



Annual Report 2004

Year ended March 31, 2004



# What's Next?

# Consolidated Financial Highlights

SAMMY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
Fiscal years ended March 31

	Yen in millions		U.S. dollars in thousands		% change 2004/2003
	2002/3	2003/3	2004/3	2004/3	
<b>For the Year:</b>					
Net sales	¥164,294	¥165,774	¥251,227	\$2,378,143	+51.5
Gross profit	96,485	92,965	127,488	1,206,816	+37.1
Operating income	54,022	51,710	71,677	678,502	+38.6
Income before income taxes and minority interests	46,952	46,585	67,939	643,118	+45.8
Net income	23,906	23,066	32,196	304,771	+39.6
<b>At Year-End:</b>					
Total assets	¥126,803	¥112,873	¥299,273	\$2,832,952	+165.1
Total shareholders' equity	57,371	65,429	112,987	1,069,548	+72.7
<b>Per Share Data (yen and U.S. dollars):</b>					
Net income	¥ 452.44	¥ 436.79	¥ 424.68	\$ 4.02	-2.8
Diluted net income	452.28	435.42	417.97	3.96	-4.0
Cash dividends	50.00	70.00	90.00	0.85	+28.6
Shareholders' equity	1,074.13	1,298.90	1,390.74	13.17	+7.1
<b>Other Data:</b>					
EBITDA	¥56,538	¥54,661	¥75,802	\$717,551	+38.7
EBITDA margin (%)	34.4	33.0	30.2		
Return on equity (%)	55.3	37.6	36.1		
Number of shares outstanding at year-end	53,411,800	53,521,400	87,500,718		
Number of employees	1,168	1,416	1,927		

Notes: \* U.S. dollar amounts have been translated at the rate of ¥105.64=US\$1, the approximate current exchange rate at March 31, 2004.

\* Net income per share is calculated based on the average number of common stock outstanding during the respective fiscal year under review.

\* EBITDA = Operating income + Other income + Depreciation

\* 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.

\* On February 27, 2004, the Company conducted a 1:1.5 stock split, issuing 26,973,114 shares.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS** The statements contained in this annual report with respect to Sammy's estimated future revenues and profits, strategies, tenets, financial forecasts, and other statements that are not historical facts are forward-looking statements. Such forward-looking statements are based on management's judgments, predictions, and forecasts in light of information currently available and involve many potential risks and uncertainties that could cause actual results to differ materially from the content of these statements. Accordingly, undue reliance should not be placed on such forward-looking statements.

Cover

Left: *GUILTY GEAR ISUKA*

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Upper right: *SEVEN SAMURAI 20XX*

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Moebius / Opening & Ending Theme Music by Ryuichi Sakamoto

# PACHISLOT

## Market Environment—Pachislot Business

### What is Pachislot?

The name pachislot is a composite of the words pachinko and slot machine. As the name suggests, the first pachislot machines were based on slot machines imported from the United States after World War II. And, from 1980, pachislot machines began appearing in pachinko halls. The main difference between slot and pachislot machines is that slot machine players use a lever at the side of the machine to start the drum spinning—which then stops automatically—while pachislot players use a small lever at the front of the machine to spin reels, which they then halt separately by pushing a stop button. Although pachislot has a shorter history than pachinko, its popularity has been growing faster than that of pachinko in recent years.

### Pachislot machine market scale

	1999	2000	2001	2002	2003
Number of pachislot machines installed (units)	1,139,356	1,323,729	1,459,233	1,606,123	1,660,839
Number of pachislot machines sold annually (units)	932,705	1,134,341	1,290,719	1,496,877	1,842,392
Pachislot machine market scale (¥ millions)	269,290	314,599	351,344	393,966	525,494

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

### Share of pachislot machines sold annually

Rank	1999		2000		2001		2002		2003	
	Manufacturer	Share								
1	ARUZE	39.6%	ARUZE	36.2%	Sammy	32.8%	Sammy	31.2%	Sammy	32.1%
2	YAMASA	15.0%	YAMASA	17.6%	YAMASA	17.8%	YAMASA	20.0%	OLYMPIA	18.5%
3	Sammy	7.8%	Sammy	13.5%	ARUZE	16.2%	ARUZE	19.8%	ARUZE	13.6%
4	OLYMPIA	7.3%	OLYMPIA	8.8%	OLYMPIA	8.5%	OLYMPIA	11.7%	YAMASA	11.9%
5	ABILIT	5.5%	NET	4.4%	PIONEER	5.0%	PIONEER	3.3%	Daito Giken	4.9%

Based on Yano Research Institute Ltd. data.

### Number of pachinko halls

	1999	2000	2001	2002	2003
Number of pachinko halls	17,173	16,988	16,801	16,504	16,076
Halls with pachinko machines installed*	16,413	16,021	15,691	15,255	14,695
Halls with pachislot machines installed	760	967	1,110	1,249	1,381

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.”

In 2003, on the back of pachislot’s growing popularity, the number of halls devoted entirely to pachislot machines increased and existing halls incorporated more pachislot machines. As a result, the number of operational pachislot machines was up from the previous year. Recently, there has been a trend toward restricting the gambling elements of pachislot machines, such as the August 2003 introduction of stricter tests by the Security Electronics and Communications

Technology Association and regulatory revisions enacted in July 2004. In response to the new market environment that such regulatory amendments have created, manufacturers of pachislot machines are steadily marketing machines with a stronger emphasis on playability and entertainment value.

# PACHINKO

## Market Environment—Pachinko Business

### What is Pachinko?

Pachinko developed from bagatelle, which was imported from the United States in the 1920s. In the United States, bagatelle went on to become pinball. The most conspicuous difference between pinball and pachinko is that pinball machines are horizontal to the ground while pachinko machines are positioned almost upright. In addition, compared with the 27mm-diameter ball used for pinball, pachinko balls are smaller—about 11mm in diameter. Pachinko has followed its own evolutionary course to become one of Japan's national pastimes, said to be played by as many as 20 million people.

### Pachinko machine market scale

	1999	2000	2001	2002	2003
Number of pachinko machines installed (units)	3,569,879	3,431,130	3,326,583	3,252,241	3,227,239
Number of pachinko machines sold annually (units)	3,128,054	3,368,839	3,230,489	3,174,079	3,686,677
Pachinko machine market scale (¥ millions)	518,358	568,362	569,129	558,506	670,755

Figures for "Number of pachinko machines installed" provided by the National Police Agency; figures for "Number of pachinko machines sold annually" and "Pachinko machine market scale" provided by Yano Research Institute Ltd.

### Share of pachinko machines sold annually

Rank	1999		2000		2001		2002		2003	
	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	SANKYO	20.6%	SANKYO	18.3%	SANYO BUSSAN	18.9%	SANYO BUSSAN	16.4%	SANYO BUSSAN	25.2%
2	HEIWA	12.0%	SANYO BUSSAN	15.1%	SANKYO	17.2%	SANKYO	14.8%	SANKYO	16.4%
3	SANYO BUSSAN	9.6%	HEIWA	11.5%	HEIWA	10.8%	HEIWA	10.0%	DAIICHI SHOKAI	9.5%
4	TOYOMARU INDUSTRY	9.3%	DAIICHI SHOKAI	7.4%	DAIICHI SHOKAI	10.3%	KYORAKU SANGYO	8.1%	HEIWA	7.1%
5	DAIICHI SHOKAI	7.7%	SOPHIA	5.9%	KYORAKU SANGYO	7.6%	DAIICHI SHOKAI	7.9%	<b>Sammy</b>	<b>6.7%</b>
	<b>Sammy</b>	<b>3.6%</b>	<b>Sammy</b>	<b>3.0%</b>	<b>Sammy</b>	<b>2.8%</b>	<b>Sammy</b>	<b>2.6%</b>		

Based on Yano Research Institute Ltd. data.

In 2003, manufacturers brought to market numerous pachinko machines that offered enhanced playing enjoyment and upgraded imaging technologies. Nevertheless, tough conditions that were characterized by a decreasing number of operational machines persisted in the pachinko machine market due to the

absence of a major hit product. Further, the number of pachinko halls continued to decline as recent openings of large-scale halls pushed small and medium-sized halls out of the market.

# NEWS

## Market Environment—NEWS Business

### What is NEWS Business?

Sammy's NEWS business comprises four areas: amusement, new technology, content, and merchandising. Aiming to take a major leap forward, we are reinforcing our pachislot and pachinko businesses as an earnings base while investing profits from those businesses in NEWS business. NEWS stands for New Entertainment World of Sammy. It is also an abbreviation of North, East, West, South, representing our ambition to deliver new entertainment worldwide. In other words, the mission of the NEWS business is to establish Sammy as a comprehensive entertainment company in markets around the globe.

### Amusement arcade market scale

(¥ Billions)

	1998	1999	2000	2001	2002
Net sales of amusement arcade equipment	198.2	187.2	142.6	140.8	154.5
Net sales from amusement arcade operations	628.9	619.5	596.4	590.3	605.5

Based on JAMMA, AOU, and NSA data. Sales figures for 2003 not disclosed by survey organizations.

### Home videogame market scale

(¥ Billions)

	1998	1999	2000	2001	2002
Monetary value of software shipments	567.0	562.8	577.9	517.4	474.7
Monetary value of hardware shipments	482.3	454.6	539.9	940.1	787.7

Based on CESA data. Sales figures for 2003 not disclosed by survey organizations.

### Market for mobile telephone content

(¥ Billions)

	2000 (estimated)	2001 (estimated)	2002 (estimated)	2003 (estimated)	2004 (forecast)
Market for mobile telephone content	44.8	119.6	175.7	235.0	287.9
Images	6.5	17.1	26.6	38.3	41.8
Music	13.4	50.3	66.4	90.7	111.1
Game software	2.6	10.7	30.7	34.4	47.0
Textual information	22.3	41.5	52.1	71.6	88.0

Based on "Digital Content White Paper 2004."

In fiscal 2004, favorable signs began to appear in the amusement arcade equipment sector. As a wide variety of game genres come on stream and upgraded services become available, network games have become a new mainstay product that is revitalizing the market. Also, demand for medal game and other machines is solid.

In addition to the aggressive development of mainly large-scale facilities by amusement arcade operators, the number of openings of other types of facilities, such as amusement arcades for children in shopping centers, remains steady.

Sales of home videogame software contracted due to a gap since the launch of major hardware and the absence of major hit software titles, other than sequel titles.

Meanwhile, demand for downloadable mobile telephone content, including ring melodies, stand-by screens, and games, expanded dramatically as the popularity of mobile telephones with browser functions increased. And, content is becoming more advanced and varied with the spread of third-generation mobile telephones. In light of the expected emergence of increasingly sophisticated content and services, there is a huge potential market for downloadable mobile telephone content.



Sammy's Regno Dotonbori, a large-scale amusement arcade



Jissen Pachislot Hisshoho! ©Buronson・Tetsuo Hara  
Hokuto No Ken



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The Sammy 777 Town pachislot web site for mobile telephones

# > What's Next?

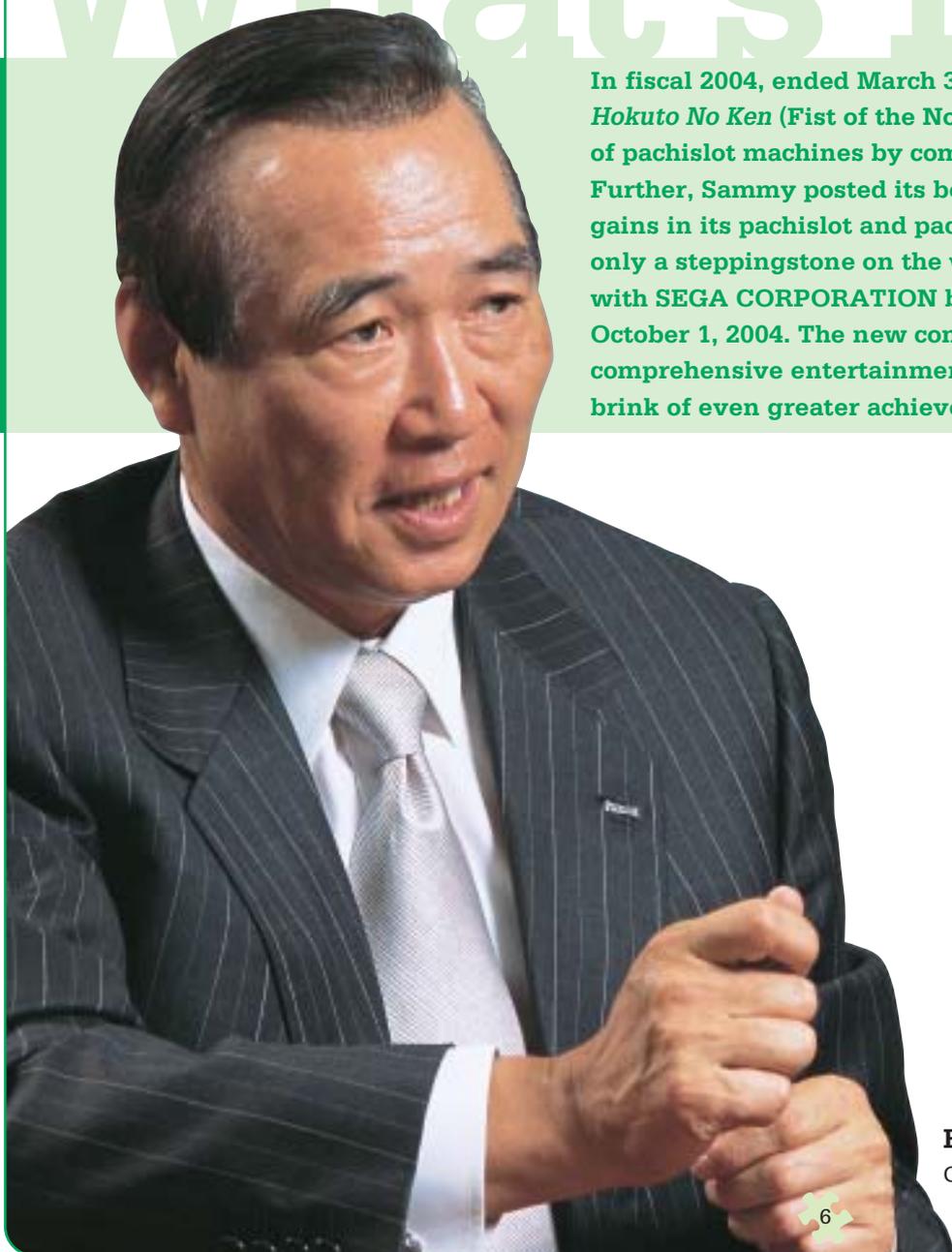
Management Strategy



AN INTERVIEW WITH THE CHAIRMAN

# What drives Sammy's growth? Where are we headed?

In fiscal 2004, ended March 31, 2004, the Sammy-brand pachislot machine *Hokuto No Ken* (Fist of the North Star) guaranteed its place in the history of pachislot machines by completely rewriting the industry's sales records. Further, Sammy posted its best-ever performance thanks to outstanding gains in its pachislot and pachinko businesses. However, fiscal 2004 was only a steppingstone on the way to greater things. Sammy plans to merge with SEGA CORPORATION by establishing a joint holding company on October 1, 2004. The new company will provide the foundations of a truly comprehensive entertainment company. Rest assured Sammy is on the brink of even greater achievements.



**Hajime Satomi**

Chairman and Chief Executive Officer

## FISCAL 2004 PERFORMANCE

### Q. How did Sammy perform in fiscal 2004?

A. Fiscal 2004 was a year of major advances for Sammy. We notched up our best-ever performance, posting net sales of ¥251.2 billion, operating income of ¥71.7 billion, and net income of ¥32.2 billion. The pachislot business reasserted its unassailable lead over the pack by recording annual sales of 591 thousand units.

The Sammy-brand pachislot machine *Hokuto No Ken* provided much of the impetus that drove us to those record-breaking results. In only six months following the machine's launch in October 2003, we sold an unprecedented 259 thousand units—the highest-ever unit sales for a single product in the history of the pachislot machine industry. Judging from the continued steady flow of orders for *Hokuto No Ken*, I am confident we will also ship a large volume of units in the current fiscal year. In addition, our pachinko business carved out a considerably larger slice of the pachinko machine market in terms of annual unit sales by increasing its share from approximately 3% in the previous fiscal year to roughly 7%. That expansion was due to a dramatic increase in sales of such pachinko machines as *CR MOJYUOH*, which became the Company's strongest-selling pachinko machine series ever—posting unit sales of 82 thousand in fiscal 2004. These successes are highly significant because they clearly show that Sammy's brand power in the pachinko machine market is mounting with the same kind of unstoppable momentum that has established our formidable presence in the pachislot machine market.

### Q. Why do you think the *Hokuto No Ken* pachislot machine has achieved such overwhelming popularity?

A. The *Hokuto No Ken* pachislot machine's LCD (liquid crystal display) faithfully recreates the characters and scenario of the 1980s best-selling comic book of the same name by taking advantage of Sammy's highly original imaging technologies. The machine's popularity

is attributable to its engrossing combination of advanced LCD imaging and an industry-first "Battle Bonus" function, which offers heightened playing enjoyment and entertainment value. Also, I think this new pachislot machine has become such a huge hit because of particularly strong endorsement from the generation of players that read the original comic book. Sammy is able to steadily roll out such hit products thanks to its robust development organization, which consistently creates new technologies and captivating games. In other words, this latest hit was no fluke—it was almost inevitable.

### Q. What do you think underpinned the advances made in Sammy's pachinko business in fiscal 2004?

A. I believe efforts during the previous fiscal year to strengthen our pachinko machine development capabilities paid off. As well as increasing the number of development personnel for pachinko machines, we transferred highly talented designers with proven track records in the development of pachislot machines to pachinko machine development. This infusion of new blood helped us to bolster hardware performance, which had been a weak link. At the same time, we reinforced our software development capabilities in such areas as LCD imaging. As a result, we were sure that *CR MOJYUOH* would be a hit because of its synthesis of superior-quality hardware and software. In the long-term, Sammy aims to repeat its remarkable success in the pachislot machine market by relentlessly developing its brand power in order to seize the lion's share of the pachinko machine market.

## SAMMY'S STRENGTHS

### Q. How does Sammy manage to achieve such robust growth?

A. One of Sammy's great strengths is outstanding development capabilities. We have constantly brought hit machines to market. Needless to say, the designing, technical, and developmental competence needed to sustain



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Only six months after its debut, *Hokuto No Ken* had already become the all-time, best-selling product in the pachislot machine industry's history. This new pachislot machine is a triumph of Sammy's accumulated development know-how and sheer originality.

such a track record cannot be realized overnight. Sammy has always given priority to allocating management resources to R&D. Guided by our basic development concept, “Sammy... the wellspring of new ideas,” we have cultivated an R&D culture that encourages staff to think out of the box and have the courage to create something completely original. Of course, sometimes those initiatives fail. However, by carefully analyzing and responding to market feedback from such setbacks, we have always been able to use the lessons learned to create our next success. I am confident that Sammy’s technical and development skills, accumulated and honed over many years of trial and error, are unmatched.

Having said that, our development divisions are by no means the sole driver of Sammy’s growth. Our growth is reliant on the coordination of a three-pronged system that comprises development divisions, marketing divisions, and production divisions. This operational triangle enables Sammy to manufacture at low cost premium-quality products that are exactly tailored to market needs. Our powerful marketing divisions have built a network encompassing the whole of Japan, while our production divisions boast industry-leading manufacturing and logistics systems.

Further, we value our employees because we firmly believe that a company’s strength ultimately rests upon human resources. Sammy’s

extremely low personnel turnover rate is a testament to the Company’s level of commitment to employees and is a key advantage. In development, marketing, production, and management operations and in Group companies, talented individuals working toward shared management goals are the “intangible asset” that heightens Sammy’s overall capabilities because they have an accumulated wealth of technology and know-how that remains firmly locked inside the Company.

## REGULATORY REVISIONS

**Q. How will the July 2004 revisions to regulations for pachislot and pachinko machines affect Sammy?**

**A.** The regulatory amendments have curbed some of the gambling elements of pachislot machines by prohibiting the inclusion of accumulating jackpot functions in pachislot games and by setting upper limits on the number of tokens that can be won. Those changes make it more important than ever for companies to focus on playability and entertainment value to differentiate their pachislot machines. I expect that these revisions will further widen the gap between those companies in the pachislot machine industry with technical capabilities and know-how and those without. I am

### KAWAGOE FACTORY

Located in Kawagoe, Saitama Prefecture, the Kawagoe Factory boasts an industry-leading, fully automated production line that is capable of rolling out 3,000 pachislot machines and 3,000 pachinko machines a day. Moreover, our introduction of supply chain management has reduced initial failure rates and production costs while minimizing lost-opportunity costs by shortening production lead times.



convinced that we will be able to fully adapt to these regulatory revisions and continue marketing hit pachislot machines because the playability and entertainment value offered by our products are unquestionably superior. Indeed, we have already shown our mastery in those areas by incorporating large LCD screens into pachislot machines and developing highly compelling games based on comic book scenarios.

For pachinko machines, the new regulations allow for a greater variety of machine formats and games by removing the current classification of machines into three groups. As a result, those companies that are able to create original concepts and exciting products will win out. Given Sammy's ongoing transformation into a comprehensive entertainment company, these changes present us with an excellent chance to become the pachinko machine industry's leading manufacturer.

## GROWTH STRATEGIES

**Q. Could you please outline Sammy's main strategies for the Company's pachislot and pachinko businesses?**

**A.** In the medium term, we aim to maintain our top share of the pachislot machine market and to capture more than 10% of the pachinko machine market.

As I just said, playability and entertainment value are becoming increasingly important factors differentiating our pachislot and pachinko businesses from those of rivals. We will fully leverage our brand power and superior technology in those areas—which were reaffirmed by the huge success of the *Hokuto No Ken* pachislot machine—to maintain dominant market share and fortify our pachislot business as a platform for stable earnings. Naturally, we will further hone our imaging technologies and continue to develop pachislot machines with innovative new functions.

In the pachinko machine business, we aim to become the pachinko machine industry's leading manufacturer and to establish Sammy as a brand that is also synonymous with pachinko machines through the continued reinforcement of



## SAMMY'S M&A STRATEGY

Sammy actively pursues mergers and acquisitions with the aim of further expanding its presence and capabilities as a comprehensive entertainment company. The Company decides on targets following careful consideration of the extent to which a merger or acquisition would enhance the corporate value of the Group as a whole.

### PRINCIPAL MERGERS AND ACQUISITIONS UNDERTAKEN IN FISCAL 2004

July 2003

#### APANDA Inc.

##### OVERVIEW OF BUSINESS:

Development of commercial facilities, real estate leasing, and related operations

##### SHARE ACQUISITION:

Made consolidated subsidiary through acceptance of third-party allocation of new shares and acquisition of shares

##### OBJECTIVE:

To reinforce NEWS business

November 2003

#### Nissho Inter Life Co., Ltd.

##### OVERVIEW OF BUSINESS:

Planning, design, management, and construction of commercial facilities and their interior fittings

##### SHARE ACQUISITION:

Made consolidated subsidiary by purchase of 50.5% of total outstanding shares through a tender offer

##### OBJECTIVE:

To enhance ability to refurbish commercial facility interiors

December 2003

#### Japan Multimedia Services Corporation

##### OVERVIEW OF BUSINESS:

Multimedia information and communications network service operations

##### SHARE ACQUISITION:

Made consolidated subsidiary through acceptance of third-party allocation of new shares and acquisition of shares

##### OBJECTIVE:

To enter the online games market

December 2003

#### SEGA CORPORATION

##### OVERVIEW OF BUSINESS:

Development, manufacture, and sale of amusement arcade equipment; management of amusement arcades; and development, manufacture, and sale of home videogame equipment

##### SHARE ACQUISITION:

Made equity-method affiliate through purchase of 22.4% of total outstanding shares from CSK CORPORATION

##### OBJECTIVE:

To accelerate the expansion of NEWS business and to achieve profitability at an early stage

development capabilities that are focused on adding new playability value and upgrading imaging technologies.

## MERGER WITH SEGA

### Q. What was the backdrop to the merger with SEGA?

A. Previously, we had a range of operational alliances with SEGA. However, we realized that it was necessary for us to form closer ties to achieve respective growth strategies. With that in mind, Sammy made SEGA CORPORATION an equity-method affiliate by acquiring a 22.4% stake in the company on December 8, 2003.

To create a higher-profile, comprehensive entertainment company and to enhance combined corporate value, the companies subsequently concluded an agreement to merge their businesses by establishing a joint holding company, SEGA SAMMY HOLDINGS INC., through a share-for-share exchange. Having received approval from both companies' annual meetings of shareholders held in June 2004 and from related governmental agencies, we are progressing steadily with preparations for the merger on October 1, 2004.

### Q. What overall benefits do you anticipate from the merger?

A. Sammy and SEGA's mainstay businesses differ considerably. Sammy primarily focuses on pachislot and pachinko businesses; SEGA's main businesses are home videogame software development, amusement arcade operations, and amusement arcade equipment sales. As components of an entertainment company, those respective core competences dovetail very well. The merger will lay the foundations for a truly comprehensive entertainment company that is capable of flourishing on the global stage. Also, we will be able to realize substantial synergies by

effectively leveraging each company's respective strengths in different business areas. And, of course, we will heighten management efficiency by redeploying human and physical resources.

Through this merger, we will merge both companies' technological development prowess and graft SEGA's internationally recognized brand name onto Sammy's high-growth and high-earning structure. At the same time, we will work to accelerate the operational development of SEGA and Sammy in Japan and overseas by pursuing synergies and enhanced efficiency. Such initiatives will enable us to further strengthen our presence as a comprehensive entertainment company.

### Q. What medium-term targets have been established?

A. On October 1, 2004, Sammy and SEGA will become wholly owned subsidiaries of SEGA SAMMY HOLDINGS. Following the establishment of the holding company, medium-term plans call for reorganization by operational area of the holding company's subsidiaries.

The new group will strive to achieve medium-term targets of net sales of ¥600 billion and operating income of ¥120 billion. Further, we hope to reach those benchmarks as early as possible through business tie-ups and mergers and acquisitions at home and abroad.

In closing, I would like to ask our shareholders and other investors for their continued support as we move into a new chapter of our history.

July 2004



Hajime Satomi  
Chairman and Chief Executive Officer





# > What's Next?

SEGA SAMMY HOLDINGS



# Next Move

## Establishment of SEGA SAMMY HOLDINGS INC.

### Objectives

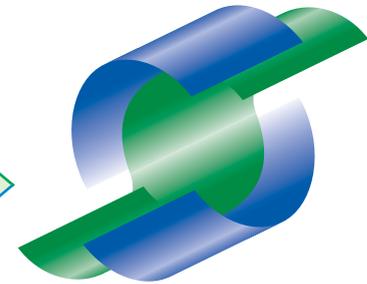
SEGA and Sammy have decided to merge their businesses to create a formidable, truly comprehensive entertainment company. Operational integration will realize a mutually complementary structure for the companies because there are very few areas in which they currently compete with each other or in which their business partners overlap. Furthermore, the SEGA SAMMY Group will be able to generate new synergies and enhanced efficiency through the optimal allocation of such Group management resources as personnel, materials, capital, and information.

Also, the new holding company, SEGA SAMMY HOLDINGS INC., will be responsible for and seek to optimize overall Group management. To that end, the holding company's functions will include the formulation of plans, the management of operations, and the coordination of operational implementation by subsidiaries based on clarification of their authority and responsibilities.

At present, both Sammy and SEGA are reliant on comparatively narrow operational areas. Bringing together the complementary operations of Sammy and SEGA will create a more balanced business portfolio that will rapidly mitigate both companies' dependence on narrow operational areas. In other words, we are confident that we will be able to quickly construct a sustainable, well-balanced operating platform after the merger.



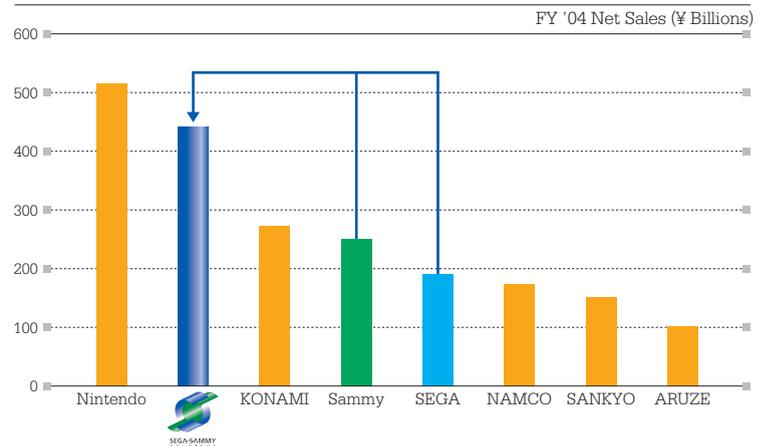
Creating a Truly Comprehensive Entertainment Company



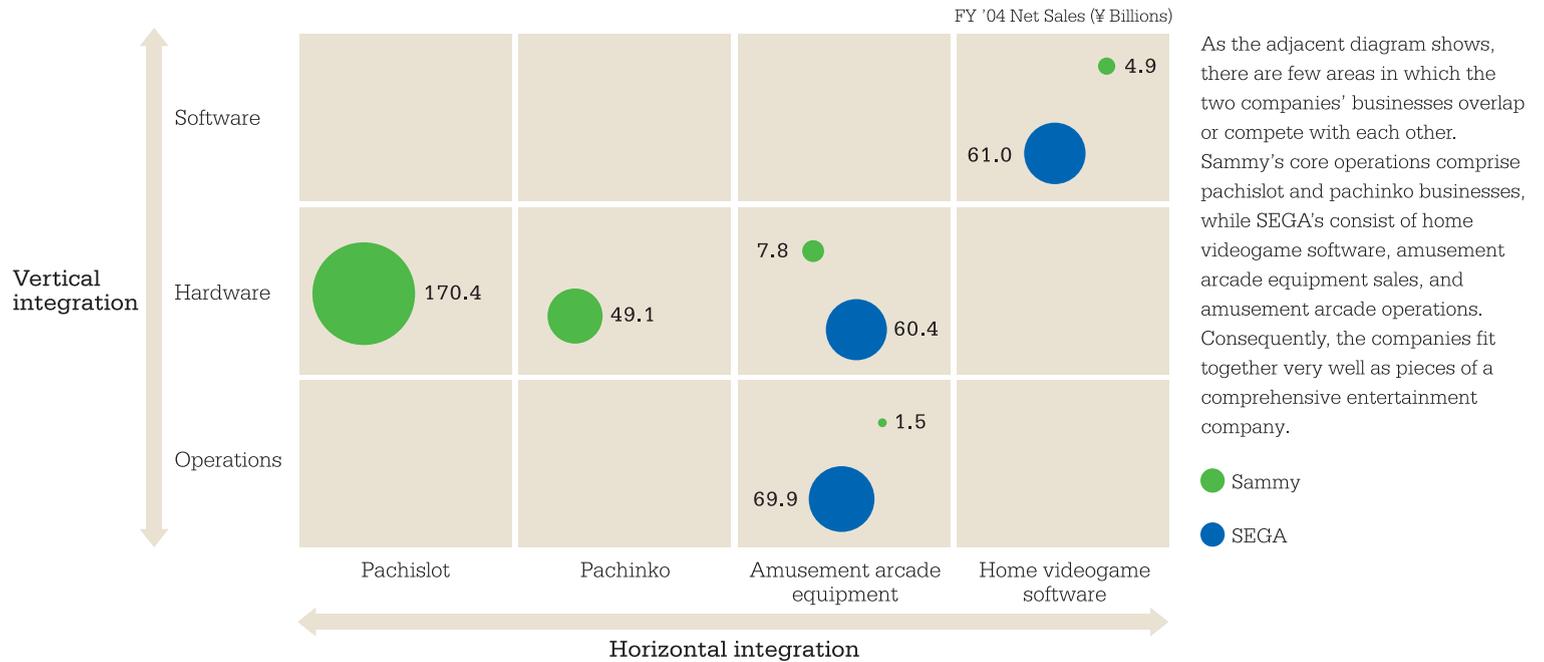
SEGA SAMMY  
H O L D I N G S



SEGA SAMMY HOLDINGS  
— Estimated Size of Consolidated Sales —

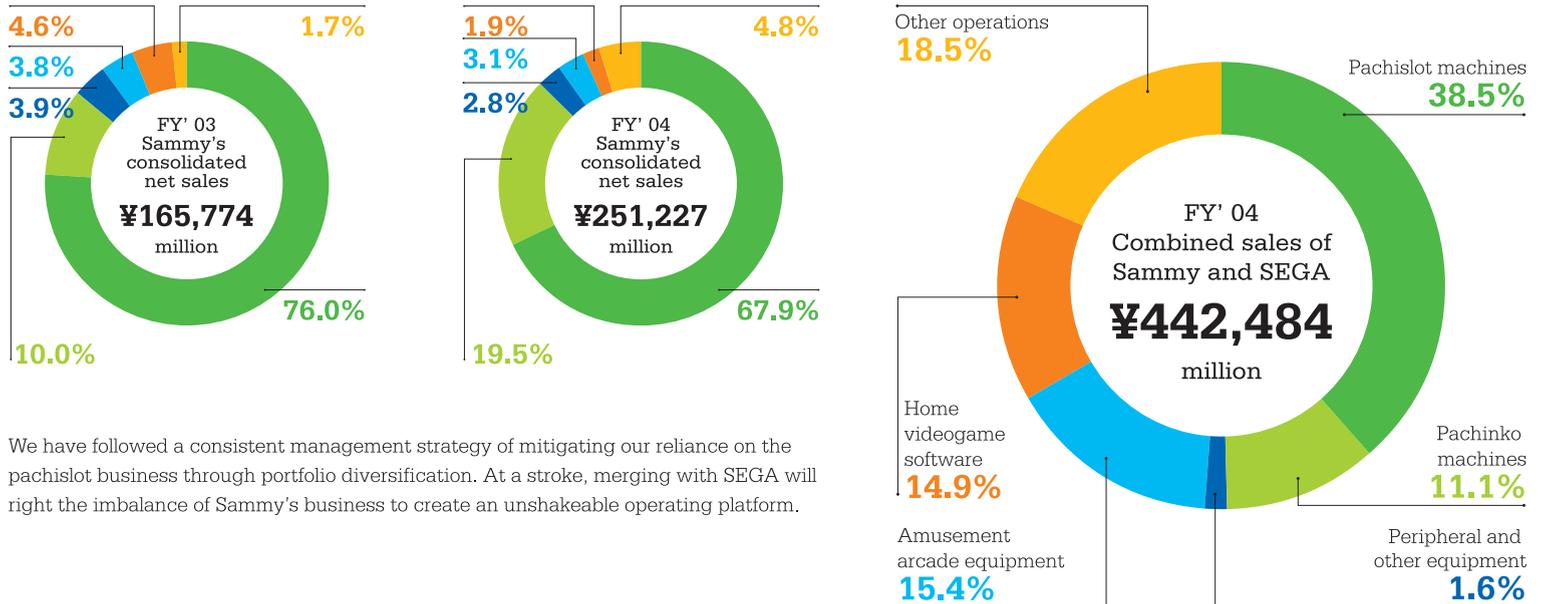


## Highly Complementary Operations



As the adjacent diagram shows, there are few areas in which the two companies' businesses overlap or compete with each other. Sammy's core operations comprise pachislot and pachinko businesses, while SEGA's consist of home videogame software, amusement arcade equipment sales, and amusement arcade operations. Consequently, the companies fit together very well as pieces of a comprehensive entertainment company.

## Solid Operating Platform Created by the Merger



We have followed a consistent management strategy of mitigating our reliance on the pachislot business through portfolio diversification. At a stroke, merging with SEGA will right the imbalance of Sammy's business to create an unshakeable operating platform.

## Operational Reorganization Plan

Having received approval from their respective annual meetings of shareholders held in June 2004 and from the relevant governmental agencies, Sammy and SEGA will merge their operations according to the adjacent plan.

### Step 1

#### Holding Company



The holding company, SEGA SAMMY HOLDINGS INC., will be established through a share-for-share exchange on October 1, 2004. Sammy and SEGA will become the wholly owned subsidiaries of that company.

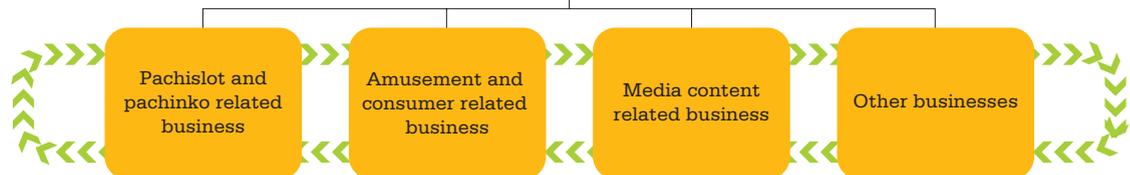
Respectively, 1 share of Sammy's common stock and 1 share of SEGA's common stock will be exchanged for 1 share and 0.28 of a share of the holding company's common stock.

Realignment by Operational Area to Effectively Exploit Each Company's Business Base

Birth of a Comprehensive Entertainment Company with a Solid Operating Platform

### Step 2

#### Holding Company



Effective use of management resources

Aiming to fully exploit management resources, plans call for the realignment of the holding company's subsidiaries according to business area by March 2007.

# > What's Next?

Pachislot and Pachinko Businesses



# What's Next?

## Where does Sammy plan to steer its pachislot and pachinko businesses?

Fiscal 2004 was another year of major successes for Sammy. Both our pachislot and pachinko businesses substantially heightened their market presence. In pachislot business, our latest hit product—the *Hokuto No Ken* pachislot machine—rewrote the pachislot machine industry's record books for unit sales. Meanwhile, we shipped our highest-ever volume of pachinko machines by drawing on our creativity and unmatched development capabilities to offer compelling products. However, Sammy has never been a company that rests on its laurels. Aiming to move up to a higher level, we are boldly taking on new challenges.

### Marketing Performance

#### Pachislot Business

##### —*Hokuto No Ken* pachislot machine scores the biggest hit in industry history—

With the July 2004 revisions to regulations for pachislot and pachinko machines in mind, we energetically marketed products that offer even higher levels of entertainment value and playing enjoyment. Among those new product lineups, the *Hokuto No Ken* pachislot machine posted outstanding sales. Following the machine's October 2003 launch, Sammy sold 259 thousand units, making *Hokuto No Ken* the best-selling machine in the pachislot machine industry's history. This new machine realizes high-quality playability through an optimal combination of LCD imaging, which faithfully recreates the

atmosphere of the very popular original *Hokuto No Ken* comic book, and a "Battle Bonus" function—the first time such a function has been included in a pachislot machine. And, we expect to continue shipping large volumes of *Hokuto No Ken* in fiscal 2005. Further, the market highly evaluated pachislot machines that incorporated functions new to the industry or were differentiated by our advanced technical capabilities—for example, *Gamera High Grade Vision*, which features *Doughnut Vision*, a 20-inch, doughnut-shaped LCD that is the largest in the pachislot machine industry.

#### Pachinko Business

##### —unique machines further strengthen Sammy's brand power—

In fiscal 2004, Sammy sold a record 82 thousand *CR MOJYUOH* series pachinko machines, which have been successfully differentiated by the Company's imaging technologies and incorporate the playing enjoyment of Sammy's hit pachislot machines *JYUOH* and *MOJYUOH*. Other unique, Sammy-branded machines also posted steady sales growth. Strong sellers included *CR Rikidozan*, which has overturned pachinko common sense by replacing the standard use of

numbers and graphic designs to show jackpots with an LCD showing the pro-wrestler *Rikidozan*; if *Rikidozan* wins, the player receives the jackpot.

As a result of these successes, sales in the pachislot and pachinko businesses were up a sharp 52.0% year on year, to ¥226.6 billion, while operating income rose 39.4%, to ¥84.6 billion.

### Sales of Major Pachislot Machines

Model name	Brand name	Unit sales (thousands)
<i>Hokuto No Ken</i>	Sammy	259
<i>King Camel</i>	Sammy	42
<i>Slotter Kintaro RX</i>	RODEO	52
<i>Gamera High Grade Vision</i>	RODEO	30
<i>Mach GoGoGo</i>	OEM	44
Other		164
Total		591

### Sales of Major Pachinko Machines

Model name	Unit sales (thousands)
<i>CR MOJYUOH</i> series	82
<i>CR Rikidozan</i> series	39
<i>CR City Hunter</i> series	36
<i>CR Sonic</i> series	27
Other	64
Total	248

## Next Move >

### Pachislot Business

—the whole Company will grow market share by making a concerted effort to respond to regulatory revisions—

#### OUTLOOK

In July 2004, regulations were amended to restrict some of the gambling elements of pachislot machines and to prevent the improper use of machines. As a result, playability and entertainment value are becoming viewed as increasingly important elements of product differentiation. We therefore expect manufacturers to market a stream of machines highlighting those areas. Among manufacturers, this change in the market environment will divide winners

and losers more clearly than ever before. Those companies that have focused efforts on developing products with advanced playability and entertainment value will have a considerable technological advantage over those that have not. Manufacturers with sophisticated R&D capabilities will be able to market more new models and sell more machines. Some people are of the opinion that the regulatory revisions could adversely affect the popularity of pachislot machines, leading to a falloff in demand from pachinko halls and players. However, the success of *Hokuto No Ken* clearly shows that it is possible to both change playing styles and win new fans by enhancing playing enjoyment and entertainment value. In fact, the recent changes in the law could very well trigger market expansion.

#### STRATEGIES

The historic, runaway success of *Hokuto No Ken* testifies to the advantage that Sammy's technological prowess gives the Company by enabling the creation of products with advanced entertainment value and playability. The Sammy Group will likely extend that competitive lead given its unique strengths.

We have a development culture that acts as a seedbed

for new technologies by encouraging personnel to fearlessly take on new challenges. Moreover, our NEWS business enables the highly synergetic use of our abundant management resources. We therefore believe that, in the wake of regulatory changes, we can leverage our advantages to bring even more popular products to market.

Before the regulatory revisions, Sammy had already begun taking steps targeting the post-amendment market environment. One example of those initiatives is our 3“D” project. Founded on 3 “D” keywords, that project aims to develop products that inspire surprise and excitement. The first “D” stands for *Dream Reel*, which was incorporated in the *King Camel* pachislot machine released in August 2003.

Before we launched that product, the evolution of pachislot machines had focused on such developments as the inclusion of jackpot advance notice functions and LCDs. Everybody took for granted the way pachislot machines were played, with the player halting reels rotating in one direction by hitting stop buttons. However, Sammy took on the challenge of overturning that preconception by creating *Dream Reel*. We dropped a bombshell on the market by

#### Hokuto No Ken's New “Battle Bonus” Function

The new game-play excitement offered by the *Hokuto No Ken* pachislot machine has quickly made it a runaway success among pachislot fans around Japan. As well as an LCD that enables high-fidelity reproduction of the *Hokuto No Ken* comic's characters, this latest game has spliced a “Battle Bonus” function onto the comic's original scenario.



©Buronson • Tetsuo Hara

releasing a pachislot machine with a host of mold-breaking functions. After the initial reel spin finishes, machines incorporating *Dream Reel* feature additional all-reel spins or reverse-reel spins. It is no exaggeration to say that those innovations have opened up a whole array of new possibilities for pachislot machines.

The second “D” stands for *Doughnut Vision*, which we included in the RODEO-branded *Gamera High Grade Vision*. *Doughnut Vision*’s revolutionary

layout gives players an unprecedented sense of immediacy and excitement. A 20-inch, doughnut-shaped LCD, the largest in the pachislot machine industry, surrounds the pachislot machine’s reel window and completely covers the front of the machine.

As those two recent examples illustrate, when Sammy brings together its insatiable appetite for making new discoveries and its unsurpassed technological capabilities, the product development possibilities are truly limitless.

Sammy’s basic strategy in its pachislot business is to take the lead in the creation of new markets by tirelessly offering head-turning products. Our goal is to maintain and build on our dominant market share by initiating market paradigm shifts through the introduction of products based on fresh ideas and formidable technological skills.

So, what will the next “D” be?...

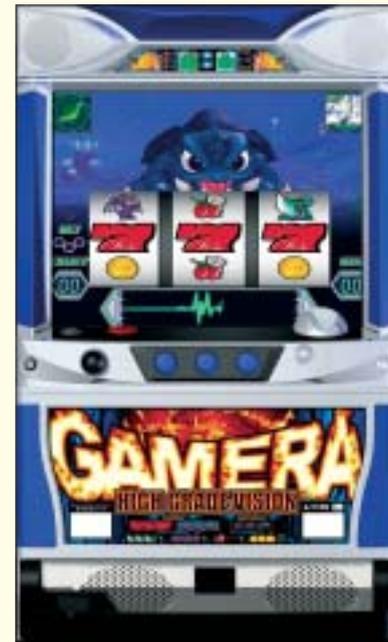
### *Doughnut Vision*

#### —the second “D” in Sammy’s 3“D” project—

Until recently, pachislot machines generally had LCDs that were between 7 and 10 inches wide and positioned above the reels. The *Doughnut Vision* of the RODEO brand’s *Gamera High Grade Vision* has raised the bar with a 20-inch LCD that encloses the reel window and entirely covers the front of the machine.



©KADOKAWA PICTURES, INC.  
©KADOKAWA PICTURES, INC. TNHN / 1999



## Pachinko Business

—sights set on becoming the leading manufacturer of pachinko machines—

### OUTLOOK

The recent revision of the law governing pachinko machines has eliminated the “Variant 1” “Variant 2” “Variant 3” classification system. By significantly easing restrictions on the development of pachinko machines, those new regulations will enable the creation of machines that combine the various characteristics of each class of machine. This change will enable the popularization of pachinko machines with completely new shapes and levels of playability. In other words, winning manufacturers will focus on making their products as captivating as possible, unshackled by established ideas about pachinko machines.

### STRATEGIES

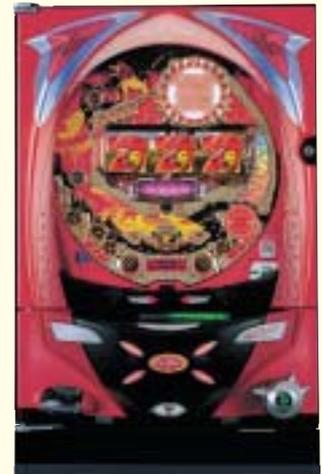
Traditionally, information in most pachinko machines has only flowed in one direction, with the player visually tracking information offered by the machine. Sammy upset this paradigm, long held to be carved in stone, by marketing *CR MOJYUOH*, which incorporates an interactive “selection” system that allows players to choose their favorite game types and animated characters. Further, *CR MOJYUOH* forged a direct link with our successes in the pachislot machine market.

Because its LCD accurately recreates the playing enjoyment of our major hit pachislot machines *JYUOH* and *MOJYUOH*, *CR MOJYUOH* earned the unreserved endorsement of players.

The numerical graphics and other symbols used by LCDs of “Variant 1,” “digital” pachinko machines to indicate jackpots used to be included as standard. Always looking to stir things up, Sammy took a bold new approach to that common function by introducing *CR Rikidozan*, which does away with

### CR MOJYUOH

*CR MOJYUOH* has introduced interactive game playing to pachinko machines by incorporating the functions from Sammy’s *MOJYUOH* pachislot machines that allow players to select their favorite game types and characters. This latest innovation is a typical example of how we exploit premium content and functions in different operational areas to generate powerful synergies among our businesses.



the standard jackpot interface. Instead, we introduced a new rule whereby the LCD shows a professional wrestling match between *Rikidozan* and a rival when a player has the chance of a jackpot. If *Rikidozan* wins the fight, the player collects the jackpot. Favorably evaluated by the market, this new function overturned conventional wisdom in the pachinko machine industry about the limits of pachinko machines.

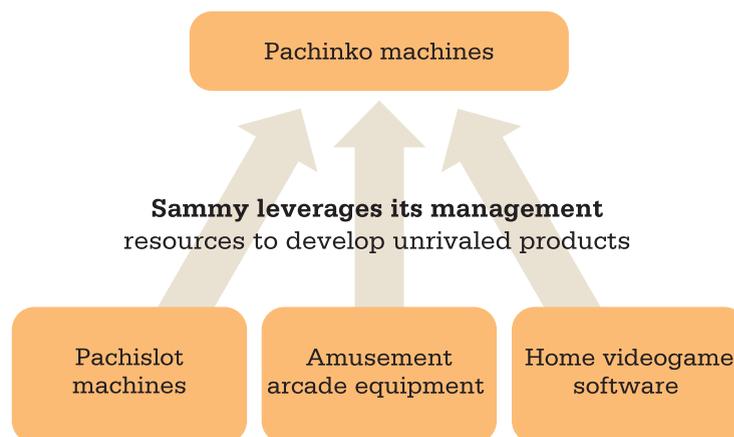
As those examples show, when it comes to devising

unconventional game machines, Sammy is a head and shoulders above the competition. And, the recent regulatory revisions have done nothing to dampen our enthusiasm for novelty.

To enhance our brand power in the pachinko machine market, we will fully leverage our core competence to develop and market products that are overflowing with new ideas and surprises.

Sammy's goal is nothing less than to become the leading manufacturer of pachinko machines.

## Sammy's Unsurpassed Pachinko Machine Development Capabilities



### Janky Brings a Wind of Change to Pachinko Halls

By capitalizing fully on its technological capabilities, Sammy is advancing the development of *Janky*. This highly interactive machine, which incorporates elements of mahjong, will offer pachislot and pachinko fans a new game option. At the same time, we are confident that this new machine will increase the diversity of customers that visit pachinko halls. At a pachinko machine industry exposition held in September 2003, our exhibit of the prototype *Janky* machine stole the show.



### CR Rikidozan

Sammy's irrepressible creativity habitually brushes aside established ideas. Until recently, the use of numbers and graphic designs to indicate jackpots was taken for granted. We have introduced a pachinko machine that dispenses with that standard system by incorporating an LCD showing legendary Japanese pro-wrestler *Rikidozan*; if *Rikidozan* knocks down his opponent, the player wins the jackpot. This brand new idea has earned the unreserved praise of both players and the pachinko machine industry.



©RIKI ENTERPRISE



A standard pachinko machine's jackpot interface



The *CR Rikidozan* pachinko machine's jackpot interface

# > What's Next?

NEWS Business



# What's Next?

## How is Sammy evolving the NEWS business?

Sammy has steadily cultivated its NEWS business as a long-term growth driver. Our planned management merger with SEGA on October 1, 2004, is a new turning point in the evolution of that business strategy. By merging, Sammy and SEGA will gain impetus for further growth. Together, we are ready to make a major stride toward establishing our position as a world-class, comprehensive entertainment company.

### Marketing Performance

#### Amusement Arcade Equipment

—full-fledged launch of *ATOMISWAVE* in markets worldwide—

In Japan, the amusement arcade equipment segment recorded brisk sales of mainstay products in fiscal 2004. Strong sellers included the *REVOLUTION II* series, which comprises pachislot and pachinko machines redesigned for amusement arcades, and *Kids'* series arcade game machines targeting children. Further, we released

*ATOMISWAVE* as a new arcade game machine platform and launched sales in Japan and overseas. In dedicated software, Sammy debuted *AW-NET*-compatible titles, such as *Guilty Gear Isuka*. *AW-NET* is a service that enables players to connect online with amusement arcades nationwide and to link arcade games to mobile content.

As a result of those initiatives, sales of amusement arcade equipment climbed 23.6%, to ¥7.8 billion. However, the segment recorded an operating loss of ¥1.7 billion due to increased R&D expenses, which were mainly related to the development of dedicated software for *ATOMISWAVE*.



ATOMISWAVE

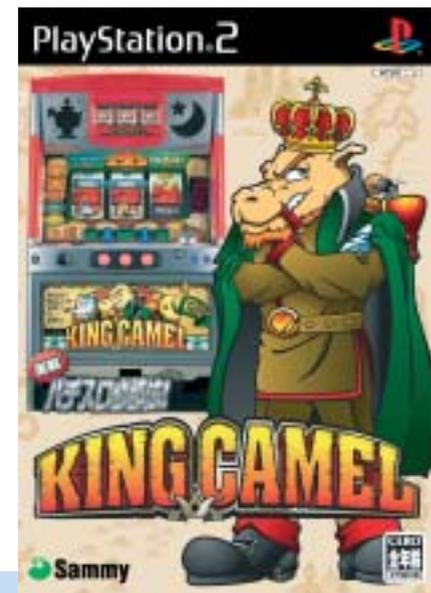
Graphics  
GUILTY GEAR ISUKA  
©ARC SYSTEM WORKS Co., Ltd.

#### Home Videogame Software

—Sammy takes on a new genre—

In the home videogame software business, we marketed three new titles in our highly popular *Jissen Pachislot Hisshoho!* series of pachislot simulation games—an area of software development in which we excel. Further, Sammy ventured into the action game software genre for the first time by launching *SPY FICTION*, *SEVEN SAMURAI 20XX*, and other titles in Japan, North America, and Europe.

Nevertheless, segment sales declined 36.7%, to ¥4.9 billion, due to a lackluster domestic market and to the effect of excluding a subsidiary from consolidation in fiscal 2004. In addition, the Company posted an operating loss of ¥5.0 billion, which was attributable to increased advertising costs and other expenses



*Jissen Pachislot Hisshoho!*  
*King Camel*

and to higher R&D expenses that were incurred mainly by overseas subsidiaries for the development of original software.

## Other Businesses —steady progress with our media-mix strategy—

Based on Sammy's original marketing concept, the Company sought to target customers and to reflect the particular characteristics of its existing commercial facilities' and three newly opened amusement facilities' locations. In content for mobile telephones, subscriber numbers and sales soared thanks to our further development of mobile telephone pachislot web sites, such as *Sammy 777 Town*, which feature media mixes that fully exploit synergies with our pachislot and pachinko businesses.

Other businesses segment sales rose a substantial 339.8% from the previous fiscal year, to ¥12.0 billion, due to contributions to consolidated results made by Nissho Inter Life Co., Ltd., and Japan Multimedia Services Corporation, which became consolidated subsidiaries in the fiscal year under review. However, the segment recorded an operating loss of ¥0.5 billion as a result of an increase in the amortization of goodwill.

## Next Move >

### —establishing medium-to-long-term growth drivers—

Sammy's basic reason for merging with SEGA is to enhance the efficiency of the amusement arcade equipment and home videogame software businesses currently under the auspices of the NEWS business. Our goal is to further expand operations by consolidating those segments around the world-famous SEGA brand.

Within the SEGA SAMMY Group, the importance of those businesses as medium-to-long-term growth drivers is likely to increase.

### Sammy's Media-Mix Strategy

To take full advantage of synergies among its businesses, Sammy pursues a media-mix strategy that encompasses pachislot machines, home videogame software, content for mobile telephones, and merchandising.



Pachislot machines



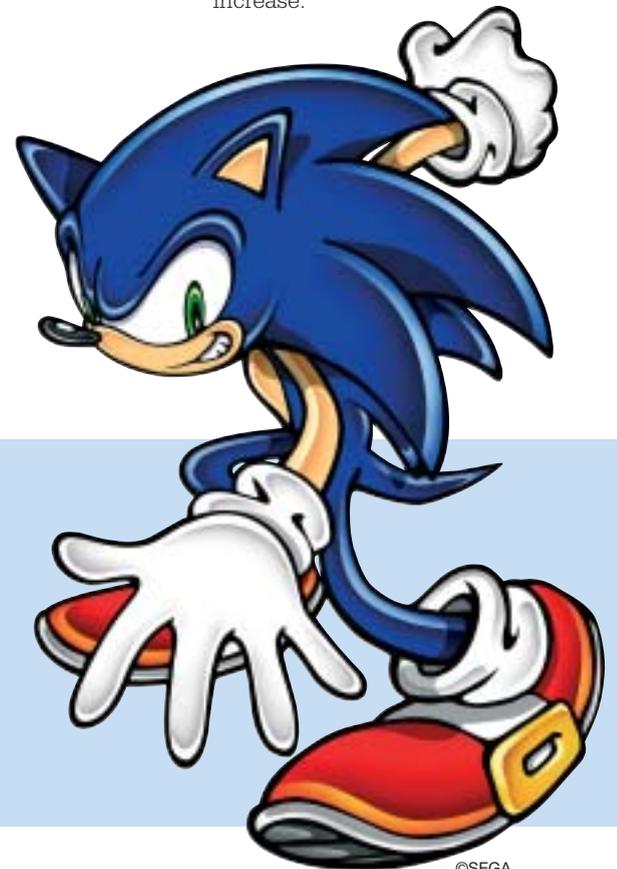
Content for mobile telephones  
©Sammy NetWorks



Home videogame software



Merchandising



©SEGA

# Sammy EBISU Plaza

## The Culmination of Collective Strength and Know-How

On July 2, 2004, in the Dotonbori district of Osaka we cut the tape on Sammy EBISU Plaza, a completely new type of comprehensive entertainment facility. Aiming to attract customers through synergies with other businesses, Sammy EBISU Plaza features an array of attractions in addition to a large-scale amusement facility. In one area, restaurants recreate the friendly, lively atmosphere of a typical commercial area in downtown Osaka. Tenants on other floors include a gym and a karaoke restaurant with private rooms. Sammy EBISU Plaza is an excellent example of how the Sammy Group is able to bring its accumulated expertise and collective strength to bear on realizing new initiatives.



### Sammy EBISU Plaza Floor Guide

	Business	Overview
<p>7F</p>	<p><b>Shopping mall theme park</b>  <i>Dotonbori Gokuraku Shotengai</i></p>	<p>This shopping mall theme park is packed with the attractions of Osaka's people and cuisine. These floors have roughly 50 shops and restaurants, including famous Osaka eating and drinking establishments run by warm, welcoming owners.</p>
<p>6F</p>		
<p>5F</p>		
<p>4F</p>	<p><b>Karaoke diner with private rooms</b>  <i>aria blu OSAKA</i></p>	<p>Each of the karaoke diner's rooms features a different interior.</p>
<p>3F</p>	<p><b>Training Gym</b>  <i>TOTAL Workout Ebisubashi</i></p>	<p>A gym that offers high-level facilities and instruction based on Kevin Yamazaki's original training philosophy.</p>
<p>2F</p>	<p><b>Large-scale amusement arcade</b>  <i>Sammy's Regno Dotonbori</i></p>	<p>A large, futuristic amusement arcade run by Sammy Amusement Service Co., Ltd.</p>
<p>1F</p>		

# Financial Section

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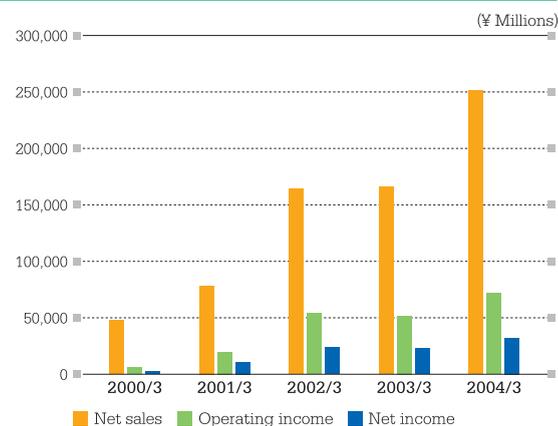
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## Growth Indicators

### NET SALES, OPERATING INCOME, AND NET INCOME

In fiscal 2004, Sammy posted its highest-ever net sales and income. Consolidated net sales climbed 51.5% year on year due to substantially increased sales in the pachislot and pachinko businesses and to the contributions of newly consolidated subsidiaries. Despite a rise in R&D expenses mainly in the NEWS business, operating income was up 38.6% from the previous fiscal year. Although the Company recorded equity in losses of affiliated companies, net income was up 39.6% compared with fiscal 2003.

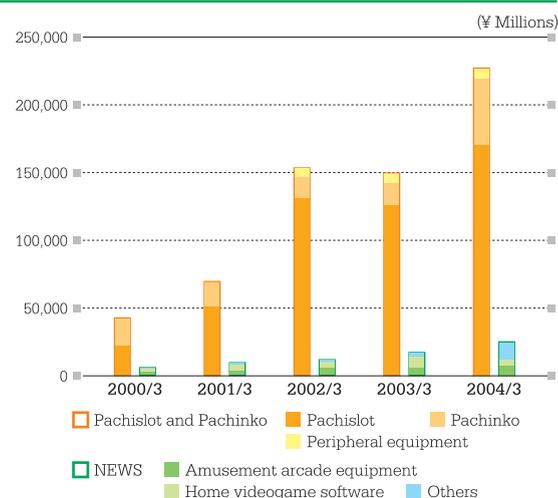
(¥ Millions)	2000/3	2001/3	2002/3	2003/3	2004/3
Net sales	47,805	78,276	164,294	165,774	251,227
Operating income	6,128	19,798	54,022	51,710	71,677
Net income	2,498	10,748	23,906	23,066	32,196



### SEGMENT SALES

Driven by highly original products, our pachislot business saw a 35.2% year-on-year rise in sales, while pachinko business sales were up an impressive 194.7% from the previous fiscal year. And, amusement arcade equipment achieved a 23.6% increase in sales from fiscal 2003 thanks to continued brisk sales of all types of game machines for amusement arcades. Meanwhile, home videogame software sales decreased 36.7% year on year as a result of liquidating a consolidated subsidiary and a slumping domestic market.

(¥ Millions)	2000/3	2001/3	2002/3	2003/3	2004/3
Pachislot and Pachinko					
Pachislot	23,010	51,780	131,110	126,031	170,442
Pachinko	19,227	17,324	15,859	16,646	49,060
Peripheral equipment	–	–	5,912	6,407	7,123
NEWS					
Amusement arcade equipment	3,222	4,209	5,948	6,292	7,780
Home videogame software	1,981	3,950	4,362	7,679	4,864
Others	364	1,011	1,103	2,719	11,958

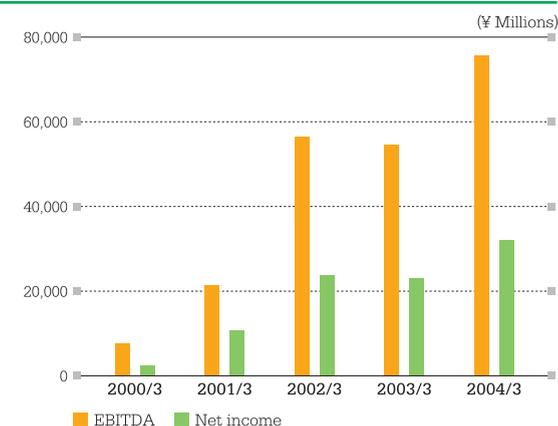


### EBITDA AND NET INCOME

Sammy recorded increases of 38.7% for EBITDA and 39.6% for net income that were attributable to significant sales growth, which absorbed higher SG&A expenses, such as R&D expenses, and higher sales costs, such as sales commissions.

(¥ Millions)	2000/3	2001/3	2002/3	2003/3	2004/3
EBITDA*	7,582	21,349	56,538	54,661	75,802
Net income	2,498	10,748	23,906	23,066	32,196

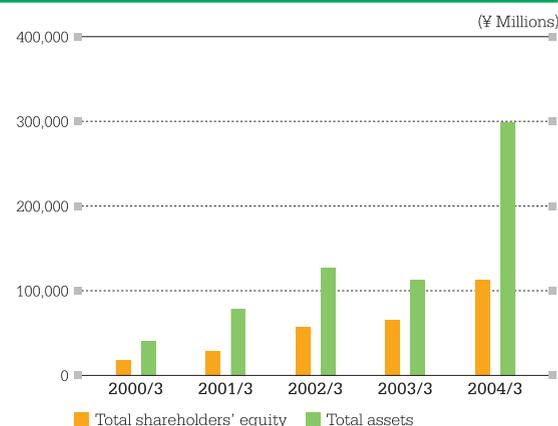
\* EBITDA = Operating income + Other income + Depreciation



## SHAREHOLDERS' EQUITY AND TOTAL ASSETS

Shareholders' equity rose 72.7% compared with the previous fiscal year-end as a result of a substantial increase in retained earnings and higher net unrealized holding gains on securities. Sammy saw a 165.1% increase in total assets from the previous fiscal year-end, which stemmed from higher cash and cash equivalents at end of year, a temporary rise in trade receivables that accompanied a surge in pachislot machine sales toward the end of fiscal 2004, and an increase in investments in affiliated companies resulting from the acquisition of SEGA CORPORATION's shares.

(¥ Millions)	2000/3	2001/3	2002/3	2003/3	2004/3
Total shareholders' equity	18,570	29,122	57,371	65,429	112,987
Total assets	40,563	78,694	126,803	112,873	299,273

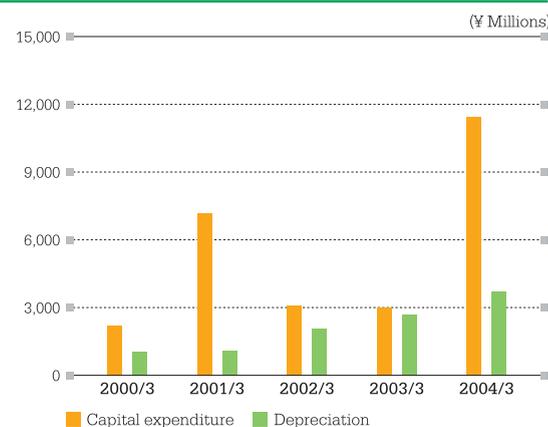


## CAPITAL EXPENDITURE AND DEPRECIATION

A 279.7% year-on-year increase in capital expenditure was mainly accounted for by the purchase of equipment used in R&D activities for pachislot and pachinko machines and by the development of a new amusement facility in the Dotonbori district of Osaka.

Further, depreciation grew 37.7% from fiscal 2003 due to depreciation primarily incurred as a consequence of enlarging the Kawagoe Factory.

(¥ Millions)	2000/3	2001/3	2002/3	2003/3	2004/3
Capital expenditure	2,198	7,160	3,093	3,013	11,440
Depreciation	1,040	1,103	2,068	2,698	3,716



## R&D EXPENSES

In fiscal 2004, Sammy focused development efforts on bolstering products in the NEWS business, such as amusement arcade equipment and home videogame software, and on pachislot and pachinko machines targeting the post-regulatory-revision market environment. As a result, R&D expenses rose 53.2% year on year.

(¥ Millions)	2000/3	2001/3	2002/3	2003/3	2004/3
R&D expenses	2,070	3,844	6,487	8,079	12,375



# Profitability Indicators

## GROSS PROFIT MARGIN

Pachislot machines are relatively high-margin products. A marked increase in pachinko machine sales compared with fiscal 2003 led to a decrease in the proportion of sales generated by pachislot machines, which therefore caused the gross profit margin to decline 5.4 percentage points.

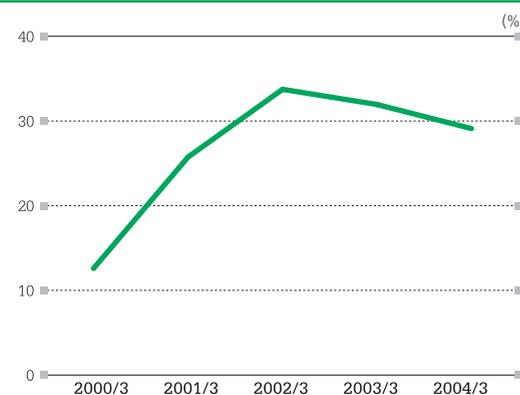
(%)	2000/3	2001/3	2002/3	2003/3	2004/3
Gross profit margin	45.7	57.7	58.7	56.1	50.7



## OPERATING INCOME MARGIN

Sammy achieved a 2.7-percentage-point reduction in SG&A expenses as a percentage of net sales compared with the previous fiscal year by curbing increases in such fixed costs as personnel expenses despite sales growth. However, because that improvement did not fully offset a 5.4-percentage-point rise in the cost of sales ratio, the operating income margin decreased 2.7 percentage points year on year.

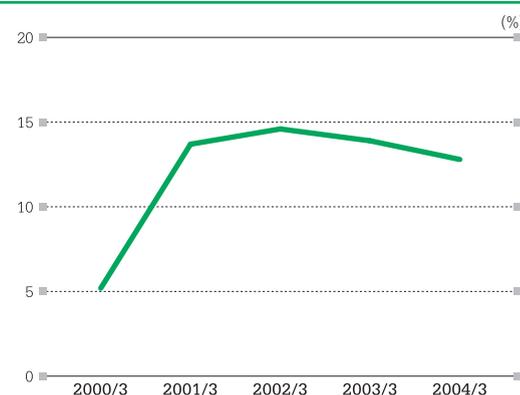
(%)	2000/3	2001/3	2002/3	2003/3	2004/3
Operating income margin	12.8	25.3	32.9	31.2	28.5



## NET INCOME MARGIN

The net income margin decreased 1.1 percentage points due to the decline in the operating income margin and to the recording as net other expenses of equity in losses of affiliated companies that was associated with the acquisition of SEGA CORPORATION's shares.

(%)	2000/3	2001/3	2002/3	2003/3	2004/3
Net income margin	5.2	13.7	14.6	13.9	12.8

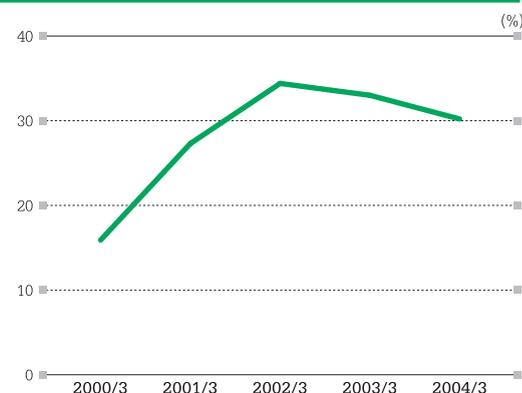


## EBITDA MARGIN

Although net sales were 51.5% higher than in fiscal 2003, the rise in operating income was held to 38.6% due to an increase in the cost of sales ratio. Consequently, the EBITDA margin was down 2.8 percentage points from the previous fiscal year.

(%)	2000/3	2001/3	2002/3	2003/3	2004/3
EBITDA margin*	15.9	27.3	34.4	33.0	30.2

\* EBITDA margin = (Operating income + Other income + Depreciation) / Net sales



## RETURN ON ASSETS (ROA)

While Sammy posted a 33.9% increase in ordinary income, average total assets during fiscal 2004 were 72.0% higher than in fiscal 2003 due to a 165.1% rise in total assets from the previous fiscal year-end. As a result, ROA declined 9.4 percentage points year on year. The increase in total assets at fiscal year-end was mainly attributable to a temporary increase in trade payables that accompanied a large rise in sales toward the end of fiscal 2004 and to the issuance of convertible bonds.

(%)	2000/3	2001/3	2002/3	2003/3	2004/3
ROA*	18.2	33.1	52.3	42.6	33.2

\* ROA = Ordinary income / Total assets

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



## RETURN ON EQUITY (ROE)

Despite a 39.6% year-on-year rise in net income, ROE decreased 1.5 percentage points from fiscal 2003 because average shareholders' equity during the fiscal year under review climbed 45.3%, which was related to a 72.7% rise in shareholders' equity compared with the previous fiscal year-end. The increase in shareholders' equity at the end of fiscal 2004 was primarily associated with higher retained earnings and net unrealized holding gains on securities.

(%)	2000/3	2001/3	2002/3	2003/3	2004/3
ROE*	18.8	45.1	55.3	37.6	36.1

\* ROE = Net income / Total shareholders' equity

\* Total shareholders' equity refers to the average figure for the whole year.

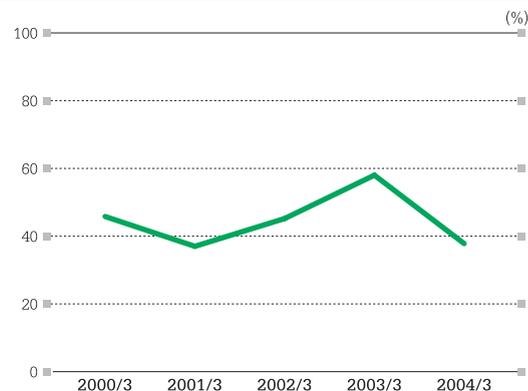


## Stability Indicators

### SHAREHOLDERS' EQUITY RATIO

While shareholders' equity rose 72.7% as a result of the issuance of new shares and higher retained earnings, Sammy accounted for a sharp 165.1% increase in total liabilities and shareholders' equity at fiscal year-end that mostly stemmed from the issuance of convertible bonds and increased trade payables. The shareholders' equity ratio therefore decreased 20.2 percentage points from the previous fiscal year-end.

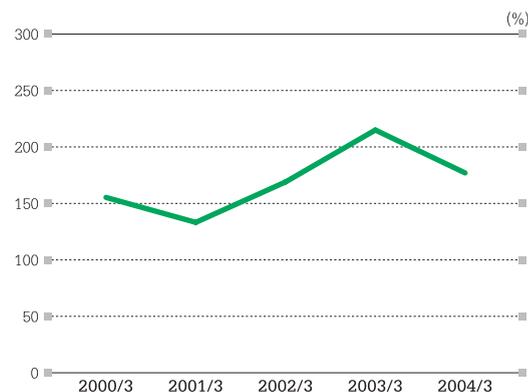
(%)	2000/3	2001/3	2002/3	2003/3	2004/3
Shareholders' equity ratio	45.8	37.0	45.2	58.0	37.8



### CURRENT RATIO

The Company accounted for a 136.2% rise in current assets, which resulted from the significant increase in trade receivables that accompanied sales growth. However, that increase in current assets was insufficient to offset a 187.0% increase in current liabilities, which was attributable to higher trade payables. Consequently, the current ratio was down 38.0 percentage points from the end of fiscal 2003.

(%)	2000/3	2001/3	2002/3	2003/3	2004/3
Current ratio	155.3	133.2	169.0	215.0	177.0

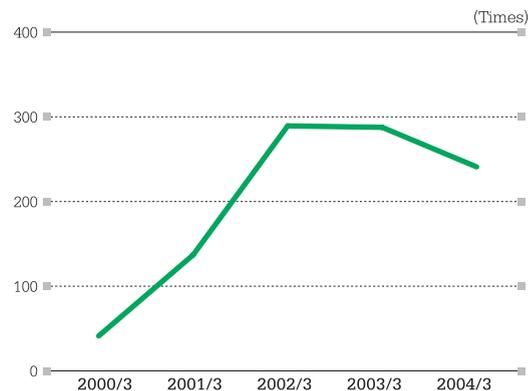


### INTEREST COVERAGE RATIO

Despite a 38.6% year-on-year increase in operating income, a rise in interest expense due to higher interest-bearing liabilities led to a 46.7-point decline in the interest coverage ratio.

(Times)	2000/3	2001/3	2002/3	2003/3	2004/3
Interest coverage ratio*	41.2	137.0	289.3	287.6	240.9

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

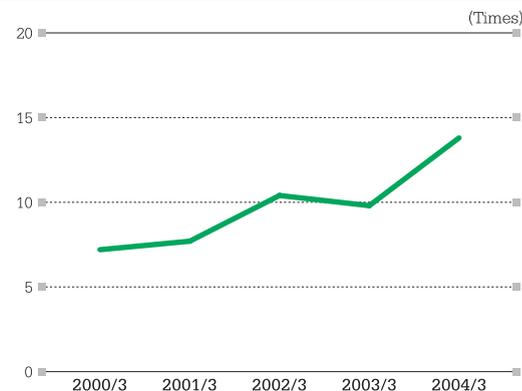


## INVENTORY TURNOVER RATE

Despite a 51.5% rise in net sales, Sammy was able to hold down the year-on-year increase in inventories to 7.7% during fiscal 2004. Thanks to those efforts, the inventory turnover rate improved 4.0 points compared with fiscal 2003.

(Times)	2000/3	2001/3	2002/3	2003/3	2004/3
Inventory turnover rate	7.2	7.7	10.4	9.8	13.8

\* Inventories refer to the average figure for the whole year.

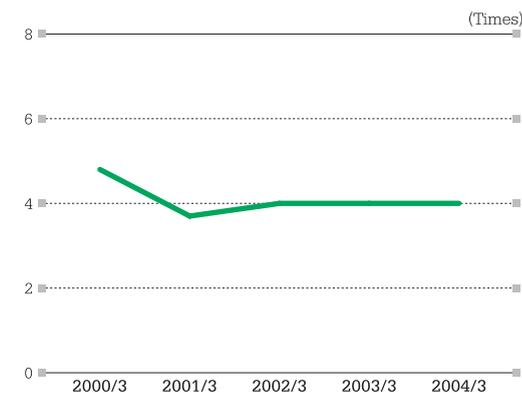


## TRADE RECEIVABLES TURNOVER RATE

During fiscal 2004, trade receivables were up 48.1% as a result of a surge in sales of pachislot machines toward the end of the fiscal year. However, because higher net sales counteracted that increase, the trade receivables turnover rate remained the same as in fiscal 2003, at 4.0 times.

(Times)	2000/3	2001/3	2002/3	2003/3	2004/3
Trade receivables turnover rate	4.8	3.7	4.0	4.0	4.0

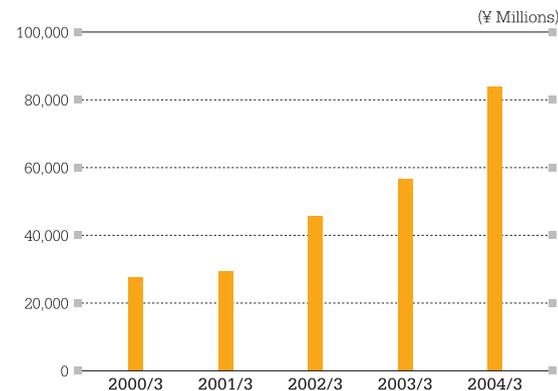
\* Trade receivables refer to the average figure for the whole year.



## BREAK-EVEN POINT

The break-even point was up 48.0% year on year, which was due to increased R&D expenses aimed at further growth and to higher sales commissions stemming from expanded sales of pachislot and pachinko machines.

(¥ Millions)	2000/3	2001/3	2002/3	2003/3	2004/3
Break-even point	27,776	29,325	45,665	56,675	83,861



# Financial Review

## Scope of Consolidation and Equity-Method Application

The accompanying consolidated financial statements are for Sammy Corporation and its 21 consolidated subsidiaries. Further, the Company has 2 equity-method affiliates.

In fiscal 2004, ended March 31, 2004, the Company newly consolidated the following 5 companies as subsidiaries: APANDA Inc. in July 2003; Sammy Golf Entertainment Inc. (formerly, The North Country Golf Club) in October 2003; Nissho Inter Life Co., Ltd., in November 2003; and Japan Multimedia Services Corporation and its subsidiary eAddress Corporation in December 2003. Meanwhile, on March 31, 2004, Sammy liquidated Quat Technology Inc., absorbing it into the Company's R&D Control Office. As a result, in fiscal 2004 that former subsidiary was excluded from the scope of consolidation.

Further, SEGA CORPORATION became a new equity-method affiliate in fiscal 2004.

## Operating Results

### Net Sales

In fiscal 2004, Sammy posted record-breaking consolidated net sales—up 51.5%, to ¥251.2 billion. This favorable performance was attributable to such factors as the outstanding performances of its pachislot and pachinko businesses and the contribution made by newly consolidated subsidiary Nissho Inter Life Co., Ltd., from December 2003.

### Cost and Expenses and Operating Income

Cost of sales increased 70.0%, to ¥123.7 billion, due to higher sales of pachislot machines, pachinko machines, and amusement arcade equipment and

other factors. Cost of sales as a percentage of net sales rose 5.4 percentage points, to 49.3%, because pachislot machines, which have a low cost of sales ratio, accounted for a smaller portion of net sales. Gross profit rose 37.1%, to ¥127.5 billion.

SG&A expenses rose 35.3%, to ¥55.8 billion, which mainly stemmed from increased R&D expenses that primarily focused on strengthening the R&D capabilities of the NEWS business and from higher sales commissions associated with the rise in sales of pachislot and pachinko machines. On the other hand, successful efforts to curb increases in personnel expenses despite sales expansion led to a 2.7-percentage-point improvement in the ratio of SG&A expenses to net sales, to 22.2%.

As a result of the abovementioned factors, operating income climbed 38.6% year on year, to ¥71.7 billion. The operating income margin declined 2.7 percentage points, to 28.5%.

## Segment Performance

Pachislot and pachinko businesses achieved substantial sales and earnings growth, posting increases of 52.0% in sales, to ¥226.6 billion, and 39.4% in operating income, to ¥84.6 billion—both of which were all-time highs for Sammy. Those outstanding results were driven by brisk sales of *Hokuto No Ken*, which we unveiled in October 2003. In just six months following the October launch, Sammy shipped 259 thousand *Hokuto No Ken* pachislot machines, notching up the highest-ever unit sales in the pachislot machine industry's history. Dramatic advances in sales of Sammy's differentiated lineups of pachinko machines also contributed to the segment's strong performance.

In amusement arcade equipment, continued solid sales of such mainstay offerings as *REVOLUTION II* and *Kids'* series resulted in a 23.6% increase in sales, to ¥7.8 billion. However, the segment recorded an operating loss of ¥1.7 billion due to higher R&D expenses that were mainly concentrated on the development of dedicated software for *ATOMISWAVE*, which the Company launched in earnest in markets worldwide in fiscal 2004.

In home videogame software, the Sammy Group focused on its particular competence in pachislot simulation games by marketing such products as the *Jissen Pachislot Hisshoho!* series. At the same time, the Company embarked on its first foray into action game software, debuting products in Japan, North America, and Europe. Despite those efforts, sales declined 36.6%, to ¥4.9 billion, due to a slumping domestic market, the exclusion from consolidation of a subsidiary, and other factors. Also, the segment recorded an operating loss of ¥5.0 billion, which was related to higher R&D expenses and advertising costs.

The other businesses segment saw a 339.8% jump in sales, to ¥12.0 billion, which was attributable to a strong performance by amusement arcade operations, brisk sales of content for mobile telephones, and the new inclusion of Nissho Inter Life Co., Ltd., and Japan Multimedia Services Corporation as consolidated subsidiaries. However, an increase in the amortization of goodwill caused the segment to post an operating loss of ¥0.5 billion.

### Net Other Expenses

Net other expenses decreased ¥1.4 billion from the previous fiscal year, to ¥3.7 billion. While the Company recorded ¥1.8 billion in equity in losses of affiliated

companies that accompanied the acquisition of SEGA CORPORATION's shares and other acquisitions and bond-issuing expenses of ¥0.6 billion in March 2004, Sammy did not incur the kind of large expense that it posted in the previous fiscal year associated with the cost of restructuring for subsidiaries.

### Net Income

As a result of the abovementioned factors, income before income taxes and minority interests climbed 45.8%, to ¥67.9 billion, and net income was up 39.6%, to ¥32.2 billion.

The Company implemented a 3-for-2 stock split in the fiscal year under review, the record date for which was December 31, 2003. As a consequence, net income per share declined from ¥436.79 in fiscal 2003 to ¥424.68 in fiscal 2004, and diluted net income per share was down from ¥435.42 to ¥417.97. Meanwhile, Sammy maintained high levels of profitability despite a 1.5-percentage-point decrease in ROE, to 36.1%.

In fiscal 2004, cash dividends per share rose ¥20.00, to ¥90.00. However, allowing for the stock split, cash dividends per share effectively increased ¥45.00. Further, the dividend payout ratio improved from 14.9% to 16.6%.

### Financial Position and Liquidity

#### Assets, Liabilities, and Shareholders' Equity

Current assets grew 136.2%, to ¥200.1 billion, which was primarily due to higher cash and cash equivalents and to a temporary surge in trade receivables—up a substantial 213.4% from the previous fiscal year-end, to ¥94.1 billion—that mainly stemmed from brisk sales of *Hokuto No Ken* pachislot machines toward the end of the fiscal year.

Current liabilities were up 187.0%, to ¥113.0 billion. As with current assets, that rise was largely due to stepped-up shipments of *Hokuto No Ken*, which resulted in a 272.1% increase in trade payables compared with the previous year-end, to ¥55.9 billion.

As a result, the current ratio decreased from 215.0% to 177.0% at the end of fiscal 2004.

Property, plant and equipment rose 77.9% from the previous fiscal year-end, to ¥23.0 billion, due to increases in land and buildings that accompanied the development of such new entertainment facilities as Sammy EBISU Plaza in Osaka.

Investments and other assets grew 399.9%, to ¥76.2 billion, which was primarily related to a valuation gain of available-for-sale securities and an increase in investments in affiliated companies that resulted from the acquisition of SEGA CORPORATION's shares.

At fiscal year-end, interest-bearing liabilities were up 992.9% from the previous fiscal year-end, to ¥65.1 billion, due to a ¥40.0 billion issuance of convertible bonds.

Total shareholders' equity climbed 72.7% from the previous fiscal year-end, to ¥113.0 billion, mainly due to the issuance of new shares and higher retained earnings. Due to significantly increased assets resulting from a temporary rise in trade payables and the issuance of convertible bonds, the equity ratio declined 20.2 percentage points, to 37.8%.

As a consequence of the above factors, total assets stood at ¥299.3 billion at the end of the fiscal year under review, up 165.1% from the end of fiscal 2003.

### Cash Flows

Net cash provided by operating activities rose 15.6%, to ¥36.6 billion. This increase was principally attributable to the 45.8% increase in income before income taxes and minority interests, higher trade payables, and lower income taxes paid. However, these factors were partially offset by a temporary increase in accounts receivable accompanying significant sales growth.

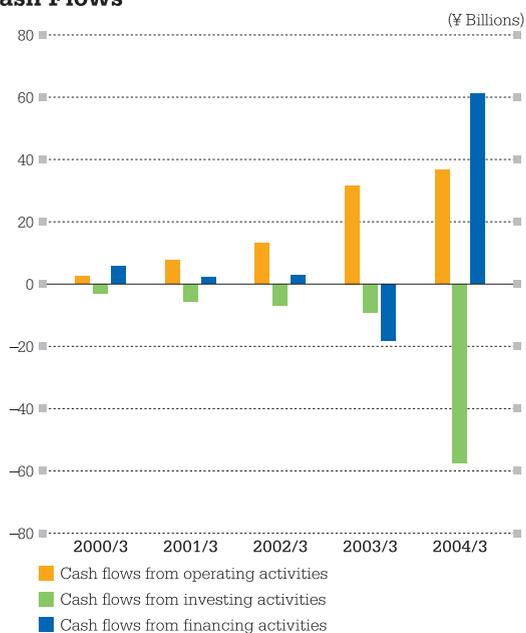
Net cash used in investing activities climbed 517.9%, to ¥57.4 billion, which was mainly due to

### Comparison of Consolidated Balance Sheets at Fiscal Year-End

(¥ Billions)	2003/3	2004/3	Main reasons for increase
Current assets	84.7	200.1	Increase in trade receivables due to brisk sales of <i>Hokuto No Ken</i> toward fiscal year-end
Property, plant and equipment	12.9	23.0	Including the large-format amusement arcade in Osaka's Dotonbori district
Investments and other assets	15.2	76.2	Acquisition of SEGA CORPORATION's shares and valuation gain of available-for-sale securities
Total assets	112.9	299.3	Increase in number of consolidated subsidiaries

(¥ Billions)	2003/3	2004/3	Main reasons for increase
Current liabilities	39.4	113.0	Increase in trade payables due to brisk sales of <i>Hokuto No Ken</i> toward fiscal year-end
Long-term liabilities	6.9	68.4	Issuance of ¥40 billion in convertible bonds
Minority interests	1.1	4.9	
Shareholders' equity	65.4	113.0	Issuance of new shares
Total liabilities and shareholders' equity	112.9	299.3	

## Cash Flows



expenses of ¥47.0 billion incurred for the acquisition of shares of SEGA CORPORATION and other affiliates and a 110.2% increase in payment for purchase of property, plant and equipment associated with the development of commercial facilities.

Net cash provided by financing activities totaled ¥61.1 billion, compared with net cash used in financing activities of ¥18.2 billion in the previous fiscal year. This change was primarily due to a substantial rise in proceeds from issuance of common stock, the recording of proceeds from issuance of debt securities, and a decrease in payment for purchase of treasury stock from fiscal 2003.

Consequently, cash and cash equivalents totaled ¥66.8 billion at the end of the fiscal year under review, up 151.6% from the end of fiscal 2003.

## Capital Expenditure and R&D Expenses

Capital expenditure rose a sharp 279.7% year on year, to ¥11.4 billion.

In pachislot and pachinko businesses, Sammy undertook capital expenditure of ¥2.7 billion, mainly to enhance the productivity of the Kawagoe Factory by significantly upgrading its production line.

Capital expenditure totaled ¥0.8 billion in the amusement arcade equipment business, ¥0.6 billion in the home videogame software business, and ¥6.6 billion in other businesses.

Capital expenditure in other businesses was related to the acquisition of buildings as part of a new initiative to develop commercial facilities.

Capital expenditure for the entire Sammy Group amounted to ¥0.6 billion.

R&D expenses totaled ¥12.4 billion, up 53.2% from the previous year. In pachislot and pachinko businesses, R&D expenses amounted to ¥5.8 billion, which were concentrated on screen displays, optical presentation displays, sound effects, new machine casings, and new display devices.

In the amusement arcade equipment business, we spent ¥2.5 billion on R&D, the main theme of which was dedicated software for *ATOMISWAVE*.

R&D expenses in the home videogame software business came to ¥4.0 billion, principally for the development of original software.

In other businesses, R&D expenses of ¥79 million were allocated to enhancing the quality and diversity of content for mobile telephones.

# Consolidated Balance Sheets

SAMMY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
AS OF MARCH 31, 2004 AND 2003

ASSETS	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Current assets:</b>			
Cash and cash equivalents	¥ 66,838	¥ 26,567	\$ 632,696
Time deposits (Note 4)	25	25	237
Trade receivables:			
Notes	39,032	14,540	369,481
Accounts	55,087	15,493	521,460
Allowance for doubtful accounts	(652)	(562)	(6,172)
Inventories (Note 3)	19,813	16,486	187,552
Deferred income taxes (Note 8)	10,021	3,814	94,860
Other current assets	9,918	8,342	93,884
<b>Total current assets</b>	<b>200,082</b>	<b>84,705</b>	<b>1,893,998</b>
<b>Property, plant and equipment:</b>			
Land (Note 4)	4,835	3,011	45,769
Buildings (Note 4)	8,450	5,857	79,989
Machinery and equipment	9,167	7,537	86,776
Rental equipment for amusement arcades	2,865	2,319	27,120
Construction in progress	5,831	60	55,197
Others	71	52	672
	31,219	18,836	295,523
Accumulated depreciation	(8,220)	(5,909)	(77,812)
	22,999	12,927	217,711
<b>Investments and other assets:</b>			
Investments in affiliated companies	44,077	26	417,238
Investment securities (Notes 9 and 10)	20,421	3,027	193,307
Software	1,279	1,434	12,107
Goodwill	1,385	2,116	13,111
Lease deposits	1,421	1,888	13,451
Deferred income taxes (Note 8)	215	1,982	2,035
Others	8,300	4,954	78,570
Allowance for doubtful accounts	(906)	(186)	(8,576)
	76,192	15,241	721,243
<b>Total</b>	<b>¥299,273</b>	<b>¥112,873</b>	<b>\$2,832,952</b>

See accompanying notes.

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Current liabilities:</b>			
Short-term bank loans and current portion of long-term debt (Note 4)	¥ 6,542	¥ 3,582	\$ 61,927
Trade payables:			
Notes	33,342	11,235	315,619
Accounts	22,543	3,785	213,395
Accounts payable—other	11,302	2,375	106,986
Income taxes payable (Note 8)	30,691	13,832	290,524
Accrued employees' bonuses	1,404	1,153	13,290
Other current liabilities	7,218	3,429	68,327
<b>Total current liabilities</b>	<b>113,042</b>	<b>39,391</b>	<b>1,070,068</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 4)	58,510	2,370	553,862
Retirement benefits for employees (Note 5)	1,132	779	10,716
Retirement benefits for directors and corporate auditors	989	775	9,362
Deferred income taxes	3,892	—	36,842
Other non-current liabilities	3,838	3,015	36,331
<b>Total long-term liabilities</b>	<b>68,361</b>	<b>6,939</b>	<b>647,113</b>
<b>Minority interests</b>	<b>4,883</b>	<b>1,114</b>	<b>46,223</b>
<b>Contingent liabilities</b> (Note 6)			
<b>Shareholders' equity</b> (Note 7):			
Common stock			
Authorized—200,000,000 shares			
Issued—87,500,718 shares in 2004 and 53,521,400 shares in 2003	15,375	8,017	145,541
Capital surplus	16,364	9,012	154,903
Retained earnings	86,379	60,024	817,673
Net unrealized holding gains on securities	10,352	563	97,993
Foreign currency translation adjustments	32	19	304
<b>Treasury stock, at cost</b>	<b>128,502</b>	<b>77,635</b>	<b>1,216,414</b>
<b>Treasury stock, at cost</b>	<b>(15,515)</b>	<b>(12,206)</b>	<b>(146,866)</b>
<b>Total shareholders' equity</b>	<b>112,987</b>	<b>65,429</b>	<b>1,069,548</b>
<b>Total</b>	<b>¥299,273</b>	<b>¥112,873</b>	<b>\$2,832,952</b>

# Consolidated Statements of Income

SAMMY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
FOR THE YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Net sales</b>	¥251,227	¥165,774	\$2,378,143
<b>Cost of sales</b>	123,739	72,809	1,171,327
Gross profit	127,488	92,965	1,206,816
<b>Selling, general and administrative expenses (Note 11)</b>	55,811	41,255	528,314
Operating income	71,677	51,710	678,502
<b>Other income (expenses):</b>			
Interest and dividend income	236	104	2,234
Interest expense	(299)	(180)	(2,830)
Equity in earnings (losses) of affiliated companies	(1,836)	13	(17,380)
Bond-issuing expenses	(644)	(6)	(6,096)
Gains on sale of property, plant and equipment-net	5	24	47
Losses on disposal of property, plant and equipment	(238)	(149)	(2,253)
Gains (losses) on sales of investment securities	(123)	0	(1,164)
Cost of restructuring for subsidiaries	-	(3,753)	-
Cost of voluntary recall of products	-	(430)	-
Exchange losses	(229)	(47)	(2,168)
Other-net	(610)	(701)	(5,774)
	(3,738)	(5,125)	(35,384)
Income before income taxes and minority interests	67,939	46,585	643,118
<b>Income taxes (Note 8):</b>			
Current	42,370	25,625	401,079
Deferred	(6,990)	(2,444)	(66,168)
	35,380	23,181	334,911
Income before minority interests	32,559	23,404	308,207
<b>Minority interests</b>	363	338	3,436
Net income	¥ 32,196	¥ 23,066	\$ 304,771

	Yen		U.S. dollars (Note 1)
	2004	2003	2004
<b>Per share of common stock (Note 15):</b>			
Net income	¥424.68	¥436.79	\$4.02
Diluted net income	417.97	435.42	3.96
Cash dividends applicable to the year	90.00	70.00	0.85

See accompanying notes.

# Consolidated Statements of Shareholders' Equity

SAMMY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
FOR THE YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of yen						
	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2002</b>	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)	-
<b>Balance at March 31, 2003</b>	53,521,400	8,017	9,012	60,024	563	19	(12,206)
Net income	-	-	-	32,196	-	-	-
Cash dividends paid	-	-	-	(5,487)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(333)	-	-	-
Treasury stock	-	-	-	-	-	-	(3,350)
1.5 for 1 stock split on February 27, 2004	26,973,114	-	-	-	-	-	-
Decrease in treasury stock by execution of warrant (Stock option)	-	-	-	(21)	-	-	41
New shares issued by execution of warrant (Stock option)	7,006,204	7,358	7,352	-	-	-	-
Adjustments of net unrealized holding gains on securities	-	-	-	-	9,789	-	-
Adjustments of foreign currency translation adjustments	-	-	-	-	-	13	-
<b>Balance at March 31, 2004</b>	87,500,718	¥15,375	¥16,364	¥86,379	¥10,352	¥ 32	¥(15,515)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2003</b>	\$ 75,889	\$ 85,307	\$568,184	\$ 5,320	\$181	\$(115,543)
Net income	-	-	304,771	-	-	-
Cash dividends paid	-	-	(51,941)	-	-	-
Bonuses to directors and corporate auditors	-	-	(3,152)	-	-	-
Treasury stock	-	-	-	-	-	(31,711)
Decrease in treasury stock by execution of warrant (Stock option)	-	-	(189)	-	-	388
New shares issued by execution of warrant (Stock option)	69,652	69,596	-	-	-	-
Adjustments of net unrealized holding gains on securities	-	-	-	92,673	-	-
Adjustments of foreign currency translation adjustments	-	-	-	-	123	-
<b>Balance at March 31, 2004</b>	\$145,541	\$154,903	\$817,673	\$97,993	\$304	\$(146,866)

See accompanying notes.

# Consolidated Statements of Cash Flows

SAMMY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
FOR THE YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 67,939	¥ 46,585	\$ 643,118
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	4,436	3,571	41,992
Loss on disposal of property, plant and equipment	233	125	2,206
Equity in (earnings) losses of affiliates	1,836	(13)	17,380
Increase in accrued employees' bonuses	256	140	2,423
Increase in retirement benefits for employees	293	115	2,774
Increase in retirement benefits for directors and corporate auditors	77	115	729
Bond-issuing expenses	644	6	6,096
Others	(120)	103	(1,137)
Net changes in assets and liabilities:			
Changes in notes and accounts receivable	(58,305)	23,309	(551,922)
Changes in inventories	(1,618)	(714)	(15,316)
Changes in notes and accounts payable	36,623	(10,119)	346,677
Changes in other assets	(1,728)	1,972	(16,357)
Changes in other liabilities	11,550	(2,081)	109,334
Sub-total	62,116	63,114	587,997
Receipts of interest and dividend income	253	148	2,395
Payment of interest expenses	(263)	(198)	(2,490)
Payment of income taxes	(25,524)	(31,419)	(241,613)
Net cash provided by operating activities	36,582	31,645	346,289
<b>Cash flows from investing activities:</b>			
Payment for purchase of property, plant and equipment	(8,201)	(3,902)	(77,632)
Proceeds from sales of property, plant and equipment	236	569	2,234
Payment for purchase of intangible assets	(877)	(747)	(8,302)
Payment for purchase of investment securities	(46,989)	(3,536)	(444,803)
Changes in cash and cash equivalents due to acquisition of consolidated subsidiaries-net	313	(1,920)	2,963
Increase in loan receivable-net	903	61	8,548
Increase (decrease) in time deposits-net	(3,000)	21	(28,398)
Decrease in other investments-net	246	169	2,329
Net cash used in investing activities	(57,369)	(9,285)	(543,061)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of long-term debt	2,150	606	20,352
Repayment of long-term debt	(1,152)	(1,696)	(10,905)
Decrease in short-term bank loans	(921)	(2,377)	(8,718)
Proceeds from issuance of common stock	14,824	201	140,326
Proceeds from issuance of debt securities	54,456	-	515,487
Cash dividends paid	(5,487)	(2,671)	(51,941)
Payment for purchase of treasury stock	(3,467)	(12,536)	(32,819)
Others	725	271	6,863
Net cash provided by (used in) financing activities	61,128	(18,202)	578,645
<b>Translation adjustments on cash and cash equivalents</b>	(70)	(126)	(663)
<b>Net change in cash and cash equivalents</b>	40,271	4,032	381,210
<b>Cash and cash equivalents at beginning of year</b>	26,567	22,535	251,486
<b>Cash and cash equivalents at end of year</b>	¥ 66,838	¥ 26,567	\$ 632,696

See accompanying notes.

# Notes to Consolidated Financial Statements

SAMMY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
AS OF MARCH 31, 2004 AND 2003

## NOTE 1 – BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of SAMMY CORPORATION (the “Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders’ equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and

Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

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. In addition, certain reclassifications have been made in the 2003 financial statements to conform to the classification used in 2004.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.64 to U.S.\$1. The convenience translations 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 intercompany balances and transactions have been eliminated. All material unrealized profits included in assets resulting from transactions within the Company and all of its subsidiaries are eliminated.

### *(b) Equity method*

Investment in affiliated companies is accounted for using the equity method. The Company had investments in two and one affiliated companies in the years ended March 31, 2004 and 2003, 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 its consolidated 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 affiliated companies are consolidated or accounted for using the equity method.

The Company and its consolidated subsidiaries had no trading securities or held-to-maturity debt securities in the years ended March 31, 2004 and 2003.

***(f) Inventories***

Inventories are carried 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) Amortization***

Intangible assets are amortized using the straight-line method, and software used by the Company and its consolidated subsidiaries is amortized using the straight-line method over the estimated useful lives (five years).

***(i) Goodwill***

The Company classified the cost in excess of fair market value of the net assets of companies acquired in purchase transactions as goodwill, and the goodwill is being amortized on a straight-line method over a period of five years. The Company reviews the carrying amount of goodwill with finite lives for re-evaluation whenever events or circumstances indicate that the carrying amounts may not be recoverable. Insignificant amounts of such intangible assets are charged to income when incurred.

***(j) Impairment of fixed assets***

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting

Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Company will adopt the standard effective April 1, 2005.

The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adoption of the new standard, because the Company has not yet completed its analysis.

***(k) 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.

***(l) Allowance for employees' bonuses***

The Company and its consolidated subsidiaries provide allowance for employees' bonuses based on estimated amounts to be paid in the subsequent period.

Bonuses to directors and corporate auditors, which were subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

***(m) Retirement benefits for employees***

The Company and its consolidated subsidiaries 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 Company and its consolidated subsidiaries provide allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are charged to income in the succeeding period.

**(n) 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.

**(o) Income taxes**

Income taxes comprise corporation, enterprise and inhabitants taxes.

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

**(p) Derivative financial instruments**

Derivative financial instruments are stated at fair value and changes in their fair values 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 for hedging purposes 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.

**(q) Per share data**

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 stocks outstanding during the year. Income available to common stockholders is computed by deducting bonuses to directors and corporate auditors from net income. 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 stocks that would have been outstanding if the potential common stocks had been issued.

Net income per share for the year ended March 31, 2004 was computed based on the weighted-average number of common stocks outstanding during the period, retroactively adjusted for the stock split made on February 27, 2004.

Cash dividends per share in the consolidated statements of income represent actual amounts applicable to the year.

**(r) Foreign currency transactions**

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

**NOTE 3 –  
INVENTORIES**

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Merchandise	¥ 719	¥ 533	\$ 6,806
Finished products	2,288	1,211	21,658
Raw materials	14,914	14,290	141,178
Work in process	1,466	281	13,877
Supplies	426	171	4,033
	¥19,813	¥16,486	\$187,552

**NOTE 4 –  
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 0.82% to 2.46% and from 0.84% to 2.69% for the years ended March 31, 2004 and 2003.

Long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Bonds:</b>			
0.28% unsecured bonds due in 2006	¥ 200	¥ 200	\$ 1,893
0.40% unsecured bonds due in 2007	100	–	947
0.41% unsecured bonds due in 2007	275	–	2,603
0.61% unsecured bonds due in 2008	5,000	–	47,331
Zero coupon convertible bonds due in 2009	40,000	–	378,644
0.41% unsecured bonds due in 2010	10,000	–	94,661
<b>Long-term loans, principally from banks with interest principally at 0.989% to 5.800%:</b>			
Secured	55	252	521
Unsecured	4,674	3,070	44,245
	60,304	3,522	570,845
<b>Less: current portion</b>	<b>(1,794)</b>	<b>(1,152)</b>	<b>(16,983)</b>
	<b>¥58,510</b>	<b>¥ 2,370</b>	<b>\$553,862</b>

On March 3, 2004, the Company issued ¥40,000 million (\$378,644 thousand) of Zero coupon convertible bonds (convertible bond-type bonds with stock acquisition rights) due 2009. The stock acquisition rights are exercisable on or after March 17, 2004 up to, and including, February 17, 2009 at a conversion price of ¥3,828 (\$36.24) per share.

The aggregate annual maturities of long-term debt at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
<b>Years ending March 31,</b>		
2005	¥ 1,794	\$ 16,982
2006	2,141	20,267
2007	925	8,756
2008	336	3,181
2009 and thereafter	55,108	521,659

A summary of assets pledged as collateral for short-term loans and long-term debt and accounts payable at March 31, 2004 is as follows:

	Millions of yen	Thousands of U.S. dollars
<b>Time deposits</b>	<b>¥ 20</b>	<b>\$ 189</b>
Land	1,139	10,782
Buildings	632	5,983
	<b>¥1,791</b>	<b>\$16,954</b>

**NOTE 5 –  
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, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥1,448	¥1,173	\$13,707
Unrecognized actuarial differences	(35)	(157)	(331)
Less fair value of pension assets	(281)	(237)	(2,660)
<b>Liability for severance and retirement benefits</b>	<b>¥1,132</b>	<b>¥ 779</b>	<b>\$10,716</b>

Included in the consolidated statements of income for the years ended March 31, 2004 and 2003, severance and retirement benefit expenses comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs – benefits earned during the year	¥273	¥213	\$2,584
Interest cost on projected benefit obligation	24	20	227
Expected return on plan assets	(1)	(1)	(9)
Amortization of actuarial difference	157	14	1,486
<b>Severance and retirement benefit expenses</b>	<b>¥453</b>	<b>¥246</b>	<b>\$4,288</b>

The discount rates used by the Company were 2.5% and 3% for the years ended March 31, 2004 and 2003, respectively. The rate of expected return on plan assets was 1% for the years ended March 31, 2004 and 2003.

## NOTE 6 – CONTINGENT LIABILITIES

The Company had no contingent liability at March 31, 2004 and 2003, respectively.

## NOTE 7 – SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code, 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.

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 reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal 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 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 the shareholders'

meeting. Legal reserve is included in retained earnings in the accompanying consolidated financial statements.

Year-end dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Japanese Commercial Code. 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 Japanese Commercial Code.

The accompanying consolidated financial statements do not include any provision for the dividends and directors' and corporate auditors' bonuses below, which were approved at the Company's general shareholders' meeting held on June 25, 2004 as an appropriation of retained earnings in respect of the year ended March 31, 2004.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥50.0 per share)	¥4,046	\$38,300
Director's and corporate auditors' bonuses	400	3,786

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and the Reversal of the Statutory

Reserves" issued by Accounting Standards Board of Japan, February 21, 2002). The effect on the consolidated statements of income of adopting the new standard was immaterial.

## NOTE 8 – 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 42.0% for the years ended March 31, 2004 and 2003.

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, 2004 and 2003:

	2004	2003
Statutory tax rate	42.0%	42.0%
Permanent differences such as entertainment expense	0.3	0.5
Tax on undistributed earnings of family corporation	6.0	4.1
Per capita inhabitant tax	0.1	0.2
Others	3.7	3.0
Effective tax rate	52.1%	49.8%

Significant components of the Company's deferred tax assets as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
(Current assets)			
Tax loss carry forward of subsidiaries	¥ 5,271	¥ 3,417	\$ 49,896
Accrued enterprise tax	2,389	1,089	22,615
Accrued bonus	564	413	5,339
R&D	3,538	2,040	33,491
Loss of revaluation of inventories	1,719	–	16,272
Accounts payable	1,512	–	14,313
Others	454	272	4,297
Sub-total	15,447	7,231	146,223
(Non-current assets)			
Expensed tangible assets not deductible for tax purpose	526	714	4,979
Retirement benefits for employees	412	249	3,900
Retirement benefits for directors and corporate auditors	408	315	3,862
Loss on devaluation of investments	446	218	4,222
Depreciation expense	1,542	490	14,597
Allowance for doubtful accounts	204	–	1,931
Unrealized transactions eliminated in consolidation	–	194	–
Others	274	190	2,594
Sub-total	3,812	2,370	36,085
Total deferred tax assets	19,259	9,601	182,308
Valuation allowance	(5,994)	(3,417)	(56,740)
Net deferred tax assets	13,265	6,184	125,568
Deferred tax liabilities:			
Net unrealized holding gains or losses on securities	(6,921)	(388)	(65,515)
Recorded deferred tax assets	¥ 6,344	¥ 5,796	\$ 60,053

The aggregate statutory income tax rate is 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 as of March 31, 2003 decreased by ¥72 million (\$682 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 9 – 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, 2004 and 2003 were as follows:

As of March 31, 2004

	Millions of yen		
	Acquisition cost	Balance sheet amount	Valuation gains (losses)
Securities whose market value exceeds the balance sheet amount:			
Stocks	¥955	¥18,597	¥17,642
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	¥579	¥459	¥(120)

	Thousands of U.S. dollars		
	Acquisition cost	Balance sheet amount	Valuation gains (losses)
Securities whose market value exceeds the balance sheet amount:			
Stocks	\$9,040	\$176,041	\$167,001
Securities whose market value is equal to or lower than the balance sheet amount:			
Stocks	\$5,481	\$4,345	\$(1,136)

As of March 31, 2003

	Millions of yen		
	Acquisition cost	Balance sheet amount	Valuation gains (losses)
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)

## NOTE 10 – LOAN RECEIVABLE IN SECURITIES

Loan receivable in securities of ¥1,261 million (\$11,937 thousand) is included in investment securities as of March 31, 2004.

## NOTE 11 – RESEARCH AND DEVELOPMENT EXPENSES

Expenses relating to research and development activities have been charged to income as incurred and amounted to ¥12,375 million (\$117,143 thousand) and ¥8,079 million for the years ended March 31, 2004 and 2003, respectively.

**NOTE 12 –  
INFORMATION FOR  
CERTAIN LEASES**

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value for the years ended March 31, 2004 and 2003 with respect to

the finance leases accounted for in the same manner as operating leases is as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
March 31, 2004:			
Machinery and equipment	¥991	¥604	¥387
Software	236	127	109
March 31, 2003:			
Machinery and equipment	¥124	¥ 50	¥ 74

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
March 31, 2004:			
Machinery and equipment	\$9,381	\$5,718	\$3,663
Software	2,234	1,202	1,032

Future lease payments under the finance leases which were accounted for in the same manner as operating leases as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥214	¥28	\$2,026
Due after one year	282	45	2,669
	¥496	¥73	\$4,695

Lease payments under finance leases which were accounted for in the same manner as operating leases for the years ended March 31, 2004 and 2003 were ¥102 million (\$966 thousand) and ¥35 million, respectively.

**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, 2004 and 2003 was 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, 2004

	Millions of yen						
	Pachislot Pachinko	Amusement arcade equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales –							
(1) Outside customers	¥226,625	¥ 7,780	¥ 4,864	¥11,958	¥251,227	¥ –	¥251,227
(2) Inter-segment	71	3	322	65	461	(461)	–
Total	226,696	7,783	5,186	12,023	251,688	(461)	251,227
Cost and expenses	142,098	9,434	10,234	12,474	174,240	5,310	179,550
Operating income (loss)	¥ 84,598	¥ (1,651)	¥ (5,048)	¥ (451)	¥ 77,448	¥ (5,771)	¥ 71,677
Assets	¥144,370	¥56,695	¥ 5,869	¥30,937	¥237,871	¥61,402	¥299,273
Depreciation	1,960	626	214	654	3,454	262	3,716
Capital expenditure	2,710	844	609	6,639	10,802	638	11,440

	Thousands of U.S. dollars						
	Pachislot Pachinko	Amusement arcade equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales –							
(1) Outside customers	\$2,145,257	\$ 73,646	\$ 46,043	\$113,197	\$2,378,143	\$ –	\$2,378,143
(2) Inter-segment	673	29	3,048	614	4,364	(4,364)	–
Total	2,145,930	73,675	49,091	113,811	2,382,507	(4,364)	2,378,143
Cost and expenses	1,345,116	89,304	96,876	118,080	1,649,376	50,265	1,699,641
Operating income (loss)	\$ 800,814	\$ (15,629)	\$ (47,785)	\$ (4,269)	\$ 733,131	\$ (54,629)	\$ 678,502
Assets	\$1,366,622	\$536,681	\$ 55,557	\$292,853	\$2,251,713	\$581,239	\$2,832,952
Depreciation	18,554	5,926	2,026	6,190	32,696	2,480	35,176
Capital expenditure	25,653	7,989	5,765	62,846	102,253	6,039	108,292

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

(Note) 1. The Company has four segments based on its management control structure and nature of products and market.  
2. Main products and line of business by segment are as follows:

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 stores.
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. Planning and production of music-related software in cellular phone media.

(Note) 3. General corporate expenses of ¥5,771 million (\$54,629 thousand) in 2004 and ¥6,444 million in 2003, which mainly consisted of expenses incurred by the parent company's administrative department, were included in Corporate and elimination.  
4. Corporate assets of ¥61,402 million (\$581,239 thousand) in 2004 and ¥31,526 million in 2003, which mainly consisted of cash and cash equivalents, investment securities and corporate properties, were included in Corporate and elimination.

#### B. Geographical segment information

Geographical segment information was not presented because the sales and total assets of the Company and its consolidated domestic subsidiaries for the years ended March 31, 2004 and 2003 exceed 90% of consolidated net sales and total 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, 2004 and 2003 were less than 10% of consolidated net sales.

## NOTE 15 — PER SHARE DATA

Per share data are as follows:

	Yen		U.S. dollars
	2004	2003	2004
Per share data:			
Equity per share	¥1,390.74	¥1,298.90	\$13.16
Net income per share	424.68	436.79	4.02
Net income per share (diluted)	417.97	435.42	3.96

The Company conducted a 1.5-for-1 stock split on February 27, 2004. Per share data for the year ended March 31, 2003 would have been as follows if such stock split was executed at the beginning of the year ended March 31, 2003:

	2003
Equity per share	¥865.93
Net income per share	291.19
Net income per share (diluted)	290.28

## NOTE 16 — SUBSEQUENT EVENT

The Company and SEGA CORPORATION (the "Corporations") have resolved at the meetings of their respective Board of Directors on May 18, 2004 to establish SEGA SAMMY HOLDINGS INC. as a holding company through the share transfer and for the Corporations to be wholly-owned subsidiaries of the holding company, subject to approvals of the shareholders and relevant regulatory authorities, and, in connection

therewith, have entered into Share Transfer (Kyodo Kabushiki-Iten) Agreement (the "Agreement").

The shareholders of the Company approved the share transfer at the general shareholders' meeting held on June 25, 2004. The shareholders of SEGA CORPORATION also approved it at the general shareholders' meeting held on June 29, 2004.

### 1. Purpose of the share transfer

The Corporations have reached the Agreement for the purpose of maximizing corporate value by combining the management resources and maximizing synergistic benefits in order to further strengthen their position as a globally integrated entertainment company.

### 2. Outline of the share transfer

(1) The scheduled date of the share transfer and incorporation:

The holding company is to be incorporated on October 1, 2004 through the share transfer.

(2) Types and number of shares to be issued by the holding company:

Common stocks are to be issued upon incorporation of the holding company. The total number of shares of the holding company shall be the total of the sum of the total number of common stocks issued by the Company as of the day preceding the share transfer, and the number obtained by multiplying the total number of common stocks issued by SEGA

CORPORATION as of the day preceding the share transfer by 0.28; provided, however, that numbers less than one-hundredth (1/100) of one share of the holding company are to be disregarded.

(3) Allocation of the shares of the holding company to the shareholders of the Corporations:

(a) Shareholders of the Company

One share of the Company is to be exchanged for one share of the holding company.

(b) Shareholders of SEGA CORPORATION

One share of SEGA CORPORATION is to be exchanged for 0.28 shares of the holding company.

The Corporations have the unit system of shares and their one unit consists of 100 shares. The unit system is to be adopted in the holding company and one unit is to be comprised of 100 shares.

(4) Cash consideration upon the share transfer:

The holding company shall not distribute any cash consideration upon the share transfer.

### 3. Outline of SEGA SAMMY HOLDINGS INC.

Company Name	SEGA SAMMY HOLDINGS INC.
Capital Stock	¥10 billion
Capital Surplus (additional paid-in capital)	The sum of shareholders' equity of the Company and SEGA CORPORATION, net of the capital above.
Headquarters	Minato-ku, Tokyo

### 4. Outline of SEGA CORPORATION

Company Name	SEGA CORPORATION	
Representative	Hisao Oguchi, President and Representative Director	
Capital Stock	¥127,582 million	
Headquarters	2-12, Haneda 1-chome, Ohta-ku, Tokyo	
Description of Business	(a) Development, manufacturing and sale of amusement equipment (b) Operation of amusement arcades (c) Development, manufacturing and sale of consumer products	
Balance Sheet as of March 31, 2004	Total Assets:	¥151,078 million
	Total Liabilities:	¥61,039 million
	Shareholders' Equity:	¥90,038 million
Net Sales and Net Income for Year Ended March 31, 2004	Net Sales:	¥97,268 million
	Net Income:	¥9,655 million

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**NOTE 17 —  
LAWSUITS**

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

The Company believes that none of the cases being litigated constitute an infringement of any patent rights and is so insisting; however, such litigation process may adversely affect its operating results.

The right in question in case “b.” is the same as the one in case “a.” Japan Patent Office made a judgment that such patent right was invalid and the document of invalidation judgment was published as of December 25, 2002. Correspondingly, Aruze Corp. (“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.

In the case of “c.”, Japan Patent Office made a judgment that such patent right was invalid and the document of invalidation judgment was published as of November 17, 2003. Correspondingly, Aruze filed a claim with Tokyo High Court as of December 25, 2003, insisting that such judgment shall be revoked, and the case has currently been on trial.

The Company confirmed the delivery of a decision invalidating the utility model right dated June 5, 2003 in question in case “d.” from Japan Patent Office. Correspondingly, Abilit Corporation (former Takasago Electric Industry Co., Ltd.) filed a claim with Tokyo High Court as of July 10, 2003, insisting that such judgment shall be revoked, and the case has currently been on trial.

**a. The claim for damages of ¥10,066 million made by Aruze:**

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

**b. The claim for damages of ¥1,430 million made by Aruze:**

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

**c. The claim for damages of ¥5,145 million made by Aruze:**

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

**d. The claim for damages of ¥11,424 million made by Abilit Corporation:**

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

Both Tokyo District Court and Tokyo High Court dismissed the claim for damages of ¥1,500 million made by Aruze reported in the previous annual report. Aruze appealed the case to the Supreme Court as of June 17, 2003. Subsequently, the Company won the case on January 20, 2004 following a refusal by the Supreme Court to hear Aruze’s appeal.

# Independent Auditors' Report

To the Board of Directors of  
SAMMY CORPORATION

We have audited the accompanying consolidated balance sheets of SAMMY CORPORATION and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the two years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

(KPMG AZSA & Co.)

Tokyo, Japan  
June 25, 2004

# Sammy Group Companies

As of March 31, 2004

## Pachislot and Pachinko

Company Name	Capitalization	Voting Right (%)	Main Business Activities
RODEO Co., Ltd.	¥100 million	65.0	Development, manufacture, and sale of RODEO-brand pachislot machines
Shuko Electronics Co., Ltd.	¥495 million	87.2	Manufacture and sale of peripheral equipment for pachislot and pachinko halls
Sammy Design Co., Ltd.	¥40 million	—	Planning, design, and construction of pachislot and pachinko halls

## NEWS

Company Name	Capitalization	Voting Right (%)	Main Business Activities
Sammy Amusement Service Co., Ltd.	¥450 million	100.0	Operation and support of amusement arcades and rental of amusement arcade equipment
SI ELECTRONICS, LTD.	¥244 million	85.7	Development and sale of system-on-chips for LCDs
Dimps Corporation	¥499 million	51.0	Development and sale of various kinds of digital content
ALEGRIA CORPORATION	¥118 million	59.5	Planning, development, production, sale, and management of Internet and other content
IP4 Inc.	¥100 million	70.0	Management of merchandisable characters
Underground Liberation Force Inc.	¥309 million	100.0	Planning, production, and sale of music CDs
Sammy NetWorks Co., Ltd.	¥206 million	80.2	Planning, production, and distribution of music and game-related content for mobile telephones and the Internet
APANDA Inc.	¥300 million	79.7	Development of commercial facilities, real estate leasing, and related operations
Nissho Inter Life Co., Ltd.	¥5,018 million	50.5	Planning, design, management, and construction of commercial premises and their interior fittings
Japan Multimedia Services Corporation	¥835 million	50.9	Multimedia information and communications network service operations
Sammy Golf Entertainment Inc.	¥480 million	100.0	Operation and management of The North Country Golf Club

## Overseas Subsidiaries

Company Name	Capitalization	Voting Right (%)	Main Business Activities
Sammy Holding Co., Inc. (U.S.A.)	US\$14,751 thousand	100.0	Planning of financial, legal, personnel, and business strategies for overseas Group companies
Sammy USA Corporation (U.S.A.)	US\$3,900 thousand	—	Development, manufacture, and sale of amusement arcade equipment in North and South America
Sammy Europe Limited (U.K.)	£1,391 thousand	—	Sale of home videogame software and amusement arcade equipment
Sammy Studios, Inc. (U.S.A.)	US\$6,500 thousand	—	Development, manufacture, and sale of home videogame software
RTzen, Inc. (U.S.A.)	US\$5,502 thousand	70.4	Development and sale of graphics software for use in game software development

# Sammy's Milestones

## 1975 November

- Sammy Industry Co., Ltd., established in Itabashi-ku, Tokyo (capital ¥1 million) and begins development of game machines

## 1978 March

- Develops and launches *Liberty Bell* arrange-ball machine
- Joins pachinko association, *Nippon Yugiki Kogyo Kumiai*

## 1980 July

- Develops and launches *TV Jankyu*, the first *jankyu* (a combination between mahjong and pachinko) game machine in the industry that utilizes a monitor

## 1981 May

- Joins pachislot association, *Nippon Dendoshiki Yugiki Kogyo Kyodo Kumiai*

## 1982 March

- Develops and launches the *Empire* pachislot machine

## 1991 September

- Relocates Head Office to Toshima-ku, Tokyo

## 1993 November

- Develops and launches pachislot simulation game for *Super Famicom—Jissen Pachislot Hisshoho!*

## 1995 February

- Develops and launches *CR Gold Rush 2* pachinko machine

## 1996 March

- Establishes subsidiary Sammy USA Corporation (now a consolidated subsidiary), in Illinois, United States, to market home videogame software in the U.S.

## 1997 April

- Establishes wholly owned subsidiary MAXBET Co., Ltd. (now Sammy Rental Service Co., Ltd., a consolidated subsidiary), in Toshima-ku, Tokyo, to upgrade quality of home videogame software development
- Changes corporate name to Sammy Corporation

## 1998 July

- Establishes wholly owned subsidiary Sammy Amusement Service Co., Ltd. (now a consolidated subsidiary), in Toshima-ku, Tokyo, to bolster amusement arcade equipment rental operations

## 1999 October

- Establishes Underground Liberation Force Inc. (now a consolidated subsidiary), which is involved in music production, CD sales, and distribution of music via the Internet

## 1999 December

- Registers shares for over-the-counter market with the Japan Securities Dealers Association

## 2000 July

- Acquires all shares of Barcrest Co., Ltd. (now RODEO Co., Ltd., a consolidated subsidiary), to reinforce pachislot business
- Acquires stake in Dimps Corporation (now a consolidated subsidiary), a developer of wide-ranging digital content



Sammy's first pachislot machine, *Empire* (launched 1982)



The hit pachislot machine *Aladdin* (launched 1989)



*CR Gold Rush 2*, our debut CR digital pachislot machine (launched 1995)



*GE GE NO KITARO*, the industry's first pachislot machine incorporating an LCD (launched 1999)  
©MIZUKI-PRO•SOFTGARAGE



*JYUOH*, our AT-function pachislot machine (launched 2001)

## 2001 March

- Lists on First Section of the Tokyo Stock Exchange
- Establishes Sammy Europe Limited (now a consolidated subsidiary) in London, United Kingdom, as a wholly owned subsidiary of Sammy USA Corporation as part of overseas amusement business strategy

## 2001 April

- Establishes Sammy Entertainment Inc. (now consolidated subsidiary Sammy Studios, Inc.) in California, United States, as a wholly owned subsidiary of Sammy USA Corporation to bolster overseas sales of home videogame software
- Opens Kawagoe Factory in Saitama to strengthen production of pachislot and pachinko machines

## 2001 August

- Acquires stake in SI ELECTRONICS, LTD. (now a consolidated subsidiary), to bolster amusement, pachislot, and pachinko businesses

## 2001 October

- Acquires stake in Shuko Electronics Co., Ltd. (now a consolidated subsidiary), with the aim of entering the pachislot and pachinko peripheral equipment market

## 2002 January

- Establishes RTzen, Inc. (now a consolidated subsidiary), in California, United States, to reinforce NEWS business
- Establishes level 1 (over-the-counter) American Depositary Receipt (ADR) program to attract new investors and expand investor base

## 2002 April

- Establishes Sammy Holding Co., Inc., in California, United States, as a holding company for Sammy USA Corporation, Sammy Europe Limited, and Sammy Studios, Inc., to centralize overseas business

## 2002 December

- Acquires stake in IP4 Inc. (now a consolidated subsidiary) to consolidate and bolster merchandising operations
- Acquires stake in U's Mobile Co., Ltd. (now Sammy NetWorks Co., Ltd., a consolidated subsidiary), to enhance operations for network-based content

## 2003 July

- Acquires stake in APANDA Inc. (now a consolidated subsidiary) with the aim of reinforcing NEWS business

## 2003 October

- Acquires stake in The North Country Golf Club (now consolidated subsidiary Sammy Golf Entertainment Inc.) to expand operations in sports entertainment field

## 2003 November

- Acquires stake in Nissho Inter Life Co., Ltd. (now a consolidated subsidiary), through a tender offer to enhance interior finishing operations for various commercial facilities

## 2003 December

- Acquires stake in Japan Multimedia Services Corporation (now a consolidated subsidiary) to enter the online games market
- Acquires stake in SEGA CORPORATION (now an equity-method affiliate) to enable NEWS business to expand and reach profitability more quickly

# Corporate Data

As of March 31, 2004

## Company Name

SAMMY CORPORATION

## Head Office

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

## Established

November 1, 1975

## Capital

¥15,375 million

## Number of Employees

975 (Non-consolidated)  
1,927 (Consolidated)

## Independent Auditor

KPMG AZSA & Co.

## Principal Business

- Development, manufacture, and sale of pachislot machines, pachinko machines, and peripheral equipment
- Manufacture and sale of electronic amusement arcade equipment and development and sale of home videogame software
- Sale, lease, import, and export of game machines

## Network

**Head Office:** Toshima-ku, Tokyo

**Kawagoe Factory:** Kawagoe, Saitama

**Sapporo Distribution Center:** Sapporo, Hokkaido

**Tsurugashima Distribution Center:**

Tsurugashima, Saitama

**Kansai Distribution Center:** Osaka

**Kyushu Distribution Center:** Kasuya-gun, Fukuoka

## Branches

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

## Sales Offices

### Pachislot and Pachinko Businesses

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

### NEWS Business

Osaka

## Members of Board of Directors and Auditors / Executive Officers

As of July 1, 2004

CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
**Hajime Satomi\***

VICE CHAIRMAN  
**Toru Katamoto\***

PRESIDENT AND CHIEF OPERATING OFFICER  
**Kenkichi Yoshida\*** (Managing Production Division / Division  
Manager, R&D Control Office)

SENIOR MANAGING DIRECTOR  
**Keishi Nakayama** (Managing President Office)

MANAGING DIRECTOR  
**Kiyofumi Sakino\*** (Managing Administration Division  
Office / Division Manager, SEGA SAMMY Business  
Combination Planning Office)

MANAGING DIRECTOR  
**Yoshiharu Suzuki\*** (Managing Amusement Sales &  
Marketing Division / Division Manager, AM / NEWS Business  
Division)

DIRECTOR  
**Hideo Yoshizawa\*** (Division Manager, Administration  
Division)

DIRECTOR  
**Katsuya Kondo\*** (Managing SP Business Control Office /  
Division Manager, SP Sales Division)

STANDING CORPORATE AUDITOR  
**Toshio Hirakawa**

CORPORATE AUDITOR  
**Etsuo Sakai**

CORPORATE AUDITOR  
**Akio Kioi**

EXECUTIVE OFFICER  
**Yoshitaka Kawamura** (Division Manager, SP Business  
Control Office)

EXECUTIVE OFFICER  
**Masakazu Yoshino** (Seconded to Shuko Electronics Co., Ltd.)

EXECUTIVE OFFICER  
**Takashi Komiya** (Seconded to RODEO Co., Ltd.)

EXECUTIVE OFFICER  
**Norio Uchida** (Division Manager, PS R&D Division)

EXECUTIVE OFFICER  
**Kouichi Fukazawa** (Division Manager, President Office)

EXECUTIVE OFFICER  
**Kunihiko Watanabe** (Division Manager, Production Division)

\* Chairman and Chief Executive Officer, Hajime Satomi; Vice Chairman,  
Toru Katamoto; President and Chief Operating Officer, Kenkichi  
Yoshida; Managing Directors, Kiyofumi Sakino and Yoshiharu Suzuki;  
Directors, Hideo Yoshizawa and Katsuya Kondo are also Executive  
Officers.

# Stock Information

As of March 31, 2004

## Common Stock

**Authorized:**  
200,000,000 shares

**Issued:**  
87,500,718 shares

## Stock Listing

Tokyo

## Stock Code

6426

## Number of Shareholders

23,909

## Transfer Agent of Common Shares

UFJ Trust Bank Limited  
4-3, Marunouchi 1-chome,  
Chiyoda-ku, Tokyo 100-0005, Japan

## 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

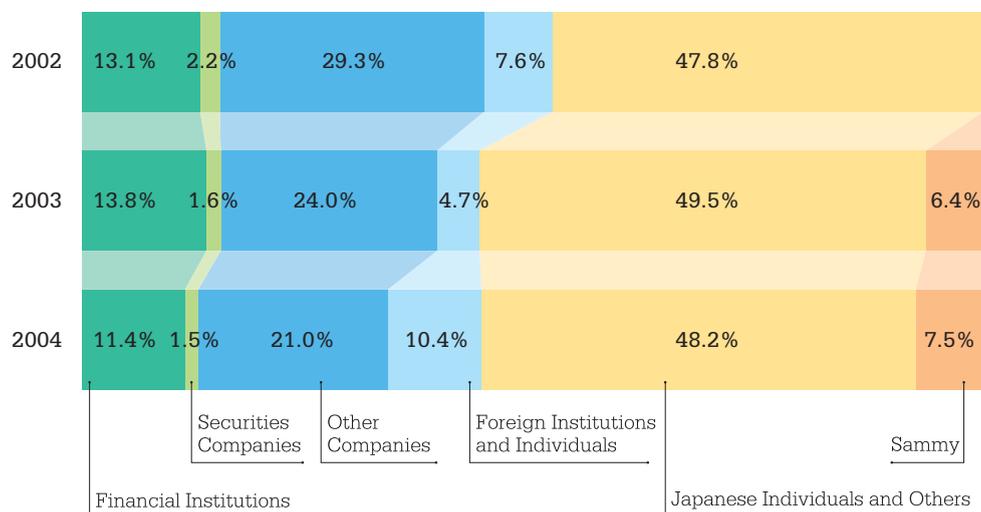
**Level of Program:** Level 1

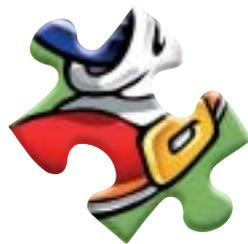
**URL:** <http://www.adrbny.com>

## Principal Shareholders

Name of Shareholder	Shares Held	(%)
1 Hajime Satomi	24,165,585	27.6%
2 SS PLANNING CORPORATION	9,498,200	10.9%
3 FSC Co., Ltd.	7,086,420	8.1%
4 Sammy Corporation	6,572,989	7.5%
5 The Master Trust Bank of Japan, Ltd. (Trustee)	4,274,000	4.9%
6 Bank of New York for Goldman Sachs International (Equity)	2,099,900	2.4%
7 Japan Trustee Services Bank, Ltd. (Trustee)	1,884,100	2.2%
8 Naoya Harano	1,361,880	1.6%
9 TAKAYAMA BUSSAN Co., Ltd.	571,500	0.7%
10 State Street Bank & Trust Co.	520,000	0.6%

## Breakdown of Shareholders





<http://ir.sammy.co.jp>

Printed on recycled paper  
Printed in Japan