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avex group
NEWS & INFORMATION

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I. Consolidated results

May 7, 2004

FY March 2004 consolidated results and FY March 2005 consolidated forecasts

(1) FY Mar. 04 consolidated results

(Unit: millions of yen)

	Sales		Operating income		Ordinary income		Net income	
	Amount	%	Amount	%	Amount	%	Amount	%
FY Mar. 04	73,896		7,015		7,124		3,648	
Previous forecast	74,400		6,700		6,700		3,500	
Change	(503)	(0.7)	+315	4.7	+424	6.3	+148	4.2

Summary

The Recording Industry Association of Japan reports that music CD production in April 2003-March 2004 fell to 92% of the level for the previous term; this figure was 85% at the end of the interim period, and 90% at the end of the third quarter, and therefore believe the trend implies a gradual recovery in music CD production, although the environment remains difficult. Music DVD production in April 2003-March 2004 reached 119% of the level for the previous term, continuing the strong growth trend. Total production of both music CDs and DVDs in April 2003-March 2004 reached 94% of the level for the previous term; strong music DVD growth was unable to cover for weakness in music CDs.

In this environment, AVEX Group sales fell short of our most recent forecast. Video product sales (primarily DVDs) and royalty revenue exceeded our most recent forecast, but music CD sales fell short of target. Nevertheless, operating income exceeded our most recent forecast by ¥300 million due to cuts in SG&A expenses. Please see the table below for a breakdown of FY Mar. 04 results relative to forecasts:

(Unit: ¥ million)

Decrease in music product (CDs, etc.) sales	(1,500)
Increase in video product (DVDs, etc.) sales	+600
Increase in royalty revenue	+400
Decrease in total sales	(500)
Decrease in cost of sales	(100)
Decrease in gross profits	(400)
Decrease in advertising expenses	(500)
Decrease in general expenses	(200)
Increase in operating income	+300

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<<Mainstay artistic works contributing to sales>>

Music CDs

	(Unit: CDs)
EXILE “EXILE ENTERTAINMENT”(album)	1,260,000
Ayumi Hamasaki “Memorial address” (album)	1,220,000
BoA “LOVE & HONESTY” (album)	900,000
Every Little Thing “Every Best Single 2” (album)	830,000
Hitomi Shimatani “Delicious! ~The Best of Hitomi Shimatani~” (album)	570,000
ROAD OF MAJOR “ROAD OF MAJOR” (album)	530,000
Every Little Thing “commonplace” (album)	470,000
MISIA “MARS & ROSES”	410,000

Additionally, Ayumi Hamasaki’s single “&” sold 690,000 units and “No way to say” sold 460,000 units; EXILE’s single “Breezin’ ~Together~” sold 460,000 units.

Video products

	(Unit: DVDs)
Ayumi Hamasaki “complete clip box”	64,000
Ayumi Hamasaki “A museum ~30th single collection live ~”	102,000
BoA “BoA FIRST LIVE TOUR 2003 ~VALENTI~”	85,000

The high-priced set “INITIAL D SUPER COMPLETE BOX” sold 5,700 units.

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Comparison with previous fiscal year

(Unit: millions of yen)

	Sales		Operating income		Ordinary income		Net income	
	Amount	%	Amount	%	Amount	%	Amount	%
FY Mar. 04 (new accounting procedure)	73,896		7,015		7,124		3,648	
FY Mar. 03 (old accounting procedure)	80,983		7,154		6,582		3,118	
Change	(7,087)	(8.8)	(138)	(1.9)	+542	8.2	+530	17.0
Impact from change in accounting procedure	169		(275)		(275)		(163)	
Real change excluding impact from change in accounting procedure	(7,256)	(9.0)	+136	1.9	+817	12.4	+693	22.2

(Note) We calculated the "impact from change in accounting procedure" figures based on standard calculation methods for preparing financial summaries.

Summary

In the Group's music and video business, EXILE became a million unit selling group, and contributions were made by our newly established Indies label tearbridge, which produced ROAD OF MAJOR, and by HY's Street Story, which we market on contract from a certain third party. However, the 8% decline in the overall CD music market caused a decline in sales volumes for some of our works compared with the previous fiscal year, and we placed greater emphasis on profitability particularly for releases in the second half of the fiscal year. As a result, sales in the music and video business fell year-over-year. In the peripherals business, sales increased dramatically for our "chaku-uta" service which distributes music ringers to mobile phones for a fee; however, overall sales in the peripherals business declined due to fewer concerts and a resulting decline in character goods sales. FY Mar. 04 sales fell ¥7,256 million year-over-year after excluding the impact from a change in accounting procedures.

However, we improved the gross profit margin through a thorough review of our cost ratio, and cut SG&A expenses through more efficient budgeting. As a result, FY Mar. 04 operating income (after excluding the impact from a change in accounting procedures) increased ¥136 million year-over-year, the non-operating profit and loss increased ¥680 million year-over-year, the balance of extraordinary items improved ¥208 million year-over-year, and net income increased ¥693 million year-over-year.

(Breakdown) Comparison with previous fiscal year (before excluding impact from accounting procedure change)

(Unit: ¥ million)

Decrease in music product (CDs, etc.) sales	(4,200)
Decrease in video product (DVDs, etc.) sales	(500)
Decrease in royalty revenue	(300)
Decrease in event sales	(1,200)
Decrease in character goods sales	(800)
Decrease in total sales	(7,000)
Decrease in cost of sales	(4,200)
Decrease in gross profits	(2,800)
Increase in personnel expenses	300
Decrease in advertising expenses	(2,900)
Decrease in general expenses	(100)
Decrease in operating income	(100)

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(2) FY Mar. 05 consolidated forecasts

[FY Mar. 05 forecasts highlights]

(Unit: millions of yen)

	FY Mar. 04 results	FY Mar. 05 forecasts	Change	% change
Sales	73,896	78,400	+4,503	6.1 %
Operating income	7,015	7,300	+284	4.1 %
Ordinary income	7,124	7,200	+75	1.1 %
Net income	3,648	3,000	(648)	(17.8 %)

In our mainstay music and video products business, music CD sales have declined for five straight years since peaking in 1999, and while sales seem to be bottoming, they have yet to recover. However, greater penetration of DVD hardware continues to increase the potential market for our video products business (primarily DVDs), and the size of both media markets have become very similar. As a result, although we continue to expect a decline in the CD market, we believe DVD market growth means that total music/video (DVDs and CDs) market sales may soon bottom. We also anticipate continued strong sales from new services for mobile phones, such as “chaku-uta,” and believe that content distribution over networks (not through physical media such as DVDs and CDs), such as video distribution (as in the US and Europe), is a market we can expect a contribution from in the future (although not in the current fiscal year) as the environment becomes more conducive to such services.

In this environment, the Group intends to increase sales year-over-year in our music products business by continually producing hits, and by releasing works more efficiently through greater selection and focus. We also intend to increase sales year-over-year in our video products business through the launch of a new video products business at group company AXEV.

In our events business, we plan to hold the annual “a-nation” outdoor concert, and various other concerts by our mainstay artists. However, we expect a slight decline in sales as we are reviewing the cost-effectiveness of these concerts, and are considering holding fewer concerts to increase profitability. We forecast an increase in sales year-over-year in our network-related business as we plan to aggressively expand this business, particularly our “chaku-uta” service for mobile phones.

We forecast FY Mar. 05 sales will increase ¥4,500 million year-over-year.

(Breakdown of forecast year-over-year sales increase)

(Unit: ¥million)

Increase in music product (CDs, etc.) sales	+1,300
Increase in video product (DVDs, etc.) sales	+2,200
Decrease in royalty revenue	(500)
Decrease in concert revenue	(400)
Increase in net-related revenue (“chaku-uta” service, etc.)	+1,100
Increase in character goods sales	+500
Others	+300
Total	4,500

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We expect the cost of sales to increase ¥2,900 million year-over-year due to our forecast sales increase, and expect gross profits to improve ¥1,600 million. However, we are budgeting for an increase in costs (including leading investments) to match the increase in sales. As a result, we expect SG&A expenses (advertising expenses, etc.) to increase ¥1,400 million year-over-year, and expect the year-over-year increase in operating income to be limited to ¥200 million. We intend to continue focusing on efficient spending of budgeted expenses.

We also forecast a ¥600 million year-over-year increase in special losses as we plan to implement mark-to-market accounting for fixed assets this fiscal year, ahead of the required deadline.