



Sammy
Annual Report 2003



Consolidated Financial Highlights

SAMMY CORPORATION and subsidiaries

	Millions of yen		
	2001/3	2002/3	2003/3
Net sales	¥ 78,276	¥ 164,294	¥ 165,774
Gross profit	45,187	96,485	92,965
Operating income	19,798	54,022	51,710
Ordinary income	19,759	53,768	51,021
Income before income taxes and minority interest	19,978	46,952	46,585
Net income	10,748	23,906	23,066
Total assets	¥ 78,694	¥ 126,803	¥ 112,873
Shareholders' equity	29,122	57,371	65,429
Shares issued and outstanding at end of year	25,602,400	53,411,800	53,521,400
Shareholders' equity per share (¥)	¥ 1,137.50	¥ 1,074.13	¥ 1,298.90
Net income per share (¥)	423.98	452.44	436.79
Diluted net income per share (¥)	422.60	452.28	435.42
Cash dividends per share (¥)	60.00	50.00	70.00
EBITDA	¥ 21,349	¥ 56,538	¥ 54,661
EBITDA margin (%)	27.3	34.4	33.0
Number of employees	754	1,168	1,416

Notes: EBITDA= Operating income + Other income + Depreciation

Net income per share is based on the average number of shares issued and outstanding during the fiscal year.

On November 20, 2000, the company conducted a 1:2 stock split, issuing 12,666,650 shares.

On June 29, 2001, the company issued 1,000,000 new shares through a public offering.

On November 20, 2001, the company conducted a 1:2 stock split, issuing 26,653,400 shares.

Contents

To Our Shareholders ● 2 Pachislot & Pachinko ● 14 NEWS BUSINESS ● 18 Sammy Group Companies ● 22 Management ● 24
Financial Section ● 25 Stock Information ● 53 Corporate Data ● 54

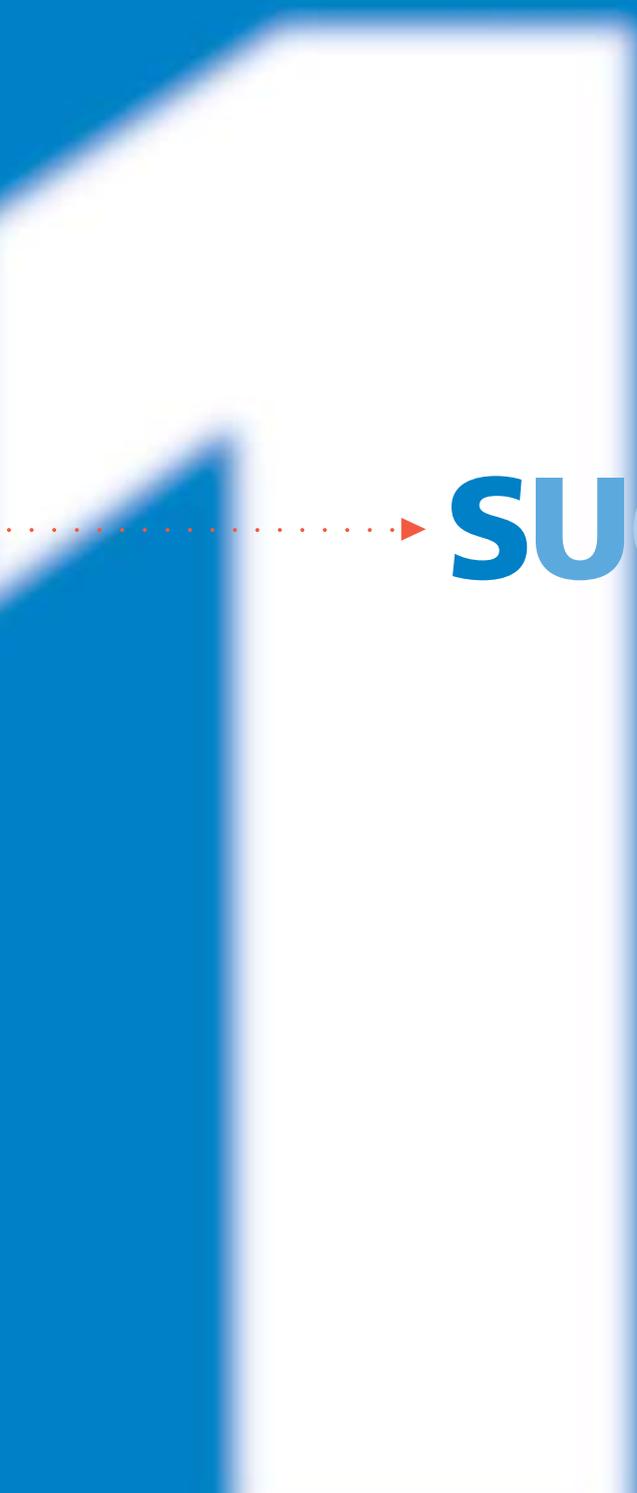
On the cover: The design depicts how the Sammy Group is firmly committed to enhancing its international presence as a comprehensive entertainment company through the pachinko and pachislot business in Japan and global expansion of the NEWS business.

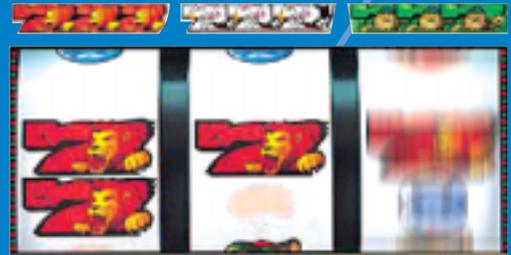
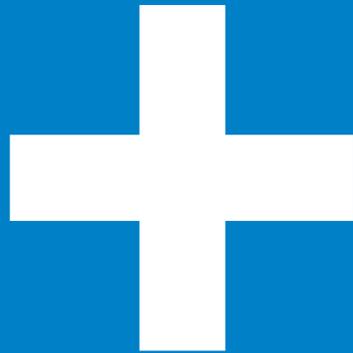


Why It's Possible

Amid increasingly fierce competition, Sammy has leveraged its strengths in the development of pachislot machines to consistently deliver hit products. The company currently enjoys the top share of the market, and is on its way to building an unshakable presence in the industry.



  **SUCCESS** 



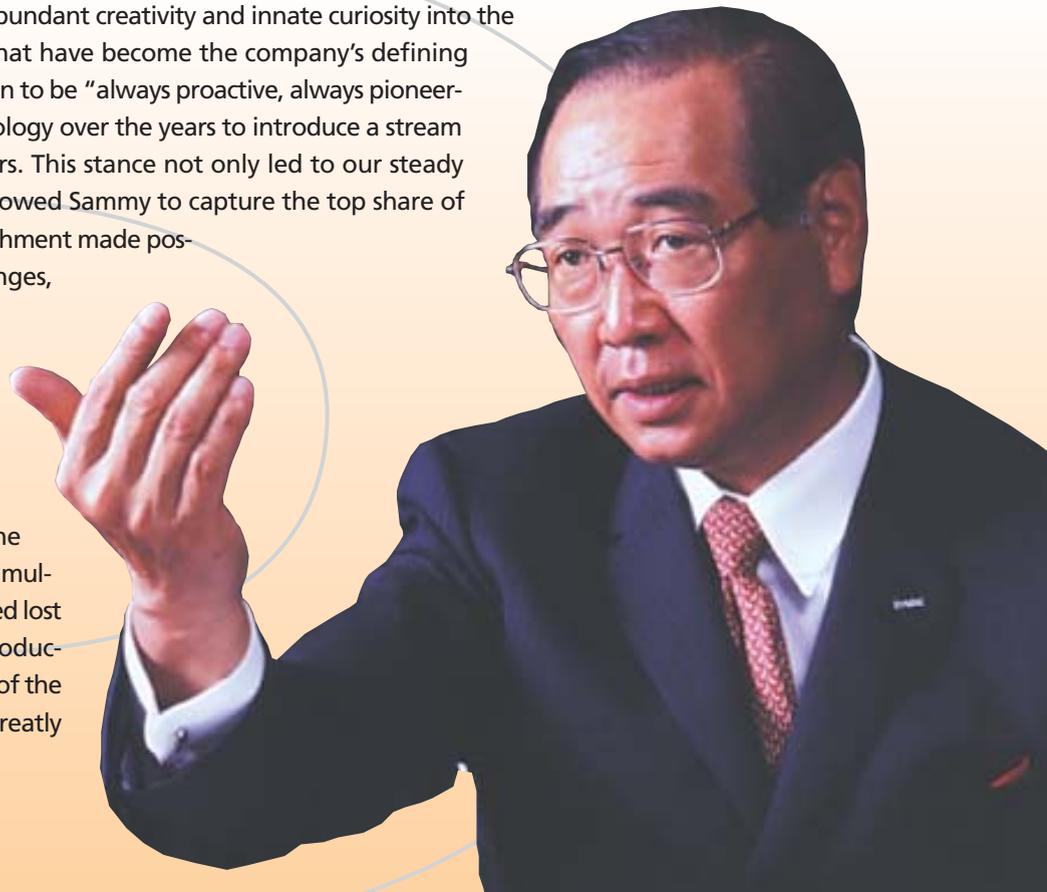
Success Stories Doing the Impossible at Sammy From Steady Growth to Top of the Industry

More than two years have passed since the loyalty of our shareholders and other stakeholders helped Sammy achieve its goal of listing on the First Section of the Tokyo Stock Exchange on March 1, 2001. During that time, we have become keenly aware of the social and economic responsibilities that this higher status entails. At the same time, we have been greatly encouraged by the overwhelming support we have received from so many people, and in so many ways, in our business activities. We at Sammy are deeply grateful for this support.

Turning to Sammy's performance for the year ended March 31, 2003, consolidated net sales were up 0.9% for the year at ¥165,774 million. Higher selling, general and administrative (SG&A) expenses, the result largely of aggressive R&D activities in strategic business areas, caused operating income to decline 4.3% to ¥51,710 million. Regrettably, a modest decline was also recorded in net income, which was down 3.5% from the previous year to ¥23,066 million. Although we have fallen short of our growth rate objectives over the last several years, I still firmly believe in the value of our long-term management strategies. As we toughen our resolve for facing the tasks ahead, I have complete confidence in our ability to achieve these goals.

Since 1975, "Sammy...the wellspring of new ideas" has been the concept around which we have rallied in the creation and marketing of new forms of entertainment. We have molded our abundant creativity and innate curiosity into the production, design and technological capabilities that have become the company's defining strengths. We have followed our corporate declaration to be "always proactive, always pioneering" to the letter, utilizing the most advanced technology over the years to introduce a stream of never-before-seen products ahead of competitors. This stance not only led to our steady expansion with the entire pachislot business, but allowed Sammy to capture the top share of that market in the past fiscal year. This is an accomplishment made possible by our steadfast commitment to facing challenges, unafraid of failure, as well as to years of dedicated research and development efforts. For Sammy, this is a point of extreme pride not only for the R&D staff, but for the entire company.

Our accomplishments, however, have not been limited to research and development. On the operational front, we have streamlined and extended the company's network of sales bases and advanced our "multiple-brand" strategy. In production, we have minimized lost business opportunities by vastly augmenting our production capabilities. In this way, by taking full advantage of the benefits offered by a stable earnings base, we have greatly enhanced Sammy's overall strengths. >>>



$(\text{experience} + \alpha) \times 2 \text{ strategies}$

Turning
Possibilities
Into **Success**



Executive Officer, Division Manager,
Corporate Planning Division
Hideo Yoshizawa

Executive Officer, Division Manager,
SP Sales Division
Katsuya Kondo

Turning Possibilities Into Success

The market in which Sammy operates is constantly impacted by changes, some more extensive and challenging than others. Occasionally, these changes stem from fundamental shifts in the structure of Japanese society, or from the advent of revolutionary technologies, industry deregulation and restructuring, or the ongoing march of globalization. Change, however, also represents opportunity. And for Sammy, opportunity can equal the chance needed to turn mere possibility into success.

Market Position and Strengths

■ Let me say a word about Sammy's current core businesses.

As of March 31, 2003, Sammy's pachislot business had approximately attained a 31% share of the market. Much of this success is owed to our string of accomplishments in research and development, which allowed us to consistently deliver products able to garner the support of both pachinko hall owners and pachislot players. This, in turn, proved instrumental in strengthening our brand. We also devised a sales framework covering the whole of Japan. With the construction of the Kawagoe Factory, we created a production system that allows us to supply products in a more timely fashion. Our aim is to ensure that the pachislot business will continue to be a pillar of stable earnings for Sammy over the medium and long terms, permitting the company to consistently maintain its top share of the market.

In the pachinko business, Sammy is a relative newcomer, and presently has a 3% market share. Nevertheless, we are currently focusing efforts on bolstering our brand image in this market. In terms of unit volume sales, the pachinko market is actually quite large, nearly 2.5 times that of the pachislot market. Our medium- to long-term strategy is to acquire a 10% share of this huge market. To expand our pachinko market share, we intend to further enhance Sammy's research and development capabilities. >>>



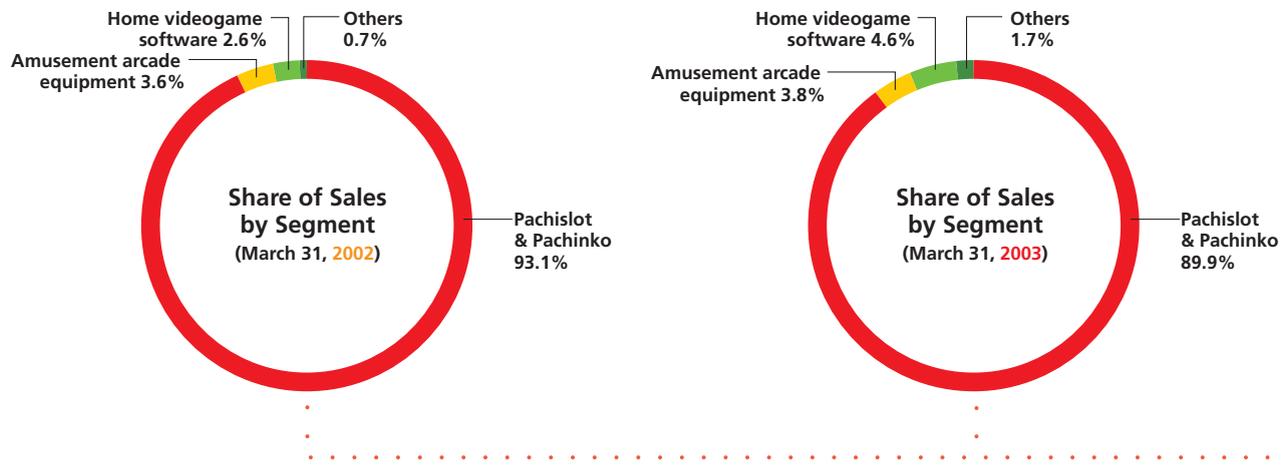
The Kawagoe Factory can produce 3,000 pachinko and 4,500 pachislot units a day, including those produced on an outsourcing basis.



Visitors to Sammy's IR homepage can take a virtual tour of production facilities.
<http://ir.sammy.co.jp>

The manifestation of synergies—an expanding fan base and improved brand power





■ What truly sets Sammy apart from other pachislot and pachinko manufacturers is a business that we call the New Entertainment World of Sammy, or NEWS for short. The NEWS business is formed from the convergence of amusement arcade, home videogame software, new technology and merchandizing businesses. By devising applications that optimize synergies between the pachislot and pachinko business and the latest NEWS technology, this business allows us to create new demand as well as to broaden present market scope. Specifically, we will apply our expertise in technology and content gained from work in pachislot and pachinko machines to the development of arcade game machines and home videogame software. At the same time, we will apply game technology to pachislot and pachinko machines, capitalizing on the beneficial synergies arising in the process. We plan to develop our best-known content into mobile phone and PC-based applications, for a greater contribution from these products to overall sales.

This diverse media mix has allowed us to multiply synergies among business segments and to create new markets. In this way, Sammy continues to take sure and decisive steps toward the goal of becoming a world-class, comprehensive entertainment company. >>>

Underground Liberation Force Inc.
Sayuri Matsumura
In charge of sales and promotional activities for music content for magazines and record stores

Dimps Corporation
Mari Fukudome
In charge of project management for home videogame software development

SI ELECTRONICS, LTD.
Qian Wei
Native of Shanghai; in charge of electrical circuit development for application specific integrated circuits (ASICs) used in 3-D graphics engines



Sammy Corporation
Kentaro Murakawa
In charge of business planning and strategic development for the Sammy Group

Sammy NetWorks Co., Ltd.
Ayami Kamimoto
In charge of planning for mobile content focused on B2C communications

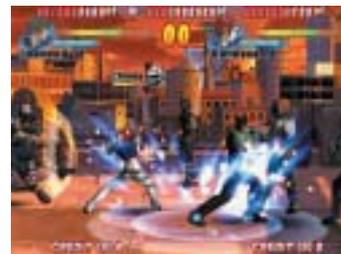
Why It's Possible? × technol



How Sammy Makes It Possible

Sammy's skill in turning change into opportunities and opportunities into profits is founded on years of hard work, and the shared ambition of management and employees to achieve success in each business segment. United in a common vision, the people of Sammy put their collective energy to work in making this vision a reality.

ogy



 **ATOMISWAVE™**

■ The culmination of Sammy Group experience and expertise, *ATOMISWAVE* is an arcade game platform for the global market created with low price and high quality in mind. >>>



millions of yen

400,000



300,000

200,000

100,000

Consolidated
Net Sales
¥165,774 million

NEWS

Pachislot
& Pachinko

1999/3

2000/3

2001/3

2002/3

2003/3

2004/3

2005/3

2006/3

(Target)

(Target)

(Target)

*Pachislot & Pachinko=Pachislot machines, Pachinko machines, Peripheral equipment

*NEWS=Amusement arcade equipment, Home videogame software and Others

Transforming Opportunity Into Success

■ A powerful earnings structure alone, even one capable of delivering better performance and higher profit margins, cannot transform mere possibility into reality. Only persistence and hard work can do that. Without years of dedication and concerted effort, Sammy could never have achieved the position it enjoys today. Demonstrating this are Sammy's technological and developmental strengths. While both constitute major selling points for Sammy today, neither of these capabilities was gained overnight. Each is the end result of building atop a successive string of R&D experiences, setbacks, accomplishments and breakthroughs. Our human resources comprise the most crucial part of this process, for it is ultimately people who are the storehouses of this vital information. At the Sammy Group, we are proud that each employee shares our business vision, and that we provide a working environment that sufficiently challenges our employees to realize their potential. Whether in R&D, sales, production, administration, or at one of Sammy's group companies, these talented staff members have experienced both great successes and bitter disappointments. The accumulated wealth of experience these individuals represent comprise what we refer to as an "unseen asset," one that enhances Sammy's overall strength as a company. Furthermore, Sammy is a place where people know how much they are valued. This is certainly one of the reasons that we enjoy an extremely high employee retention rate.

An R&D-based enterprise like Sammy needs a solid financial base to support investments in long-term projects. We have taken full advantage of the stable and abundant supply of funds generated by our pachislot and pachinko businesses to stake out positions in next-generation markets, and to invest in the innovative ideas constantly springing from within the Sammy Group. We will be increasing emphasis on the NEWS business as one way to achieve well-balanced, sustainable growth.

A Formative Year for the NEWS Business

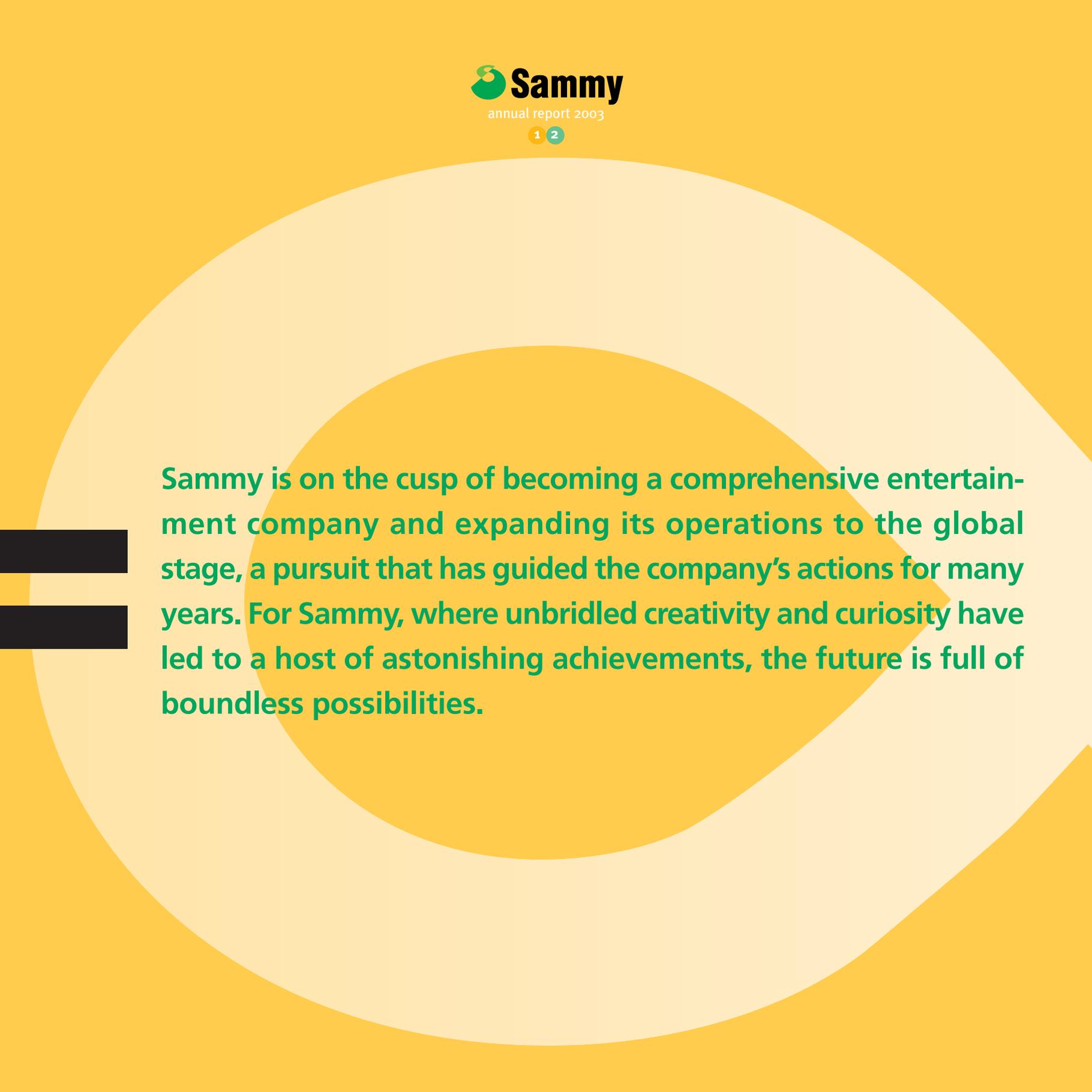
■ Backed by the earnings stability of our pachislot and pachinko businesses, the aggressive investments we have made in the NEWS business should begin to deliver discernible results by March 31, 2004. One result is already evident: *ATOMISWAVE*, a new type of arcade game machine positioned as a flagship product in our global strategies. *ATOMISWAVE* represents the kind of low priced, high quality product that the amusement arcade market demands. We believe this product will not only fill existing demand, but that it can also generate large-scale demand from pubs, sports bars, shopping centers and other stand-alone locations.

In contrast to other amusement arcade machines to date, *ATOMISWAVE* can store software in a cassette or cartridge format, allowing games and other content to be removed or swapped quickly. Peripherals and game controllers such as steering wheels and light guns can also be easily switched or detached to match game content, a point expected to broaden the appeal of *ATOMISWAVE* among amusement arcade operators. Sales of this product began from April 2003.

To facilitate Sammy's full-scale entry into the colossal European and North American home videogame market, Sammy Studios Inc., an overseas base for game software development, is now on track to introduce its first original title in fiscal 2004.

The Sammy Group's first large-scale original title, *SEVEN SAMURAI 20XX*, is slated for a worldwide release late in 2003. *SEVEN SAMURAI 20XX* is an action game inspired by the classic movie from legendary director Akira Kurosawa. The game was recently unveiled in Los Angeles at the 2003 Electronic Entertainment Expo (E³), the preeminent annual event for the computer gaming industry, where it received rave reviews.

In this way, we are positioning the NEWS business as a strategic business domains, as we steadily reinforce Sammy's presence in global markets as a comprehensive entertainment company. >>>



Sammy is on the cusp of becoming a comprehensive entertainment company and expanding its operations to the global stage, a pursuit that has guided the company's actions for many years. For Sammy, where unbridled creativity and curiosity have led to a host of astonishing achievements, the future is full of boundless possibilities.

Through unbridled creativity and curiosity, Sammy has consistently pioneered the way to exciting new worlds of entertainment. The possibilities ahead are endless as Sammy relishes the prospect of taking on global challenges of the future.

Realizing Ambition

Sammy has now begun sales of *ATOMISWAVE* and moved to enter the overseas home videogame software market in full force. We first took steps to boost the company's brand as a comprehensive entertainment company, one of our overarching objectives since the founding of the company. And while the global development of the NEWS business is still in its initial stages, we will work to achieve an optimal balance in management of the pachislot, pachinko and NEWS businesses to support the future growth of each.

In a bid to further accelerate growth of the NEWS business, many of you are aware that we reached a basic agreement on February 13, 2003 for a merger with SEGA CORPORATION on October 1, 2003. After signing this agreement, both companies moved ahead with required internal preparations. However, differing opinions that emerged during ensuing discussions over how best to integrate business resources and maximize the corporate value of the new company have caused merger proceedings to be canceled. Although the merger has been called off, both companies still plan to form strategic alliances and other cooperative ventures together just as we have done in the past.

Sammy Group's medium-term management plan remains resolutely on track. While the plan naturally encompasses measures for the further growth of pachislot and pachinko businesses, it also targets the global entertainment market through greater expansion of the NEWS business. Moreover, the plan contains provisions for the aggressive pursuit of M&A activities and business partnerships as needed, with the ultimate goal of creating a global group structure that will give rise to escalating business synergies.

The Sammy Group aims to become an active player on the global stage as a comprehensive entertainment company. Never forgetting our entrepreneurial spirit, we are determined to push Sammy boldly ahead to new and rewarding levels of growth.

I respectfully ask for your continued support and encouragement in the years ahead.

June 2003



Hajime Satomi
President and CEO



Pachislot machine market scale

	1998	1999	2000	2001	2002
Pachislot machines installed (units)	1,004,642	1,139,356	1,323,729	1,459,233	1,606,123
Pachislot machines sold annually (units)	775,019	932,705	1,134,341	1,290,719	1,496,877
Pachislot machine market scale (¥ millions)	235,316	269,290	314,599	351,344	393,966

(Figures for “Pachislot machines installed” provided by the National Police Agency; figures for “Pachislot machines sold annually” and “Pachislot machine market scale” provided by the Yano Research Institute Ltd.)

Pachinko machine market scale

	1998	1999	2000	2001	2002
Pachinko machines installed (units)	3,706,004	3,569,879	3,431,130	3,326,583	3,252,241
Pachinko machines sold annually (units)	2,358,321	3,128,054	3,368,839	3,230,489	3,174,079
Pachinko machine market scale (¥ millions)	362,334	518,358	568,362	569,129	558,506

(Figures for “Pachinko machines installed” provided by the National Police Agency; figures for “Pachinko machines sold annually” and “Pachinko machine market scale” provided by the Yano Research Institute Ltd.)

Number of pachinko halls

	1998	1999	2000	2001	2002
Number of pachinko halls	17,426	17,173	16,988	16,801	16,504
Halls with pachinko machines installed	16,764	16,413	16,021	15,691	15,255
Halls with pachislot machines installed	662	760	967	1,110	1,249

(Figures provided by the National Police Agency)

*Halls with a combination of pachinko, pachislot and arrange ball machines installed are included under “Halls with pachinko machines installed.”

Share of pachislot machines sold annually

Rank	1998		1999		2000		2001		2002	
	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Aruze	36.4%	Aruze	39.6%	Aruze	36.2%	Sammy	32.8%	Sammy	31.2%
2	Yamasa	16.9%	Yamasa	15.0%	Yamasa	17.6%	Yamasa	17.8%	Yamasa	20.0%
3	Sammy	10.0%	Sammy	7.8%	Sammy	13.5%	Aruze	16.2%	Aruze	19.8%
4	Takasago	8.6%	Olympia	7.3%	Olympia	8.8%	Olympia	8.5%	Olympia	11.7%
5	Okazakisangyo	5.2%	Takasago	5.5%	NET	4.4%	Pioneer	5.0%	Pioneer	3.3%

(Based on the Yano Research Institute Ltd. data.)

Share of pachinko machines sold annually

Rank	1998		1999		2000		2001		2002	
	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	SANKYO	18.0%	SANKYO	20.6%	SANKYO	18.3%	Sanyo Bussan	18.9%	Sanyo Bussan	16.4%
2	Heiwa	12.9%	Heiwa	12.0%	Sanyo Bussan	15.1%	SANKYO	17.2%	SANKYO	14.8%
3	Kyoraku Sangyo	9.5%	Sanyo Bussan	9.6%	Heiwa	11.5%	Heiwa	10.8%	Heiwa	10.0%
4	Sophia	9.3%	Toyomaru Industry	9.3%	Daiichi Shokai	7.4%	Daiichi Shokai	10.3%	Kyoraku Sangyo	8.1%
5	Daiichi Shokai	8.9%	Daiichi Shokai	7.7%	Sophia	5.9%	Kyoraku Sangyo	7.6%	Daiichi Shokai	7.9%
	Sammy	0.8%	Sammy	3.6%	Sammy	3.1%	Sammy	2.8%	Sammy	2.6%

(Based on the Yano Research Institute Ltd. data.)

Market environment

The pachislot industry witnessed a year-on-year increase in the number of pachislot machines installed during the year ended March 31, 2003. The introduction of new machine varieties, the growing popularity of the genre, and growth in the number of dedicated pachislot halls are credited as the factors behind this increase.

In the pachinko industry, internal regulatory changes at *Nikkoso*, an association of pachinko manufacturers, gave manufacturers new options to explore in terms of playability, and brought a temporary halt to sagging industry performance. However, the absence of revolutionary breakthroughs in machine varieties and a steady annual decline in the number pachinko machines installed made conditions as challenging as ever for the industry.

While the number of dedicated pachinko halls continues to decline across Japan, the trend toward larger halls and the overall number of pachislot and pachinko machines installed resulted in a net increase.

Overview of Operations

Pachislot machines

Taking full advantage of its design and R&D strengths, the Sammy Group successfully introduced new products in each of its major brands that set the company apart from competitors. In the Sammy brand, *MOJYUOH-S*, successor to the popular *JYUOH* pachislot machine of two years ago, became a smash hit, selling over 110,000 units. Players have been astonished by the machine's fully rendered computer graphics, generated by an advanced onboard graphics chip. *MOJYUOH-S* has also received high marks for its overall entertainment value. The *RODEO* brand, meanwhile, posted lower sales despite higher unit sales volumes year on year, the result of a change in *RODEO*'s sales agreement with Fields Corporation.

Pachislot machine	Units sold (thousands)
<i>MOJYUOH-S</i> (Sammy)	115
<i>Hakushon Daimao S</i> (Sammy)	44
<i>Club Rodeo T</i> (RODEO)	43
<i>Kaze No Yojinbo</i> (RODEO)	30
Others	234
Total	466

Pachinko

In the pachinko business, Sammy beefed up its development and moved proactively to create applications for new imaging technology. Combining optical 3D imaging systems and high-performance graphics chips, this new technology comprises one of the company's most important growth measures for the pachinko business. However, the sluggishness in the pachinko machine market and the delay in the introduction of a new machine compatible with the internal regulatory changes at *Nikkoso* resulted in a decline in monetary and unit volume sales compared with the previous year.

Pachinko machine	Units sold (thousands)
<i>CR Baku-mogi Kudamono-Oh</i>	24
<i>CR Gaccha-man</i>	22
<i>CR Tamao de Dokkan!!</i>	14
Others	22
Total	82

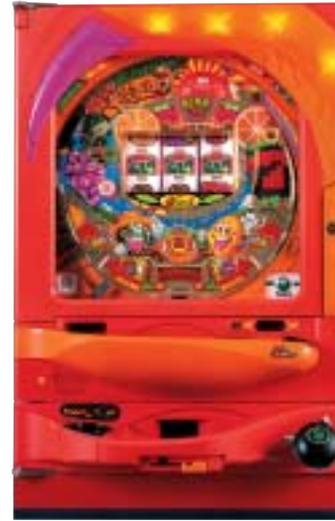
Due to these factors, pachislot and pachinko business segment sales declined 2.5% to ¥149,083 million from the previous year. Operating income was ¥60,690 million, 1.9% lower.

In July 2002, the members of *Nichidenkyo*, an association of pachislot machine manufacturers, adopted new self-regulatory measures regarding the gaming aspect of pachislot machines. Aware of its obligations in this matter, as well as the potential impact of this issue on the industry, Sammy carried out a voluntarily recall for some of its pachislot machines. Expenses stemming from this action led to the posting of an extraordinary loss of ¥430 million for "Cost of voluntary recall of products."



MOJYUOH-S

First sold in December 2001, overwhelming market response to *JYUOH* resulted in record-breaking sales of around 140,000 units. Building upon multiple bonus stages, superb game play and *JYUOH*'s other highly rated features, *MOJYUOH-S* also includes a seven-inch wide LCD display with high-quality 3-D graphics that is sure to appeal to players. Clearly, the evolution of pachislot machines at Sammy continues.



CR Baku-mogi Kudamono-Oh

First sold in October 2002, *CR Baku-mogi Kudamono Oh* was equipped with a full-color wide drum and a custom dot-matrix display, resulting in an exciting new style of pachinko play. Slot-machine style windows and other pachislot elements made *CR Baku-mogi Kudamono-Oh* a hit with pachinko players. Sammy will continue to search pachislot, amusement arcades, and a broad range of other areas for inspiration in the development of innovative pachinko machines.

Outlook

Retaining Sammy's leading market share will be a matter of key importance in the pachislot business. By maximizing economies of scale in ways that only a leading company can, Sammy will engage in actions beyond the ability of its rivals, such as the development of products that further distinguish the company in the marketplace, as well as more extensive cost reductions. Steps will also be taken to capitalize on hit content from pachislot machines by converting it into formats for arcade game machines, home videogame software, mobile phones, fee-based Internet sites and branded merchandise. Enlarging Sammy's dedicated fan base in each of these areas will lead to improved brand power and other synergies, as the company works to achieve improvements in operational efficiency.

Sammy's medium-term goal in the pachinko business is to attain a 10% share of the market in terms of unit volume. The company also plans to shift a number of its talented pachislot R&D engineers to pachinko projects, in addition to hiring more R&D personnel to accelerate the pace of development and to vastly increase the number of machine varieties approved for sale. Sammy will work to develop of a diverse array of products across a multitude of genres, introducing products that make Sammy-branded machines even more distinctive. In addition to optimal use of the group's own fully integrated development system, Sammy will also engage in cooperative development ventures with other companies. Outsourcing graphics creation and similar functions will step up the speed of development activities, leading to steady improvements in business efficiency. As for Sammy's sales system, the company will simultaneously beef up direct sales and build a network of authorized sales agents to increase the total number of units sold.

Amusement arcade market scale

(¥ Billions)

	1997	1998	1999	2000	2001
Net sales of amusement arcade equipment	220	198	187	143	141
Net sales from amusement arcade operations	643	629	620	596	590

(Based on JAMMA, AOU and NSA data.)

Home videogame market scale

(¥ Billions)

	1997	1998	1999	2000	2001
Monetary value of software shipments	538	567	563	578	517
Monetary value of hardware shipments	510	482	455	540	940

(Based on CESA data.)

Market for mobile phone content

(¥ Billions)

	2000	2001	2002	2003
Market for mobile phone content	45	120	176	217
Images	7	17	22	26
Music	13	50	85	109
Software	3	11	24	33
Publications / news	22	42	44	50

(Based on "Digital Content White Paper 2003.")

Market environment

The amusement arcade industry saw the large-scale introduction of network-based arcade machines, card-based systems and other new videogame genres, as well as strong sales of medal game machines (token-based pachislot and pachinko machines). The market for products in other categories, however, is expected to remain flat. In the area of amusement facilities, “scrap and build” activities continue to move forward, as smaller amusement centers, where profitability is less certain, give way to larger arcades. This trend is likely to continue, resulting in improved earnings for the industry as a whole. And, there are signs of burgeoning demand from sports bars, pubs, shopping malls and other stand-alone locations.

In home videogame software, while popular game series continue to generate hit titles, growth in other titles is likely to remain lackluster for some time. In the overseas market, the strong performance of home videogame software is expected to continue, due largely to widespread game console ownership among North American and European households.

Growing numbers of subscribers continue to spur remarkable growth in the market for mobile phone content. The majority of this content currently consists of ring melodies, downloadable standby-mode screen displays, and games. As third-generation mobile phones become more prevalent, the market for streaming video and other rich content to the services is expected to grow.



While unprofitable amusement centers have been exited, larger amusement arcades and those located in shopping malls and other large-scale commercial developments continue to attract customers. One such success story is *Sammy's Regno*, a new type of colossal amusement arcade designed around the theme of a luxury cruise liner.



Digital images and music, games, publications and news each represent growth sectors in the mobile content market. Moreover, large-scale market expansion is widely anticipated as third-generation mobile phones gradually became the default standard. The subscriber base for Sammy-produced content, meanwhile, continues to grow.

Overview of Operations

Sammy's popular *Pachislot Revolution* series of arcade-oriented pachislot machines turned in favorable performance, becoming the top selling genre among Sammy's line of medal game machines. Meanwhile, Sammy chose to delay the release of *ATOMISWAVE*, its latest arcade game machine. Initially slated for a fiscal 2002 release, Sammy decided to make refinements necessary to provide the best possible software.

Following a careful review of its overseas organization, Sammy determined a unified management structure for overseas development, production and sales as the optimal solution for driving future expansion abroad. This decision culminated in the integration of overseas group companies under a new holding company, Sammy Holding Co., Inc.

These factors resulted in the amusement arcade equipment segment sales of ¥6,292 million, up 5.8% from the previous year. However, higher R&D expenses associated primarily with *ATOMISWAVE* resulted in an operating loss of ¥491 million.

Coinciding with the launch of the *MOJYUOH-S* pachislot machine, *Jissen Pachislot Hisshoho! MOJYUOH-S*, a full-featured home simulation of Sammy's latest pachislot hit, also proved to be enormously popular, selling over 300,000 copies. *Aladdin A*, *Salaryman Kintaro* and other titles in the Jissen series also achieved higher sales. This resulted in home videogame software segment sales of ¥7,679 million, a dramatic 76.0% increase over the previous year. Personnel expenses incurred in bolstering Sammy's overseas R&D network in preparation for full-scale overseas expansion and R&D expenses for game software development resulted in an operating loss of ¥1,484 million.

Aside from the operation of existing amusement arcades, the company opened *Sammy's Regno*, Kawagoe—a new “roadside” amusement arcade—in the city of Kawagoe in Saitama Prefecture, Japan. In mobile phone content, the subscriber base topped the 500,000 mark and overall performance grew for *Sammy 777 Town*, a site where subscribers can download pachislot and pachinko ring melodies and receive the latest information on new pachinko and pachislot machines.

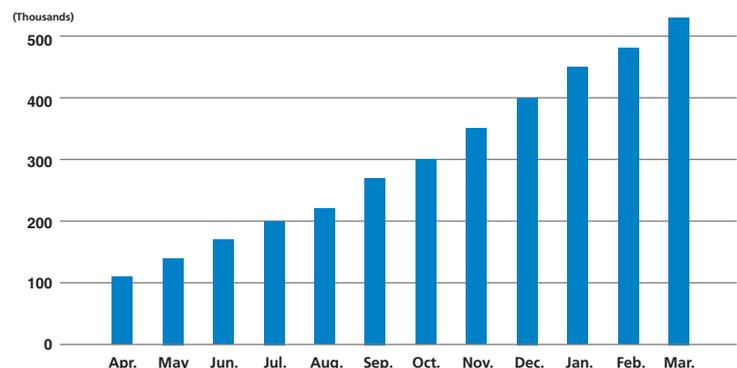
In a bid to further enhance the NEWS business, Sammy acquired U's mobile Co., Ltd. (now Sammy NetWorks Co., Ltd.), a company with a wealth of know-how in the provision of mobile phone content. Sammy also acquired IP4, Inc., a company with strengths in the area of merchandizing.

Pachislot Revolution II is Sammy's popular series of medal (token-based) games designed for amusement arcades. Basing these games on hit pachislot machines is steadily giving rise to sizable synergies.



Subscribers to Sammy Pachislot Sites for Mobile Phones

(April 1, 2002 ~ March 31, 2003)



These events combined to boost net sales in the others segment an impressive 146.7% to ¥2,719 million. The amortization of goodwill for newly consolidated subsidiaries, however, led to an operating loss of ¥561 million.

Outlook

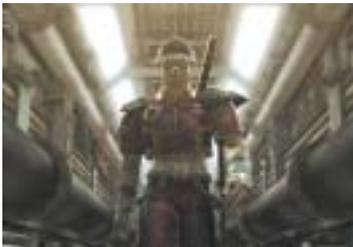
In amusement arcade equipment, Sammy will focus more attention on its *Revolution II* series of arcade-oriented pachislot and pachinko machines. Sales will also begin for *ATOMISWAVE*, with the aim of broadening the target market for this new arcade game machine beyond amusement arcades to include shopping malls, sports bars, pubs and other stand-alone locations.

Pachislot simulation games will remain the center of sales activities in home videogame software, with renewed effort placed on solidifying Sammy's presence in this particular game genre. Before the end of March 2004, Sammy also plans to release *SEVEN SAMURAI 20XX*. Inspired by the classic film from legendary director Akira Kurosawa, this is Sammy's first major title for the PlayStation 2. Overseas software development center Sammy Studios will push ahead with the creation and sale of superior software titles able to define the Sammy brand and bring success in the European and North American game software markets.

Sammy Studios is currently scheduled to release its first original title in fiscal 2004.

In other business, work is ongoing to develop commercial facilities with a higher intrinsic entertainment value. To this end, Sammy will focus on pairing amusement facilities with a variety of commercial developments, providing appealing "amusement spaces" with an improved ability to attract customers.

Sammy will take steps to further enhance its strong mobile phone content business. Attention will also be given to establishing the profitability of services providing network-based content, including pachislot websites for paying members and e-commerce sites handling Sammy's merchandisable characters.



Actual screenshots from *SEVEN SAMURAI 20XX* currently under development at Sammy

SEVEN SAMURAI 20XX is a futuristic cinematic action game with a motif inspired by the classic film from Akira Kurosawa. The game was recently unveiled at the Electronic Entertainment Expo held in Los Angeles in May 2003.

©Sammy / Dimps Corporation 2003

©KUROSAWA PRODUCTION Inc. / Character concept by Moebius / Opening & Ending Theme Music by Ryuichi Sakamoto

Sammy Group Companies



P = Pachislot and Pachinko

N = NEWS

P
[Pachislot]



An essential part of Sammy's multi-brand strategy, this subsidiary focuses exclusively on the development of RODEO-brand pachislot machines. The Sammy Group's second brand in this category, RODEO gives customers a wider range of product choices, a point expected to broaden Sammy's market share in pachislot machines. RODEO's general sales agent is Fields Corporation, the industry's number-one distributor of pachislot and pachinko machines.

P
[Peripheral equipment]



A Sammy subsidiary since October 2001, Shuko Electronics manufactures and sells peripheral equipment for pachinko and pachislot parlors.

A subsidiary of Shuko Electronics, Sammy Design is involved in the design and interior layout of pachinko parlors, providing a full palette of design-oriented production services.

N
[Amusement]



Sammy Amusement Service rents amusement arcade equipment, and operates and supports amusement arcades. Determined to develop new types of entertainment areas, Sammy Amusement Service plans to operate amusement facilities based on a variety of conceptual themes.

N
[Amusement]



A subsidiary since July 2001, SI ELECTRONICS, possesses sophisticated technological capabilities in the image display and system construction fields. SI ELECTRONICS, is also involved in the development of arcade game machines and system-on-chips for LCDs.

N
[Content]



Dimps is primarily concerned with the development of home videogame software and amusement arcade game software. In pursuit of the "multi-platform strategy" espoused by the NEWS business, the company also develops digital content for various platforms.

N
[Content]



Underground Liberation Force is a specialist in the music critical to the field of entertainment. A production company providing superior multimedia content and founded on a unique philosophy and approach, Underground Liberation Force is aggressively expanding into various areas of the music business, including CDs, recording labels, and concert planning.



This subsidiary maximizes synergies among Sammy Group companies, acting as a coordinator and aggregator of content derived from Sammy's core technologies in the content merchandizing area of the NEWS business. ALEGRIA also functions as a strategic company in Sammy's international business plans, producing content poised for growth on overseas markets.



A subsidiary since December 2002, Sammy NetWorks is responsible for the Sammy Group's network-based content, and is engaged in the planning, development and distribution of content related to music, games, communications and e-commerce for mobile phones and the Internet.



Quat Technology was established in May 2000 to conduct middleware research for the production of computer graphics. The company develops high-performance graphics and animation for the PlayStation 2, GameCube, Xbox, PC and other game platforms, and also supplies low-cost, user-friendly tools for the development of game software.



IP4 became a subsidiary in December 2002, and is responsible for managing the merchandisable characters generated by Sammy pachislot, pachinko and NEWS businesses. Currently, the company is working on achieving even more efficient merchandizing operations and is actively developing original new characters to expand the Sammy Group's merchandizing business.



Based in San Diego, California, Sammy Holding Co., Inc. is a holding company established to provide Sammy with a system for centralizing overseas business and R&D activities, and a means of unifying the management of group companies abroad.

Based in Chicago, Sammy USA develops, manufactures and sells arcade game machines in North and South America.

Located in San Diego, California, Sammy Studios is involved in the development and sales of game software. By carrying out game development in its target sales region, the company seeks to gain greater agility in the development of software attuned to local market demands.

Based in London, Sammy Europe sells arcade game machines and home videogame software in Europe.



Headquartered in the U.S. state of Washington, RTzen develops 3D computer graphics tools and related tools. The company supplies the middleware required by Quat Technology for the development of high-performance graphics and is part of the Sammy Group's fully integrated game software development infrastructure.



Hajime Satomi
*PRESIDENT AND
CHIEF EXECUTIVE
OFFICER*



Toru Katamoto
*SENIOR MANAGING
DIRECTOR*



Keishi Nakayama
*MANAGING
DIRECTOR*



Kiyofumi Sakino
*MANAGING
DIRECTOR*



Yoshiharu Suzuki
*MANAGING
DIRECTOR*



Kenkichi Yoshida
DIRECTOR



Takashi Hirayama
DIRECTOR



Mamoru Makaya
*STANDING
CORPORATE
AUDITOR*



Ryoichi Arai
*STANDING
CORPORATE
AUDITOR*



Etsuo Sakai
*CORPORATE
AUDITOR*

CORPORATE OFFICERS

SENIOR EXECUTIVE OFFICER

Norihiko Harada

EXECUTIVE OFFICERS

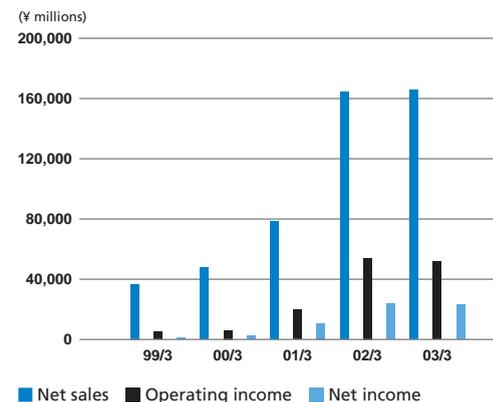
Yoshitaka Kawamura / Masakazu Yoshino / Takashi Komiya / Norio Uchida / Hideo Yoshizawa / Katsuya Kondo

Growth Indicators	26
Profitability Indicators	28
Stability Indicators	30
Financial Review	32
Consolidated Balance Sheets	34
Consolidated Statements of Income	36
Consolidated Statements of Shareholders' Equity	37
Consolidated Statements of Cash Flows	38
Notes to Consolidated Financial Statements	39
Independent Auditors' Report	52

NET SALES, OPERATING INCOME, NET INCOME

Net sales rose 0.9% on the back of strong pachislot machine sales. However, higher SG&A expenses, primarily for R&D activities for expansion of the NEWS business, along with expenses stemming from the amortization of goodwill for newly consolidated subsidiaries, caused declines in operating income and net income of 4.3% and 3.5%, respectively.

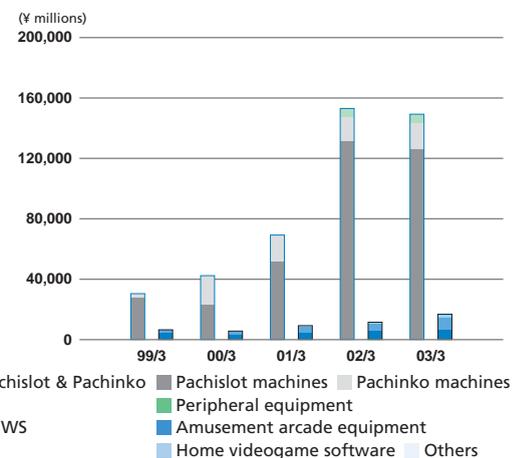
(¥ millions)	1999/3	2000/3	2001/3	2002/3	2003/3
Net sales	36,750	47,805	78,276	164,294	165,774
Operating income	5,307	6,128	19,798	54,022	51,710
Net income	1,256	2,498	10,748	23,906	23,066



NET SALES BY BUSINESS SEGMENT

While the effects of a sluggish market and intensified competition led to subdued performance in the pachinko business, the pachislot business continued to perform strongly, allowing Sammy to retain its leading market share. In the NEWS business, sales growth in arcade-oriented medal game machines and pachislot simulation software for home videogame consoles propelled sales in this segment 46.2% higher than last year.

(¥ millions)	1999/3	2000/3	2001/3	2002/3	2003/3
Pachislot & Pachinko:					
Pachislot machines	27,407	23,010	51,780	131,110	126,031
Pachinko machines	2,930	19,227	17,324	15,859	16,646
Peripheral equipment	—	—	—	5,912	6,407
NEWS:					
Amusement arcade equipment	4,595	3,222	4,209	5,948	6,292
Home videogame software	1,609	1,981	3,950	4,362	7,679
Others	210	364	1,011	1,103	2,719

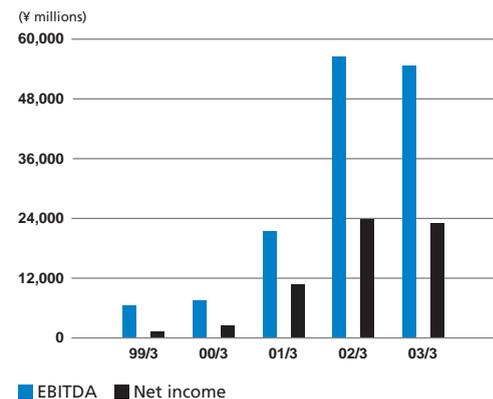


EBITDA AND NET INCOME

An increase in forward-looking R&D investments for the long-term growth of the NEWS business led to a slight year-on-year decline in operating income. EBITDA declined 3.3%, and net income was down 3.5% from the previous year.

(¥ millions)	1999/3	2000/3	2001/3	2002/3	2003/3
EBITDA*	6,563	7,582	21,349	56,538	54,661
Net income	1,256	2,498	10,748	23,906	23,066

* EBITDA = Operating income + Other income + Depreciation

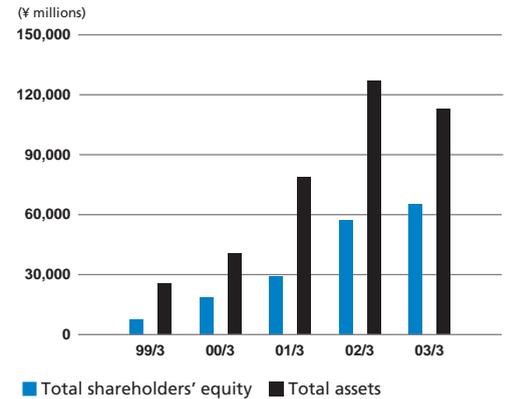


TOTAL SHAREHOLDERS' EQUITY AND TOTAL ASSETS

An initial decline in shareholders' equity due to the purchase of treasury stock was offset by an increase in retained earnings, lifting total shareholders' equity 14.0% higher.

Total assets declined 11.0%, the result of a dramatic decrease in notes and accounts receivable.

(¥ millions)	1999/3	2000/3	2001/3	2002/3	2003/3
Total shareholders' equity	8,013	18,570	29,122	57,371	65,429
Total assets	25,595	40,563	78,694	126,803	112,873

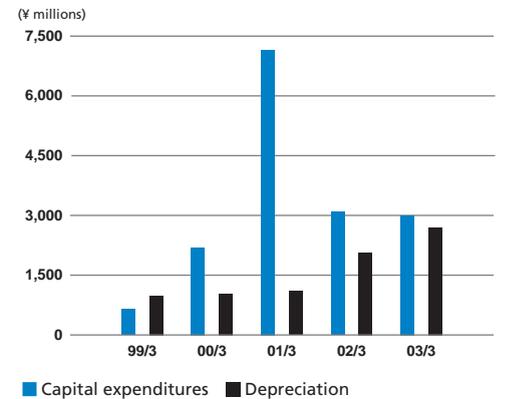


CAPITAL EXPENDITURES AND DEPRECIATION

Capital expenditures were 2.6% lower year on year, mainly for higher output capacity at the Kawagoe Factory and the purchase of equipment used in R&D activities for pachislot and pachinko machines.

Depreciation expenses rose 30.5% because of higher depreciation at the Kawagoe Factory.

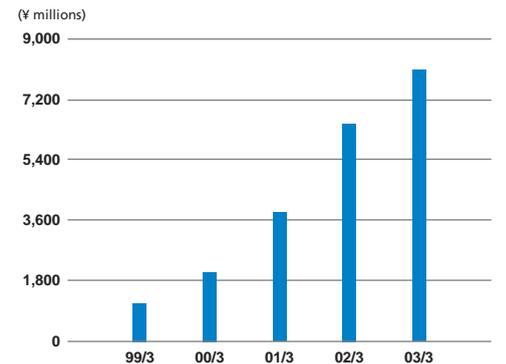
(¥ millions)	1999/3	2000/3	2001/3	2002/3	2003/3
Capital expenditures	654	2,198	7,160	3,093	3,013
Depreciation	990	1,040	1,103	2,068	2,698



R&D EXPENDITURES

R&D expenditures climbed 24.5% due to steps taken to enhance R&D capabilities with the goal of achieving long-term growth in amusement arcade equipment and home videogame software.

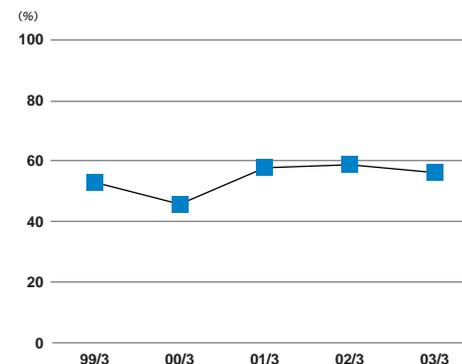
(¥ millions)	1999/3	2000/3	2001/3	2002/3	2003/3
R&D expenditures	1,144	2,070	3,844	6,487	8,079



GROSS PROFIT MARGIN

The percentage of net sales accounted for by highly profitable pachislot machines declined 3.8 percentage points, resulting in a 2.6-percentage point decrease in the gross profit margin.

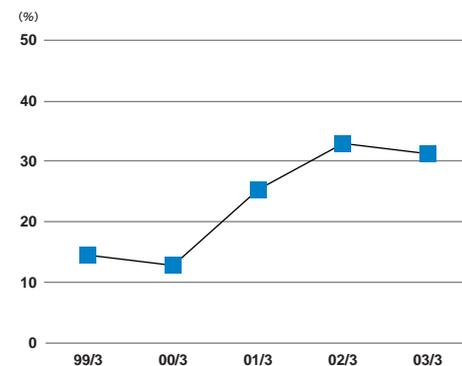
(%)	1999/3	2000/3	2001/3	2002/3	2003/3
Gross profit margin	52.9	45.7	57.7	58.7	56.1



OPERATING INCOME MARGIN

Despite a 0.9 percentage point drop in selling, general and administrative expenses as a share of sales, a 2.6 percentage point increase in the cost of sales ratio pulled the operating income margin down 1.7 percentage points from the previous year.

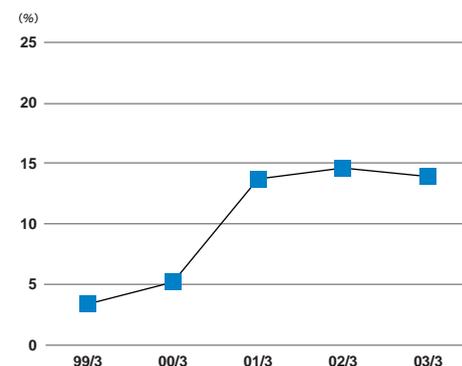
(%)	1999/3	2000/3	2001/3	2002/3	2003/3
Operating income margin	14.5	12.8	25.3	32.9	31.2



NET INCOME MARGIN

A lower operating income margin and the posting of an extraordinary loss due to business restructuring activities lowered the net income margin 0.7 percentage point year on year.

(%)	1999/3	2000/3	2001/3	2002/3	2003/3
Net income margin	3.4	5.2	13.7	14.6	13.9

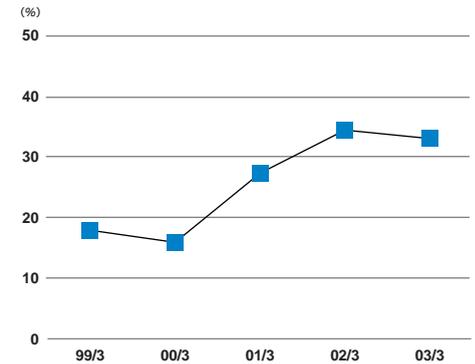


EBITDA MARGIN

The EBITDA margin declined 1.4 percentage points, as the decrease in operating income exceeded the increase in depreciation expenses.

(%)	1999/3	2000/3	2001/3	2002/3	2003/3
EBITDA* Margin	17.9	15.9	27.3	34.4	33.0

* EBITDA = Operating income + Other income + Depreciation

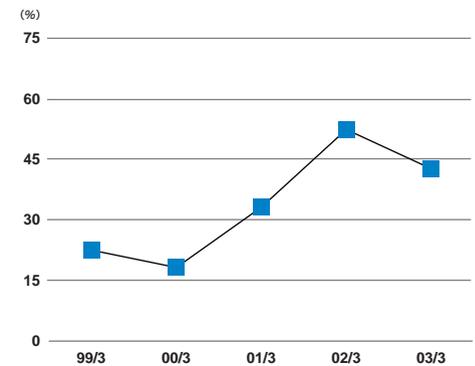


RETURN ON ASSETS (ROA)

Despite an average increase in total assets during the year of 16.6%, the return on assets (ROA) declined by 9.7 percentage points, owing to a 5.1% drop in ordinary income.

(%)	1999/3	2000/3	2001/3	2002/3	2003/3
ROA*	22.5	18.2	33.1	52.3	42.6

* Total assets refer to the average figure for the whole year.

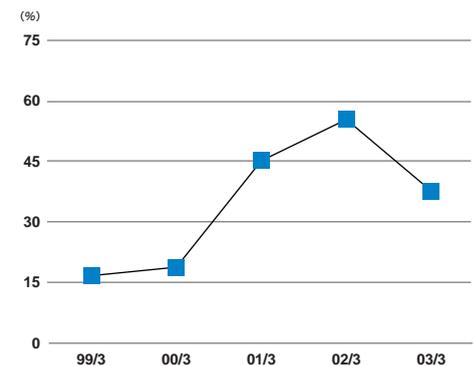


RETURN ON EQUITY (ROE)

Return on equity (ROE) was 17.7 percentage points lower, the result of a 3.5% decline in net income and an increase of 42.0% in average shareholders' equity.

(%)	1999/3	2000/3	2001/3	2002/3	2003/3
ROE*	16.7	18.8	45.1	55.3	37.6

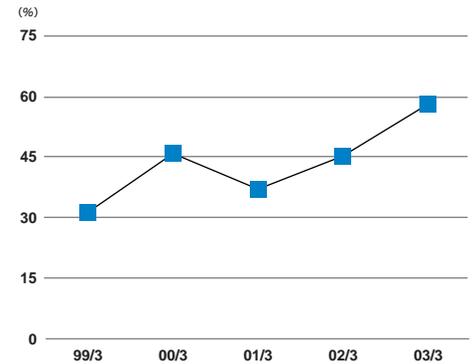
* Shareholders' equity refers to the average figure for the whole year.



SHAREHOLDERS' EQUITY RATIO

The shareholders' equity ratio climbed 12.8 percentage points, buoyed by a decrease in interest-bearing liabilities of ¥3,467 million and an increase in retained earnings.

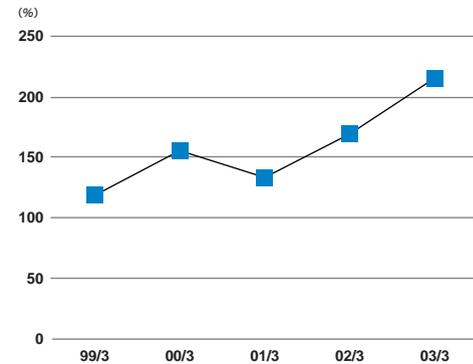
(%)	1999/3	2000/3	2001/3	2002/3	2003/3
Shareholders' equity ratio	31.3	45.8	37.0	45.2	58.0



CURRENT RATIO

The repayment of loans and a decrease in notes and accounts payable raised the current ratio 46.0 percentage points year on year.

(%)	1999/3	2000/3	2001/3	2002/3	2003/3
Current ratio	118.5	155.3	133.2	169.0	215.0

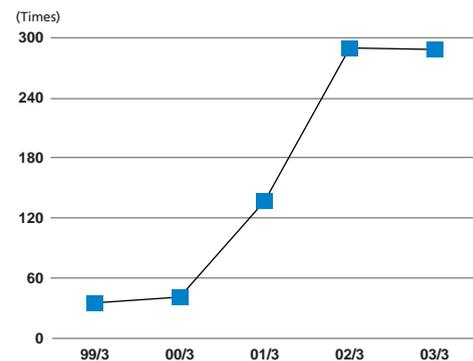


INTEREST COVERAGE RATIO

The interest coverage ratio decreased 1.7 points on account of a 4.3% decline in operating income, and came in spite of successful efforts to limit interest expenses.

(times)	1999/3	2000/3	2001/3	2002/3	2003/3
Interest coverage ratio*	35.4	41.2	137.0	289.3	287.6

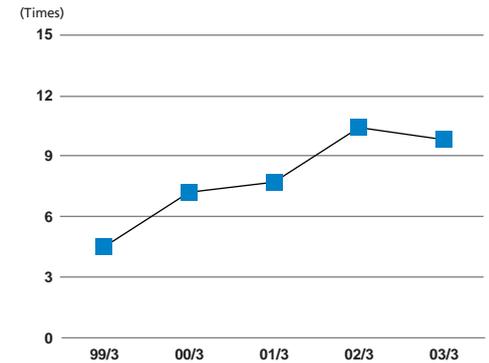
* Interest coverage ratio = (Operating income + Interest and dividend income)/Interest and discount expenses



INVENTORY TURNOVER RATE

The inventory turnover rate decreased by 0.6 points, the result of an increase in inventories of 7.0% and a minute 0.9% increase in net sales.

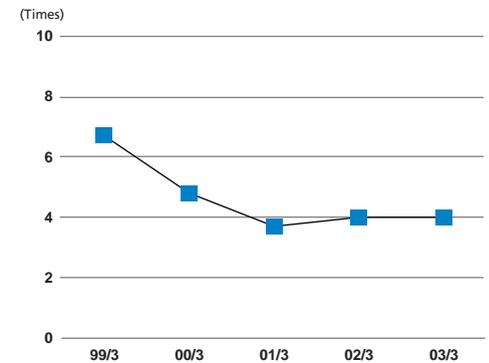
(times)	1999/3	2000/3	2001/3	2002/3	2003/3
Inventory turnover rate	4.5	7.2	7.7	10.4	9.8



TRADE RECEIVABLES TURNOVER RATE

With no significant changes in net sales or trade receivables during the year, the trade receivables turnover rate remained unchanged from the previous year at 4.0 times.

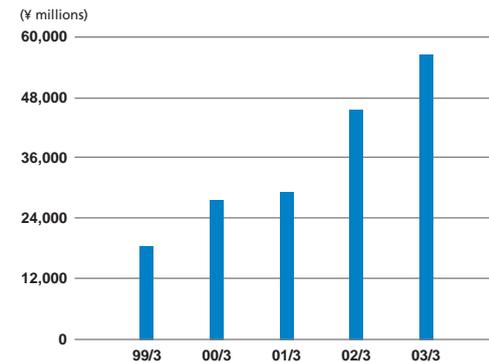
(times)	1999/3	2000/3	2001/3	2002/3	2003/3
Trade receivables turnover rate	6.7	4.8	3.7	4.0	4.0



BREAK-EVEN POINT

Expenses stemming from experiments and research carried out in line with plans for the company's long-term growth along with increased personnel expenses pushed the net sales break-even point 24.1% higher than last year.

(¥ millions)	1999/3	2000/3	2001/3	2002/3	2003/3
Break-even point	18,684	27,776	29,325	45,665	56,675



Financial Review

Consolidated net sales

During the fiscal year ended March 2003, net sales rose 0.9% to ¥165,774 million.

Cost of sales

Higher sales of amusement arcade equipment and home videogame software drove the cost of sales up 7.4% to ¥72,809 million. In addition, a decline in pachislot machines, a high-margin product, as a share of total sales raised the cost of sales to 43.9% of total sales, compared with 41.3% in the previous year. The gross profit margin thus declined 2.6 percentage points to 56.1%.

SG&A expenses

SG&A expenses declined 2.8% to ¥41,255 million. This was attributable to lower sales commissions at subsidiary RODEO Co., Ltd. as this company shifted from a general distributor system to individual sales agents, which require no commissions. The decline in these commissions outweighed the increase in other components of SG&A expenses, including higher expenses from ongoing R&D activities in the NEWS business and the amortization of goodwill for newly consolidated subsidiaries. The ratio of SG&A expenses to net sales was roughly 0.9 percentage point lower year on year at 24.9%.

Operating income

Operating income declined 4.3% to ¥51,710 million. The ratio of operating income to net sales was also lower, falling 1.7 percentage points to 31.2%.

Other expenses

Expenses of ¥3,753 million were incurred due to business restructuring activities carried out during the year. A charge of ¥430 million was also recorded for the voluntary recall of certain products. As a result, other expenses amounted to ¥5,125 million.

Net income

These factors resulted in consolidated net income of ¥23,066 million, 3.5% lower year on year. Basic net income per share was ¥436.79, compared to ¥452.44 in the previous year, with diluted net income per share declining from ¥452.28 to ¥435.42. Return on equity, a leading indicator of profitability, was 37.6%, down 17.7 percentage points from 55.3% in the previous year.

Financial Position

Assets

Total assets decreased 11.0% to ¥112,873 million. Current assets amounted to ¥84,705 million, down 19.9% from the previous year-end, owing mainly to a year-on-year decline in notes and accounts receivable of ¥23,779 million to ¥30,033 million. This decline was due to the bulk of pachislot machine sales occurring near the end of the previous fiscal year, an event that was not repeated during the year under review. Property, plant and equipment rose 9.2% to ¥12,927 million, while investments and other assets jumped 64.6% to ¥15,241 million. Investment securities climbed ¥864 million to ¥3,053 million.

Liabilities

Total liabilities decreased 32.6% to ¥46,330 million. Current liabilities were 37.0% lower at ¥39,391 million, as notes and accounts payable declined ¥10,620 million to ¥15,020 million.

Loan repayments lowered interest-bearing liabilities 37.6% to ¥5,750 million. Short-term bank loans fell ¥2,377 million to ¥3,582 million, while long-term debt declined ¥890 million to ¥2,370 million.

Shareholders' equity

Total shareholders' equity climbed 14.0% to ¥65,429 million. This was the net result of an increase in retained earnings and the purchase of treasury stock, which reduced equity by ¥12,206 million. The equity ratio rose 12.8 percentage points to 58.0%.

Cash Flows

Consolidated cash and cash equivalents at the end of the year were ¥26,567 million, ¥4,032 million more than one year earlier. Operating activities provided net cash of ¥31,645 million, while investing activities used net cash of ¥9,285 million. Financing activities used net cash of ¥18,202 million.

The following were the major factors behind the cash flows in each category.

Cash flows from operating activities

Net cash provided by operating activities rose ¥18,504 million to ¥31,645 million. This increase is attributed mainly to the sale of accounts receivable, which offset a decline in income before income taxes of ¥367 million and an increase in the payment of income taxes of ¥17,837 million.

Cash flows from investing activities

Net cash used in investing activities climbed ¥2,487 million to ¥9,285 million. Investments in new businesses and the purchase of stock to make Sammy Networks Co., Ltd. a consolidated subsidiary were the main factors behind this increase.

Cash flows from financing activities

Net cash used in financing activities was ¥18,202 million, a difference of ¥20,975 million compared with net cash provided in the previous fiscal year. This was largely due to the acquisition of treasury stock, loan repayments, and a decline in proceeds from the issuance of common stock.

Capital Expenditures

Capital expenditures in the fiscal year under review totaled ¥3,013 million group-wide, mainly for the pachislot and pachinko machine business.

Specifically, the company made capital expenditures in the pachislot and pachinko machine business of ¥1,458 million, primarily for additional construction at the Kawagoe Factory. Capital expenditures in the NEWS business comprised ¥186 million for amusement arcade equipment, ¥665 million for home videogame software and ¥129 million for others. Capital expenditures for the entire Sammy Group amounted to ¥575 million.

Research and Development

The Sammy Group has identified full-scale enhancement of its research and development system as a matter of vital strategic importance in plans to establish its presence as a comprehensive entertainment company. As a result, Sammy has adopted a project-oriented approach to R&D, with "distinctiveness" and "user's point of view" as the major themes behind R&D activities. Sammy intends to use this system to clarify duties, boost efficiency and amass new technologies.

Pertinent research and development activities in each business segment are as follows:

Pachislot and pachinko machines

Sammy will focus on R&D activities that distinguish Sammy as a pioneer by being the first in the industry to incorporate an array of new technologies. In so doing, Sammy aims to create products with a level of playability and sheer entertainment value that will make them the undisputed choice of players and amusement hall owners alike. R&D expenditures were ¥3,747 million. Main research themes were

screen displays, optical presentation displays, sound effects, new machine casings and new display devices. Major products sold as the result of recent R&D activities include the pachislot machines *MOHJYUOH* series and *Kaze no Yojinbo-R*, and the pachinko machines *CR Gatchaman* and *CR Genjyuha OH*.

Amusement Arcade Equipment

Sammy has positioned *ATOMISWAVE*, its game platform for the global amusement arcade market, as the pivotal product in its strategic lineup. Work continues on development for this new machine. R&D expenditures in this segment were ¥1,296 million. *ATOMISWAVE* sales began in April 2003. In medal game machines, Sammy introduced 30 new machine varieties across its *Kid's Medal* series of machines for children, and the popular *Pachislot Revolution* and *Winners Club* medal game series. The North American market is the primary target for prize-based game machines currently under development at Sammy.

Home Videogame Software

Sammy worked to bolster the capabilities of its in-house development system by increasing the number of development personnel on staff and realigning its organizational structure. Segment R&D expenditures were ¥2,886 million. Main products released during the year included the third title in the *Jissen Pachislot Hisshoho!* series and *Guilty Gear XX*. Sammy is pouring all efforts into development for *SEVEN SAMURAI 20XX*, a highly anticipated title scheduled for a fiscal 2003 release that should leave its mark on the European and North American markets.

Others

Sammy's efforts in this segment are focused on two areas: fundamental R&D activities into cutting-edge computer graphics, a technology vital to the field of entertainment; and research on development environments for new types of content. R&D expenditures in this segment totaled ¥149 million. The main themes of research during the year were the discovery of novel ways of taking full advantage of past R&D efforts in the area of 3-D, and the creation of tools for making the exchange of data possible between different software formats. Sammy also entered into development partnerships with Hitachi, Ltd. and Imagination Technologies, Ltd. to create a 3-D graphic display system that will form the core of the next generation in entertainment machinery.

Consolidated Balance Sheets

SAMMY CORPORATION and subsidiaries
As of March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current assets:			
Cash and cash equivalents (Note 3)	¥ 26,567	¥22,535	\$221,023
Time deposits (Note 5)	25	46	208
Trade receivables:			
Notes (Note 3)	14,540	19,591	120,965
Accounts	15,493	34,221	128,894
Allowance for doubtful accounts	(562)	(785)	(4,676)
Inventories (Note 4)	16,486	17,225	137,155
Deferred income taxes (Note 9)	3,814	2,727	31,730
Other current assets	8,342	10,147	69,401
Total current assets	<u>84,705</u>	<u>105,707</u>	<u>704,700</u>
Property, plant and equipment:			
Land (Note 5)	3,011	3,060	25,050
Buildings (Note 5)	5,857	4,999	48,727
Machinery and equipment	7,537	6,463	62,704
Rental equipment for amusement arcades	2,319	1,414	19,293
Construction in progress	60	250	499
Others	52	65	433
	<u>18,836</u>	<u>16,251</u>	<u>156,706</u>
Accumulated depreciation	<u>(5,909)</u>	<u>(4,410)</u>	<u>(49,160)</u>
	<u>12,927</u>	<u>11,841</u>	<u>107,546</u>
Investments and other assets:			
Investment in securities (Note 10)	3,053	2,189	25,399
Other investments	4,343	1,944	36,131
Software	1,434	1,446	11,930
Lease deposits	1,888	1,734	15,707
Deferred income taxes (Note 9)	1,982	941	16,490
Others	2,727	1,257	22,687
Allowance for doubtful accounts	(186)	(256)	(1,546)
	<u>15,241</u>	<u>9,255</u>	<u>126,797</u>
	<u>¥112,873</u>	<u>¥126,803</u>	<u>\$939,043</u>

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current liabilities:			
Short-term bank loans and current maturities of long-term debt (Note 5)	¥ 3,582	¥ 5,959	\$ 29,800
Trade payables:			
Notes (Note 3)	11,235	15,930	93,469
Accounts	3,785	9,710	31,489
Accounts payable — other	2,375	4,598	19,759
Income taxes payable (Note 9)	13,832	19,539	115,075
Accrued employees' bonuses	1,153	1,013	9,592
Other current liabilities	3,429	5,803	28,528
Total current liabilities	39,391	62,552	327,712
Long-term liabilities:			
Long-term debt (Note 5)	2,370	3,260	19,717
Retirement benefits for employees (Note 6)	779	676	6,481
Retirement benefits for directors and corporate auditors	775	660	6,448
Other non-current liabilities	3,015	1,637	25,083
Total long-term liabilities	6,939	6,233	57,729
Minority interest	1,114	647	9,268
Contingent liabilities (Note 7)			
Shareholders' equity (Note 8):			
Common stock			
Authorized — 200,000,000 shares			
Issued — 53,521,400 shares in 2003 and 53,411,800 shares in 2002	8,017	7,966	66,697
Capital surplus	9,012	8,961	74,975
Retained earnings	60,024	40,172	499,368
Net unrealized holding gains on securities	563	118	4,684
Foreign currency translation adjustments	19	155	158
	77,635	57,372	645,882
Treasury stock, at cost	(12,206)	(1)	(101,548)
Total shareholders' equity	65,429	57,371	544,334
	¥112,873	¥126,803	\$ 939,043

Consolidated Statements of Shareholders' Equity

SAMMY CORPORATION and subsidiaries
Years ended March 31, 2003 and 2002

Millions of yen

	Number of shares issued	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	25,602,400	¥4,941	¥5,936	¥18,055	¥138	¥ 52	¥ -
Net income	-	-	-	23,906	-	-	-
Cash dividends paid	-	-	-	(1,536)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(253)	-	-	-
Treasury stock	-	-	-	-	-	-	(1)
2 for 1 stock split on November 20, 2001	26,653,400	-	-	-	-	-	-
New shares issued on June 28, 2001	1,000,000	2,993	2,992	-	-	-	-
New shares issued by execution of warrant (Stock option)	156,000	32	33	-	-	-	-
Adjustments of net unrealized holding gains on securities	-	-	-	-	(20)	-	-
Adjustments of foreign currency translation adjustments	-	-	-	-	-	103	-
Balance at March 31, 2002	53,411,800	7,966	8,961	40,172	118	155	(1)
Net income	-	-	-	23,066	-	-	-
Cash dividends paid	-	-	-	(2,671)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(313)	-	-	-
Treasury stock	-	-	-	-	-	-	(12,536)
Decrease in treasury stock by execution of warrant (Stock option)	-	-	-	(230)	-	-	331
New shares issued by execution of warrant (Stock option)	109,600	51	51	-	-	-	-
Adjustments of net unrealized holding gains on securities	-	-	-	-	445	-	-
Adjustments of foreign currency translation adjustments	-	-	-	-	-	(136)	-
Balance at March 31, 2003	53,521,400	¥8,017	¥9,012	¥60,024	¥563	¥ 19	¥(12,206)

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	\$66,271	\$74,551	\$334,209	\$ 982	\$ 1,290	\$ (9)
Net income	-	-	191,897	-	-	-
Cash dividends paid	-	-	(22,221)	-	-	-
Bonuses to directors and corporate auditors	-	-	(2,604)	-	-	-
Treasury stock	-	-	-	-	-	(104,293)
Decrease in treasury stock by execution of warrant (Stock option)	-	-	(1,913)	-	-	2,754
New shares issued by execution of warrant (Stock option)	426	424	-	-	-	-
Adjustments of net unrealized holding gains on securities	-	-	-	3,702	-	-
Adjustments of foreign currency translation adjustments	-	-	-	-	(1,132)	-
Balance at March 31, 2003	\$66,697	\$74,975	\$499,368	\$4,684	\$ 158	\$(101,548)

See accompanying notes.

Consolidated Statements of Cash Flow

SAMMY CORPORATION and subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 46,585	¥ 46,952	\$ 387,562
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	2,698	2,068	22,446
Loss on write-off of goodwill	873	517	7,263
Loss on disposal of property, plant and equipment	125	348	1,040
Gain on investment in silent partnership	(129)	(87)	(1,073)
Increase in retirement benefits	230	367	1,913
Others	225	632	1,873
Net changes in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable	23,309	(24,710)	193,918
Increase in inventories	(714)	(1,813)	(5,940)
Increase (Decrease) in notes and accounts payable	(10,119)	3,030	(84,185)
Increase in other assets	1,972	(5,000)	16,406
Increase (Decrease) in other liabilities	(1,941)	4,452	(16,148)
Sub-total	63,114	26,756	525,075
Receipts of interest and dividend income	148	148	1,231
Payments of interest expenses	(198)	(181)	(1,647)
Payments of income taxes	(31,419)	(13,582)	(261,389)
Net cash provided by operating activities	31,645	13,141	263,270
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(3,902)	(4,963)	(32,463)
Proceeds from sales of property, plant and equipment	569	98	4,734
Payments for purchase of intangible assets	(747)	(1,212)	(6,215)
Payments for purchase of investment securities	(3,536)	(886)	(28,561)
Increase in cash and cash equivalents due to acquisition of consolidated subsidiaries	(1,920)	21	(17,035)
Increase in loan receivable — net	61	(710)	508
Decrease (Increase) in time deposit — net	21	182	171
Decrease (Increase) in other investments — net	169	672	1,615
Net cash used in investing activities	(9,285)	(6,798)	(77,244)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	606	659	5,042
Repayments of long-term debt	(1,696)	(600)	(14,110)
Decrease in short-term bank loans	(2,377)	(1,794)	(19,775)
Proceeds from issuance of common stock	201	6,049	1,672
Cash dividends paid	(2,671)	(1,536)	(22,221)
Payments for purchase of treasury stock	(12,536)	—	(104,293)
Other	271	(5)	2,254
Net cash provided by (used in) financing activities	(18,202)	2,773	(151,431)
Effect of exchange rate changes on cash and cash equivalents	(126)	106	(1,049)
Net change in cash and cash equivalents	4,032	9,222	33,544
Cash and cash equivalents at beginning of year	22,535	13,313	187,479
Cash and cash equivalents at end of year	¥ 26,567	¥ 22,535	\$ 221,023

See accompanying notes.

Notes to Consolidated Financial Statements

SAMMY CORPORATION and subsidiaries
As of March 31, 2003 and 2002

NOTE 1 — BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Sammy Corporation (the “Company”) and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”). The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The accompanying consolidated statements of shareholders’ equity have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and not required to be filed with the regulatory authorities.

The translations of Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S.\$1. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant inter-company balances and transactions have been eliminated.

(b) Equity method

Investment in affiliated companies is accounted for using the equity method. The Company had investments in one and two affiliated companies in the year ended March 31, 2003 and 2002, respectively.

(c) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

(e) Marketable securities and investment securities

The Company and consolidated domestic subsidiaries examine the intent of holding each security and classify those securities as (a) Securities held for trading purposes (hereafter, "trading securities") (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities with no available fair market values are stated at moving-average cost. Equity securities issued by subsidiaries and an affiliated company are consolidated or accounted for using the equity method.

The Company and consolidated domestic subsidiaries had no trading securities or held-to-maturity debt securities in the years ended March 31, 2003 and 2002.

(f) Inventories

Inventories are stated at cost determined by the average method.

(g) Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method at rates based on estimated useful lives of depreciable assets. In addition, buildings acquired after March 31, 1998 are depreciated using the straight-line method.

(h) Accounting for certain lease transactions

Finance leases which do not transfer ownership to lessees are not capitalized and accounted for in the same manner as operating leases.

(i) Retirement benefits for employees

The Company and its consolidated subsidiaries (the "Companies") provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Companies provided allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

Actuarial gains and losses are recognized in expenses in the succeeding period.

(j) Retirement benefits for directors and corporate auditors

Retirement benefits for the directors and corporate auditors are provided based on an accrual basis in accordance with the Company's internal rules.

(k) Income taxes

Income taxes comprise corporation, enterprise and inhabitants taxes.

The Companies recognize deferred taxes for tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

(l) Derivative financial instruments

Derivative financial instruments are stated at fair value and changes in their fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

However, if derivative financial instruments are used as hedges and meet certain hedging criteria, recognition of gains or losses resulting from changes in fair value of derivative financial instruments is deferred until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(m) Per share data

Net income per share is computed based upon the weighted-average number of shares of common stock outstanding during the year. Accordingly, net income per share was based on the average number of shares of common stock outstanding during the period, retroactively adjusted for the stock splits made on November 20, 2001. Diluted net income per share is similar to net income per share except that the weight-average number of common stocks outstanding is increased by the number of additional common shares that would have been outstanding if the potential common shares had been issued.

Effective April 1, 2002, the Company adopted the "Accounting Standards for Earnings per Share" (Accounting Standards Board of Japan, September 25, 2002 – Financial Accounting Standards No. 2) and the "Guidelines for Accounting Standards for Earnings per Share" (Accounting Standards Board of Japan, September 25, 2002 – Guidelines for Financial Accounting Standards No. 4).

In accordance with the new accounting standard, net income per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the year. Income available to common stockholders is computed by deducting bonuses to directors and corporate auditors from net income. Income available to common stockholders also applies to compute diluted net income per share.

Earning per share for year ended March 31, 2002 would have been reported, if the calculation method under the new accounting standard were applied.

Net income per share	¥ 446.52
Diluted net income per share	¥ 443.57

Cash dividends per share represent actual amounts applicable to the year.

(n) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

**NOTE 3 —
EFFECTS OF BANK HOLIDAYS ON
MARCH 31, 2002**

As financial institutions in Japan were closed on March 31, 2002, amounts that would normally be settled on March 31, 2002 were collected or paid on the following business day, April 1, 2002. The effects of the settlements on such days instead of March 31 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Increase/(Decrease)		
	2003	2002	2003
Cash and cash equivalents	¥—	¥(645)	\$—
Notes receivables, trade	—	3,255	—
Notes payables, trade	—	2,610	—

**NOTE 4 —
INVENTORIES**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Merchandise	¥533	¥336	\$4,434
Finished products	1,211	2,812	10,075
Raw materials	14,290	11,858	118,885
Work in process	281	2,050	2,338
Supplies	171	169	1,423
	¥16,486	¥17,225	\$137,155

**NOTE 5 —
SHORT-TERM BANK LOANS,
CURRENT PORTION OF
LONG-TERM DEBT AND
LONG-TERM DEBT**

Short-term bank loans outstanding are generally represented by notes, with interest at rates ranging from 0.84% to 2.69% and from 1.375% to 1.50% for the years ended March 31, 2003 and 2002, respectively.

Long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Domestic debenture:			
0.28% debenture due in 2006	¥ 200	¥ —	\$ 1,664
Long-term loans, principally from banks			
2.255% unsecured loans from banks due in 2005	1,200	1,800	9,983
2.625% mortgage loans from bank due in 2004	252	525	2,097
1.75%– 5.800% unsecured loans from banks due in 2008 . .	1,870	1,710	15,557
	<u>3,522</u>	<u>4,035</u>	<u>29,301</u>
Less: current portion	(1,152)	(775)	(9,584)
	<u>¥ 2,370</u>	<u>¥3,260</u>	<u>\$19,717</u>

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
Years ending March 31,		
2004	¥1,152	\$9,584
2005	899	7,479
2006	1,100	9,151
2007	292	2,429
2008 and thereafter	79	658

A summary of assets pledged as collateral for long-term debt at March 31, 2003 is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Time deposit	¥ 20	\$ 166
Land	200	1,664
Buildings	0	0
	<u>¥220</u>	<u>\$1,830</u>

**NOTE 6 —
RETIREMENT BENEFITS FOR
EMPLOYEES**

The liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Projected benefit obligation	¥1,173	¥ 820	\$ 9,759
Unrecognized actuarial differences	(157)	(13)	(1,306)
Less fair value of pension assets	(237)	(131)	(1,972)
Liability for severance and retirement benefits	¥ 779	¥ 676	\$ 6,481

Included in the consolidated statements of income for the years ended March 31, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Service costs — benefits earned during the year	¥213	¥143	\$1,772
Interest cost on projected benefit obligation	20	16	166
Expected return on plan assets	(1)	(3)	(8)
Amortization of actuarial difference	14	13	116
Severance and retirement benefit expenses	¥246	¥169	\$2,046

The discount rate used by the Company was 3%, and the rate of expected return on plan assets was 1% in 2003 and 2002.

Effective from the year ended March 31, 2004, the discount rate will be changed to 2.5%. The Company estimates that the projected benefit obligation would increase by ¥78 million and the unrecognized actuarial differences by ¥78 million, if computations for this fiscal year were made using the new discount rate.

**NOTE 7 —
CONTINGENT LIABILITIES**

The Company had no contingently liability at March 31, 2003.

**NOTE 8 —
SHAREHOLDERS' EQUITY**

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital which is included in capital surplus.

Effective on October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code of Japan.

Also, the Company adopted "Accounting Standards on Treasury Stock and the Reversal of the statutory Reserve" (Accounting Standards Board of Japan, February 21, 2002 – Accounting Standards Board statement No. 1). The effect on the consolidated statement of income of adopting the new accounting standard is immaterial.

**NOTE 9 —
INCOME TAXES**

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 42% for the years ended March 31, 2003 and 2002.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2003 and 2002:

	2003	2002
Statutory tax rate	42.0%	42.0%
Permanent differences such as entertainment expense	0.5	1.0
Tax on undistributed earnings of family corporation	4.1	4.4
Per capita inhabitant tax	0.2	0.1
Others	3.0	1.7
Effective tax rate	49.8%	49.2%

Significant components of the Company's deferred tax assets as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
(Current assets)			
Tax loss carryforward of subsidiaries	¥ 3,417	¥ 3,965	\$ 28,427
Accrued enterprise tax	1,089	1,557	9,060
Accrued bonus	413	281	3,436
R & D	2,040	717	16,972
Other	272	173	2,263
Sub-total.	7,231	6,693	60,158
(Non-current assets)			
Expensed tangible assets not deductible for tax purpose	714	557	5,940
Retirement benefits for employees	249	170	2,071
Retirement benefits for directors and corporate auditors	315	278	2,621
Loss on devaluation of investment	218	–	1,814
Depreciation expense	490	–	4,076
Unrealized transactions eliminated in consolidation	194	–	1,614
Other	190	15	1,581
Sub-total.	2,370	1,020	19,717
Total deferred tax assets	9,601	7,713	79,875
Valuation allowance	(3,417)	(3,965)	(28,427)
Net deferred tax assets	6,184	3,748	51,448
Deferred tax liabilities:			
Net unrealized holding gains or losses on securities	(388)	(80)	(3,228)
Recorded deferred tax assets	¥ 5,796	¥ 3,668	\$ 48,220

Effect on the amounts of deferred tax assets and deferred tax liabilities due to the change of the tax rate of the corporation tax etc.

The aggregate statutory income tax rate will be reduced for the years commencing on or after April 1, 2004 due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.7% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on or after April 1, 2004. As a result, deferred taxes assets decreased by ¥72 million (\$599 thousand) and provision for deferred income taxes increased by the same amount compared with what would be reported using the currently applicable tax rate of 42.0%.

**NOTE 10 —
MARKET VALUE INFORMATION
OF SECURITIES**

Acquisition costs, balance sheet amounts and valuation gains or losses of available-for-sale securities with available fair values as of March 31, 2003 and 2002 were as follows:
2003

	Millions of yen		
	Acquisition cost	Balance sheet amount	Valuation gains
Securities whose market value exceeds the balance sheet amount:			
Stocks	¥938	¥1,983	¥1,045
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	¥320	¥220	¥(100)
	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Balance sheet amount	Valuation gains
Securities whose market value exceeds the balance sheet amount:			
Stocks	\$7,804	\$16,498	\$8,694
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	\$2,662	\$1,830	\$(832)

2002

	Millions of yen		
	Acquisition cost	Balance sheet amount	Valuation gains
Securities whose market value exceeds the balance sheet amount:			
Stocks	¥326	¥544	¥218
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	¥54	¥41	¥(13)

**NOTE 11 —
INFORMATION FOR CERTAIN
LEASES**

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2003 and 2002 with respect to the finance leases accounted for in the same manner as operating leases were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
At March 31, 2003:			
Machinery and equipment	¥124	¥50	¥74
At March 31, 2002:			
Machinery and equipment	¥119	¥55	¥64
	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
At March 31, 2003:			
Machinery and equipment	\$1,028	\$416	\$609

Future lease payments under the finance leases which were accounted for in the same manner as operating leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Due within one year	¥28	¥25	\$233
Due after one year	45	38	374
	¥73	¥63	\$607

Lease payments under finance leases which were accounted for in the same manner as operating leases, for the years ended March 31, 2003 and 2002 were ¥35 million (\$291 thousand) and ¥25 million, respectively.

**NOTE 12 —
SUBSEQUENT EVENT**

The following appropriations of retained earnings at March 31, 2003 were approved at the Company's general shareholders meeting held on June 26, 2003.

	Millions of yen		Thousands of U.S. dollars (Note 1)
Cash dividends (¥70.0 per share)	¥3,507		\$29,176
Directors' and corporate auditors' bonuses	300		2,496

**NOTE 13 —
DERIVATIVE TRANSACTIONS**

The Company uses interest rate swap contracts for the purpose of mitigating the risk of fluctuations in interest rates. The Company uses derivative financial instruments only for hedging purposes and does not use them for speculative trading purposes.

The interest rate swap contracts are executed with creditworthy financial institutions, and the Company believes the risk of default by counterparties is currently low.

The Company uses only the derivative transactions duly authorized pursuant to its internal responsibility policy. The transactions are managed by the Accounts and Finance Departments of the Company.

Market value information of derivative contracts as of March 31, 2003 is not presented, because all derivative transactions of the Company are accounted for using hedge accounting.

**NOTE 14 —
SEGMENT INFORMATION**

A. Industrial segment information

Year ended March 31, 2003

	Millions of yen						
	Pachislot Pachinko	Amusement arcade equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales —							
(1) Outside customers . . .	¥149,084	¥6,292	¥ 7,679	¥2,719	¥165,774	¥ —	¥165,774
(2) Inter-segment	14	1	704	26	745	(745)	—
Total	149,098	6,293	8,383	2,745	166,519	(745)	165,774
Cost and expenses	88,408	6,784	9,867	3,306	108,365	5,699	114,064
Operating income (loss) . .	¥ 60,690	¥ (491)	¥(1,484)	¥ (561)	¥ 58,154	¥ (6,444)	¥ 51,710
Assets	¥ 64,842	¥8,826	¥ 3,915	¥3,764	¥ 81,347	¥31,526	¥112,873
Depreciation	1,484	649	157	44	2,334	364	2,698
Capital expenditure	1,458	186	665	129	2,438	575	3,013

	Thousands of U.S. dollars (Note 1)						
	Pachislot Pachinko	Amusement arcade equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales —							
(1) Outside customers . .	\$1,240,299	\$52,344	\$ 63,887	\$22,621	\$1,379,151	\$ —	\$1,379,151
(2) Inter-segment	120	10	5,853	213	6,196	(6,196)	—
Total	1,240,419	52,354	69,740	22,834	1,385,347	(6,196)	1,379,151
Cost and expenses	735,514	56,437	82,087	27,497	901,535	47,416	948,951
Operating income (loss) . .	\$ 504,905	\$ (4,083)	\$(12,347)	\$(4,663)	\$ 483,812	\$(53,612)	\$ 430,200
Assets	\$ 539,452	\$73,425	\$ 32,570	\$31,308	\$ 676,755	\$262,288	\$ 939,043
Depreciation	12,347	5,401	1,305	361	19,414	3,028	22,442
Capital expenditure	12,132	1,544	5,536	1,070	20,282	4,783	25,065

Year ended March 31, 2002

	Millions of yen						
	Pachislot Pachinko	Amusement arcade equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales —							
(1) Outside customers . . .	¥152,881	¥ 5,948	¥ 4,362	¥1,103	¥164,294	¥ —	¥164,294
(2) Inter-segment	—	0	846	40	886	(886)	—
Total	152,881	5,948	5,208	1,143	165,180	(886)	164,294
Cost and expenses	91,015	7,026	6,690	1,281	106,012	4,260	110,272
Operating income (loss) . .	¥ 61,866	¥(1,078)	¥(1,482)	¥ (138)	¥ 59,168	¥ (5,146)	¥ 54,022
Assets	¥ 83,820	¥ 7,342	¥ 8,412	¥ 851	¥100,425	¥26,378	¥126,803
Depreciation	1,174	255	114	162	1,705	363	2,068
Capital expenditure	1,786	181	368	2	2,337	756	3,093

Notes 1. The Company has 4 segments based on its management control structure and nature of products and market.

2. Main products and line of business by segment

Business segment	Main products and line of business
Pachislot and pachinko	Manufacture and sell pachislot and pachinko machines. Sell related components. Serve after-sales services. Develop, manufacture, sell and maintain related products. Design pachislot and pachinko store.
Amusement arcade equipment	Manufacture, sell, rent and maintain game machines used in amusement arcades
Home video game software	Develop and sell home video game software
Others	Mainly operation of amusement facilities. Music production. CD package sales. CG technology development and sales. Character license business. Plan and production of music-related software in cellular phone media.

3. General corporate expenses of ¥6,444 million (\$53,611 thousand) in 2003 and ¥5,146 million in 2002, which mainly consist of expenses incurred by the parent company's administrative department, are included in "Corporate and eliminations"

4. Corporate assets of ¥31,526 million (\$262,280 thousand) in 2003 and ¥26,378 million in 2002, which mainly consist of cash and cash equivalent, marketable securities, investment securities and corporate properties, are included in "Corporate and elimination"

B. Geographical segment information

Geographical segment information was not presented because the sales and assets of the Company and its consolidated domestic subsidiaries for the years ended March 31, 2003 and 2002 exceed 90% of consolidated net sales and assets.

C. Overseas sales

Overseas sales information was not presented because the overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 were less than 10% of consolidated net sales.

**NOTE 15 —
LAWSUITS**

Currently, the following lawsuits have been filed against Sammy in relation to the pachislot machines manufactured and distributed by the company, claiming infringement of certain patent rights.

Sammy Group believes that none of the cases being litigated constitutes an infringement of any patent rights and is so insisting, but such litigation process may adversely affect its operating results.

The right in question in the case “c.” below is the same as the one in the case “a.” below. The Patent Office made a judgment that such patent right was invalid and the document of an invalidation judgment was published as of December 25, 2002. Correspondingly, Aruze filed a claim with Tokyo High Court as of January 27, 2003, insisting that such judgment shall be revoked and the case has currently been on trial.

And Sammy confirmed the delivery of a decision invalidating the utility model right dated June 5, 2003 in question in the case “e.” from the Japanese Patent Office on June 12, 2003.

a. The claim for damages of 10,066 million yen made by Aruze Corp. (“Aruze”)

On March 19, 2002, the Tokyo District Court made the judgment that Sammy shall pay Aruze 7,416 million yen, Sammy appealed to the Tokyo High Court on the same day and the case has currently been on trial.

b. The claim for damages of 1,500 million yen made by Aruze

On June 25, 2002, Sammy won the case at the Tokyo District Court, Aruze appealed to the Tokyo High Court on July 5, 2002 and Sammy won the case at the Tokyo High Court on June 4, 2003. Aruze appealed to the case to the Supreme Court on June 17, 2003.

c. The claim for damages of 1,430 million yen made by Aruze

The case was filed at Tokyo District Court on March 26, 2001, which has currently been on trial.

d. The claim for damages of 5,145 million yen made by Aruze

The case was filed at Tokyo District Court on May 31, 2002, which has currently been on trial.

e. The claim for damages of 11,424 million yen made by Takasago Electric Industry Co., Ltd.

The case was filed at Osaka District Court on July 18, 2002, which has currently been on trial.

To the Board of Directors of
SAMMY CORPORATION

We have audited the accompanying consolidated balance sheets of SAMMY CORPORATION and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, 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 in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 SAMMY CORPORATION and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 26, 2003

Share Information (As of March 31, 2003)

Authorized Shares:

200,000,000 shares

Shares Issued and Outstanding:

53,521,400 shares

Number of Shareholders:

21,479

Transfer Agent of Common Shares:

UFJ Trust Bank Limited

4-3, Marunouchi 1-chome,

Chiyoda-ku, Tokyo

Handling Office:

UFJ Trust Bank Limited

Corporate Agency Department

10-11, Higashisuna 7-chome, Koto-ku,

Tokyo 137-8081, Japan

TEL: +81-3-5683-5111

American Depositary Receipts

Symbol: SMMYY

CUSIP: 79587M106

Exchange: OTC

Ratio (ADR:ORD): 2:1

Depository: The Bank of New York (Sponsored)

101 Barclay Street, New York, NY 10286, U.S.A.

U.S. toll free: (888)269-2377 (888-BNY-ADRS)

Tel: 1-212-815-2042

Level of Program: Level I

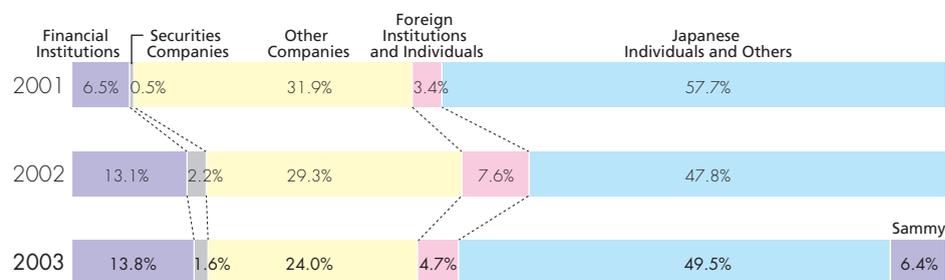
URL: <http://www.adrbny.com>

Principal Shareholders

	Name of Shareholder	Shares held	(%)
1	Hajime Satomi	13,013,260	24.3%
2	SS PLANNING CORPORATION	7,233,600	13.5%
3	FSC Co., Ltd.	4,294,800	8.0%
4	Sammy Corporation	3,408,230	6.4%
5	The Master Trust Bank of Japan, Ltd. (Trustee)	2,468,200	4.6%
6	Naoya Harano	1,007,200	1.9%
7	Japan Securities Finance Co., Ltd.	547,800	1.0%
8	Japan Trustee Services Bank, Ltd. (Trustee)	510,300	1.0%
9	Mitsubishi Trust and Banking Corporation (Trustee)	457,100	0.9%
10	Yukimasa Sugiura	400,000	0.7%

Composition of Shareholders

	Financial Institutions	Securities Companies	Other Companies	Foreign Institutions and Individuals	Japanese Individuals and Others	Sammy
2001	6.5%	0.5%	31.9%	3.4%	57.7%	—
2002	13.1%	2.2%	29.3%	7.6%	47.8%	—
2003	13.8%	1.6%	24.0%	4.7%	49.5%	6.4%



Corporate Data

Sammy Corporation

Head Office:

23-2, Higashi Ikebukuro 2-chome,
Toshima-ku, Tokyo 170-8436, Japan
TEL: +81-3-5950-3790

Established:

November 1, 1975

Capital: (As of March 31, 2003)

¥8,017 million

Employees: (As of March 31, 2003)

884 (Non-Consolidated)

1,416 (Consolidated)

Principal Business:

- Development, manufacture and sales of pachinko machines, pachislot machines and peripheral equipment
- Manufacture and sales of amusement arcade equipment
- Development and sales of home videogame software
- Multimedia content

Network:

Kawagoe Factory
Kawagoe, Saitama

Sayama Distribution Center
Sayama, Saitama

Branches:

Sapporo, Sendai, Tokyo, Nagoya, Osaka, Hiroshima, Fukuoka

Sales Offices:

Pachinko and Pachislot Business

Obihiro, Aomori, Morioka, Koriyama, Tokyo, Niigata, Nagano, Takasaki,
Tsukuba, Saitama, Chiba, Yokohama, Shizuoka, Kanazawa, Kyoto, Kobe,
Okayama, Takamatsu, Miyazaki

NEWS Business

Osaka

Group Companies:

Domestic

RODEO Co., Ltd.

Shuko Electronics Co., Ltd.

Sammy Design Co., Ltd.

Sammy Amusement Service Co., Ltd.

SI ELECTRONICS, LTD.

Dimps Corporation

Underground Liberation Force Inc.

ALEGRIA CORPORATION

Sammy NetWorks Co.,Ltd.

Quat Technology Inc.

IP4 Inc.

Overseas

Sammy Holding Co., Inc.

Sammy USA Corporation

Sammy Studios, Inc.

Sammy Europe Ltd.

RTzen, Inc.

Sammy Group Brand Statement

*Culture Creator,
By the Adventure Spirit,
For the World People,
Of the Original Entertainment*

**Sammy's IR Homepage:
<http://ir.sammy.co.jp>**

Be sure to access Sammy's IR homepage created specifically for investors. The website is filled with video presentations, virtual tour of Sammy factory, and a wealth of additional information on the Sammy Group.

For further information, please contact:

Investor Relations Group
Sammy Corporation
23-2, Higashi-Ikebukuro 2-chome,
Toshima-ku, Tokyo 170-8436, Japan
Phone: +81-3-5950-3790
Facsimile: +81-3-5950-3791
email: ir@info.mail.sammy.co.jp
URL: <http://www.sammy.co.jp>

Caution with Regard to Forward-Looking Statements

Statements in this annual report with respect to Sammy's plans, strategies, beliefs and estimates that are not historical facts are forward-looking statements. They constitute management's assumptions based on information currently available and involve risks and uncertainties. There are a number of factors that could cause actual results to differ materially from such statements.

