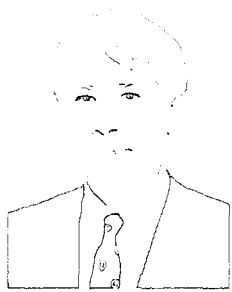
Executive Officer
Yuji Naka



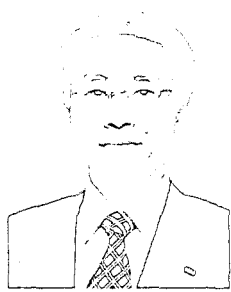
Executive Officer
Akira Sugano



Officer
Masanao Maeda



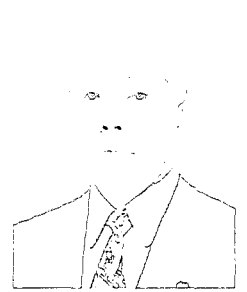
Officer
Yu Suzuki



Officer
Shoichi Yamazaki



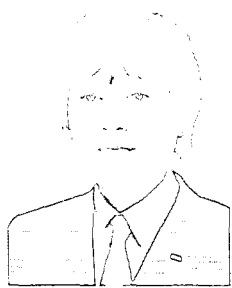
Officer
Toshiya Tabata



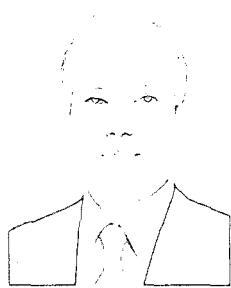
Officer
Hidekazu Yukawa



Officer
Hiroshi Yagi



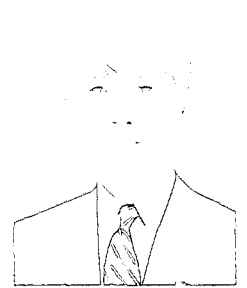
Officer
Toshihiro Nagoshi



Officer
Shigeru Yamashita



Officer
Yukio Sugino



Officer
Hiroyuki Soga

Corporate Data

Head Office

2-12 Haneda 1-chome, Ohta-ku, Tokyo 144-8531, Japan
Tel: +81-3-5736-7111
http://www.sega.co.jp

Date of Incorporation

June 3, 1960

Number of Employees (as of March 31, 2003)

3,469 (consolidated basis)
851 (non-consolidated basis)

Paid-in Capital

¥127,583 million (as of March 31, 2003)

Number of Shareholders

100,111

Number of Shares Authorized

600,000,000 shares

Number of Shares Issued

174,945,690 shares

Stock Listings

Tokyo and Paris

Transfer Agent

The Sumitomo Trust and Banking Co., Ltd.

Independent Accountant

ChuoAoyama Audit Corporation, Tokyo Japan

Ordinary General Meeting of Shareholders

June

American Depositary Receipts

Ratio (ADR:ORD): 4:1

Symbol: SEGN

CUSIP: 815793104

Depository: JPMorgan Chase Bank
270 Park Avenue, New York, NY 10017-2070, U.S.A.
Tel: 1-212-270-6000

Principal Overseas Subsidiaries

SEGA Enterprises, Inc. (U.S.A.)

Townsend Center, 650 Townsend Street, Suite 575,
San Francisco, CA 94103-4908, U.S.A.
Tel: 1-415-701-6500

SEGA of America, Inc.

Townsend Center, 650 Townsend Street, Suite 650,
San Francisco, CA 94103-4908, U.S.A.
Tel: 1-415-701-6000

Visual Concepts Entertainment.

One Thorndale Drive, San Rafael, CA 94903, U.S.A.
Tel: 1-415-479-3634

SEGA Europe Ltd.

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London, W4 5QB, United Kingdom
Tel: 44-020-8995-3399

SEGA AMUSEMENTS EUROPE LTD.

Suite 3a, Oaks House 12-22, West Street, Epsom,
Surrey, KT18 7RG, United Kingdom
Tel: 44-1372-731-820

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