namco

ANNUAL REPORT 2001

NAMCO LIMITED has been engaged in the amusement business for more than 40 years and is a world leader in the R&D, production and sales of coin-operated game machines and home videogame software, as well as in amusement facility operations. Namco believes that the 21st century will be an "Era of Spirituality," where human factors rise in importance as a counterbalancing force to technological progress. In response, we have set the year 2001 as the starting point for a renewed Namco—one that will focus on creating services that fuse digital media with a spirit of adventure and combine high-tech with a human touch. We call this "High Touch Digital Entertainment." Since its establishment, Namco has worked to raise the level of amusement to fulfill spiritual needs with the belief that play is an important aspect of culture. We intend to continue to push the envelope of entertainment in a world where amusement knows no borders.

Six-Year Summary

NAMCO LIMITED and subsidiaries
Years ended 31st March

	Millions of yen						Thousands of U.S. dollars
	1996	1997	1998	1999	2000	**2001**	**2001**
For the year:							
Net sales	¥110,188	¥139,808	¥145,761	¥145,517	¥148,066	**¥146,554**	**$1,177,614**
Operating income (loss)	11,217	14,902	11,772	8,271	6,720	**(2,866)**	**(23,029)**
Income (loss) before income taxes	10,565	15,824	9,337	7,914	12,671	**(9,196)**	**(73,897)**
Net income (loss)	5,245	7,787	4,164	3,566	6,288	**(6,000)**	**(48,214)**
Per share of common stock: (in yen and U.S. dollars):							
Net income (loss)—Primary	120.10	163.94	78.60	65.82	115.00	**(109.09)**	**(0.88)**
Cash dividends applicable to the year	25.00	30.00	30.00	30.00	30.00	**15.00**	**0.12**
At year-end:							
Shareholders' equity	45,882	76,110	84,355	89,566	99,774	**91,646**	**736,406**
Total assets	139,181	141,492	142,992	144,120	168,567	**138,962**	**1,116,606**
Number of shares outstanding: (thousands):	43,716	51,544	53,625	54,828	55,068	**55,087**	

Note: U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥124.45=U.S.$1.

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Message from the Chairman

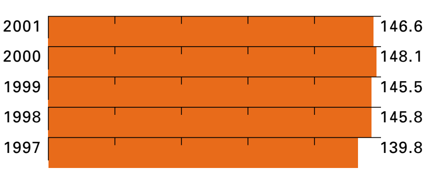
Performance .... **D**uring the fiscal year ended March 31, 2001, despite signs of self-sustaining recovery from increased corporate revenues and capital investments, the Japanese economy continued to find itself in a serious condition as the government's declared efforts to improve the economy made no headway, the overall unemployment rate hovered near historically high levels and weak consumer spending continued.

The continuing decline in sales of coin-operated game machines, reduction in the number of amusement facilities in operation and increasing selectivity of consumers have all contributed to create an even greater disparity in performance among companies within our industry.

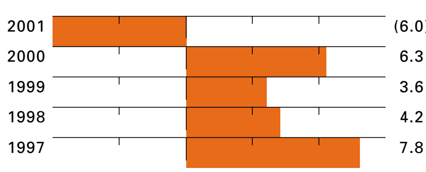
In the home videogame market, business conditions were volatile with successive releases of next-generation game platforms on one hand, while on the other hand, Sega announced its decision to halt the production of Dreamcast.

Within this business environment, based on the Namco Group's fundamental position of shifting emphasis from "Amusement" to "Entertainment," we are aggressively advancing to fully integrate development, production, marketing and amusement facility management activities in Japan, North America, Europe and Asia.

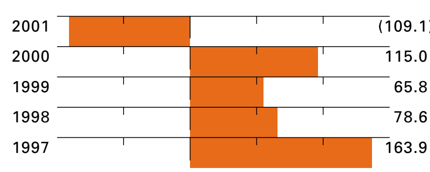
Net Sales
(Billions of yen)



Net Income (Loss)
(Billions of yen)



Net Income (Loss) per Share
(Yen)



In coin-operated game machines, we have released several new models and have also utilized our marketing expertise to aggressively sell third-party products. However, this segment recorded lower sales than initially anticipated due to significant trends toward weak capital investment by domestic and overseas operators.

In home videogame software operations, in line with our basic strategy to develop products for multiple platforms, we have offered software titles for Sony PlayStation, Sony PlayStation 2, Sega Dreamcast, Nintendo 64 and Nintendo Game Boy Color. However, the market was sluggish during the end of the year and New Year peak demand periods due primarily to delays in the expected release dates of new hardware platforms and the popular titles of third-party software producers. Both of these factors contributed to lower-than-expected sales.

In amusement facility operations, as part of our drive to improve profitability of this business segment amid a very harsh operating environment, we have closed more unprofitable locations in Japan than originally planned. With equally severe conditions overseas, our U.S. subsidiary, Namco Cybertainment Inc., worked to improve profitability by continuing to close unprofitable locations while selectively purchasing prime locations from regional competitors. In Europe, large-scale amusement facilities known as Namco Stations continued to perform favorably.

In restaurant operations, despite continuing weakness in consumer spending, we were able to achieve higher sales than initially forecasted, which has resulted in increased profits.

In the movies and graphics business, a film titled "*Dora-Heita*," produced by our subsidiary, Nikkatsu Corporation, successfully opened nationwide in May 2000 and received positive reviews. "*Darkness in the Light*," a film directed by Kei Kumai and based on the Matsumoto sarin gas poisoning incident, also opened to favorable reviews in March 2001. Nikkatsu had been under a court administered self-restructuring program since 1993. However, by retiring the court designated loans much ahead of the required schedule, it has completed its restructuring activities and was released from the court administered program on February 28, 2001.

From "Amusement" to "Entertainment," Namco is responding to a harsh operating environment by returning to its founding principles and expressing its vision for the 21st century through the creation of "High Touch Digital Entertainment."

In addition to the aforementioned factors, the Company recorded special losses consisting of ¥2,475 million as loss in values of its security holdings amid declining stock prices, ¥1,330 million to fund the voluntary early retirement program put in place as part of the Company's cost rationalization program, and ¥894 million in costs of amortizing retirement benefits to reflect the change in accounting standard. As result of these factors, consolidated net sales edged down 1.0% to ¥146,554 million and a net loss of ¥6,000 million was recorded for the year, compared with net income of ¥6,288 million in the previous fiscal year. Based on these results, the Company has elected to forego year-end dividends and as such, the shareholders have only received mid-year dividends of ¥15 per share, which were distributed on December 11, 2000.

from AMUSEMENT to

Namco merged with NAL LTD. on October 2, 2000, pursuant to the approval by the 45th Ordinary General Meeting of Shareholders held on June 24, 2000. Consequently, Representative Director Masaya Nakamura became a direct shareholder of the Company, thereby clarifying the shareholder composition and management structure while contributing to the stabilization of management.

Strategy

With the advent of a fully networked society, changes are taking place to communications and amusement-basic elements of our daily lives. In line with these changes, Namco conducted a far-reaching review of its business structure and has redirected its efforts so as to maximize its profitability by pursuit of a business system that emphasizes the development of high-value-added businesses and through a thorough reduction in management expenses.

Making the most of accumulated management resources and business knowledge to maximize performance, Namco is concentrating its efforts on development that emphasizes the highest investment returns by the most effective use of new and old intellectual assets, and the use of existing intellectual assets on coin-operated games as well as on home videogame software for various platforms. Accurately grasping the needs of people in today's networked society, the Company, as an entertainment content provider, is also engaging in new business ventures and partnerships with other companies. As part of this initiative, Namco has begun to consider the creation of cooperative relationships with Enix Corporation and Square Co., Ltd. to contribute to the development of the entertainment market.

In the amusement business, to invigorate a market that has continued to contract, Namco aims to stimulate innovation by energetically approaching each company in the industry. We will continue to close unprofitable facilities and selectively open new game centers based on

ENTERTAINMENT

profitability. In the pachinko business, Namco focused efforts on nurturing profitability by releasing first-rate content for System 7, a 3D-compatible board developed by Namco for pachinko and *pachislot* machines with the same performance characteristics as the Sony PlayStation.

Research and development form the foundation of the Company's proprietary technological development capabilities, which are used to create products enjoyed by people around the world. We are aggressively promoting formation of alliances with companies that possess cutting-edge technology in their respective fields in anticipation of future dramatic advancements in visual and audio hardware and to prepare for the development of business opportunities on the Internet.

Namco aims to play a comprehensive role in the world of entertainment, centering not only on games but also on movies, animation and music.

The Namco Group is also examining the idea of building a "new movie town," which will become the launching pad of Japanese culture to the world through movies.

Masaya Nakamura
Chairman and Chief Executive Officer

We explore new ENTERTAINMENT POSSIBILITIES for a Broadband society

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Could you tell us a little about Namco's initiatives toward the coming broadband-oriented society?

Projections from the government advisory board IT Strategy Headquarters/IT Strategy Council forecast that 25 million households in Japan will have a broadband connection by 2005, and various companies are currently making full-scale efforts to develop services for this technology. Namco Limited, as well, is fully aware that providing broadband content will become a key business area.

While there have been several networkable games up to now, there has been no underlying infrastructure in place, making them poor prospects as profitable enterprises. With such an infrastructure now available, game content that accompanied the spread of broadband—such excellent products as Namco's specialty of real-time 3D games in particular—will show brisk growth in demand in the future. Successful games will be able to transform into markets with as many as 10 million users logged worldwide.

Namco estimates that highly popular broadband networkable games are likely to appear within the next year or two. The first game to appear will become the global standard, and its creator will lead the software market if they are able to develop a good business model.

With this in mind, we are focusing energies on development of networkable games in our research and development section. More specifically, we are pursuing the development of entertainment value that only networkable games can provide—original Namco games so extremely easy to play that anyone would want to join in, and that allow contestants the ability to create a wide variety of playing styles. We aim to have two titles for release in the fiscal year ending March 31, 2003.

We will work to add specialization in content development to our list of expertise. In infrastructure measures, we plan to link up with the best possible partners by assessing compatibility of titles based on their popularity and unique features as was done with platform strategies.

Successful games will be able to transform into markets with as many as 10 million users logged worldwide.

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What is Namco's strategy in continuing development of new home videogame hardware?

Namco will continue with the multi-platform strategies pursued so far. To maximize profits, we will select hardware to match titles, and hold more contract negotiations with suitable manufacturers. We are aware that software manufacturers consider this to be an equally essential element along with technological capabilities and the original entertainment value of games.

While all of the hardware for Sony, Nintendo and Microsoft is currently being targeted in line with Namco's pursuit of multi-platform strategies, there is another more critical corporate strategy involved, namely, investment returns on multiple use of content. Because we are also developing coin-operated game machines, we aim to create a synergy between this and home videogame software development while pursuing hardware selection and calculating optimal profits from all Namco Group businesses.

Currently, titles for the Sony PlayStation 2 are naturally plentiful in our lineup. This is because we are in possession of the coin-operated-game-machine-compatible System 246 game board, which has a synergistic relationship with the PlayStation 2. Ease of transfer between systems enables pursuit of efficient development, thereby reducing costs.

I expect that as proliferation of networkable games and media mixing make further progress, investment returns will become increasingly tiered. Accordingly, we aim to bolster marketing power to be able to select better hardware.

What are the prospects for a recovery in profitability of amusement facility operations?

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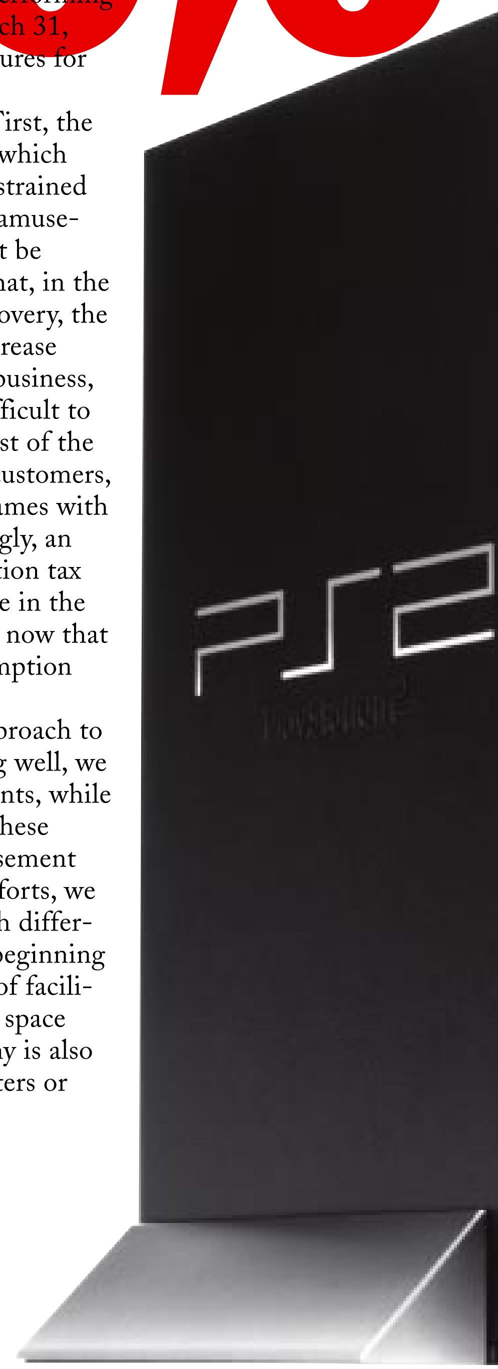
In the domestic market, we planned to close 28 facilities in the fiscal year ended March 31, 2001. However, we drastically accelerated these plans to include 70 facilities, as there were 69 unprofitable facilities in the beginning of the fiscal year. As a result, we eliminated all of our consistently unprofitable facilities. Furthermore, we plan to advance a scrap-and-build strategy. As a medium-term objective, we aim to achieve gross profit ratio of 15% by the fiscal year ending March 31, 2004. According to our calculations, we will be able to achieve this objective at the 300 top-performing outlets of our 393 directly managed facilities in existence at March 31, 2001. Therefore, we believe that it is essential to formulate measures for roughly 90 facilities, including the closing of some locations.

There are two reasons for initiating such sweeping reforms. First, the Company focused on establishing facilities in shopping centers, which have become increasingly polarized, with some significantly constrained in their ability to draw customers. We must devise measures for amusement facilities located in struggling shopping centers that cannot be remedied through Namco's efforts alone. The second reason is that, in the event of an economic recovery, the consumption tax may increase from 5% to 10%. In our business, it would be extremely difficult to pass on the additional cost of the consumption tax to our customers, who enjoy playing our games with one ¥100 coin. Accordingly, an increase in the consumption tax would result in a decrease in the Company's gross profits. One of our aims is to create a structure now that will enable us to remain profitable even after a rise in the consumption tax.

As of March 31, 2001, total shipments of Sony's PlayStation, PSone and PlayStation 2 amounted to 92.8 million units. Namco looks forward to its continued role in producing high-quality titles for the PlayStation platforms.

Specifically, the Company is considering a developmental approach to attain this objective. Even at stores we consider to be performing well, we aim to attract more visitors and increase sales by diversifying events, while focusing efforts on securing profits by reducing rents. Through these measures alone, it will be possible to create more profitable amusement facilities. For facilities that are still struggling even after these efforts, we will consider converting their businesses or combining them with different ones. Through renovation and integration, the Company is beginning efforts in the nationwide development and testing of new types of facilities. Examples of such efforts are the *Kid's Stadium*, the Internet space *Chi Kou Raku*, and the indoor petting zoo, *ANIPA*. The Company is also considering the sale of facilities to local operators, shopping centers or



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store employees. As a last resort, in cases where profits remain weak despite such measures and sale is not possible, facilities will be closed.

The Company is opening new amusement facilities based on more selective criteria. In deciding on the establishment of new facilities, we ensure that the following three criteria are fulfilled: (1) a rate of return of more than 20%; (2) we achieve profits in the first year while applying depreciation using the declining-balance method; and (3) we secure an internal rate of return (IRR) of more than 15%. Through these measures we aim to create an entirely profitable structure.

In the North American market, operations continue to be difficult, which has accelerated our plans to scrap facilities, especially those located in shopping malls that are failing to attract customers. At the same time, Namco is making efforts to achieve differentiation in management of facilities through guidance from headquarters. We have every expectation for continued growth in net sales.

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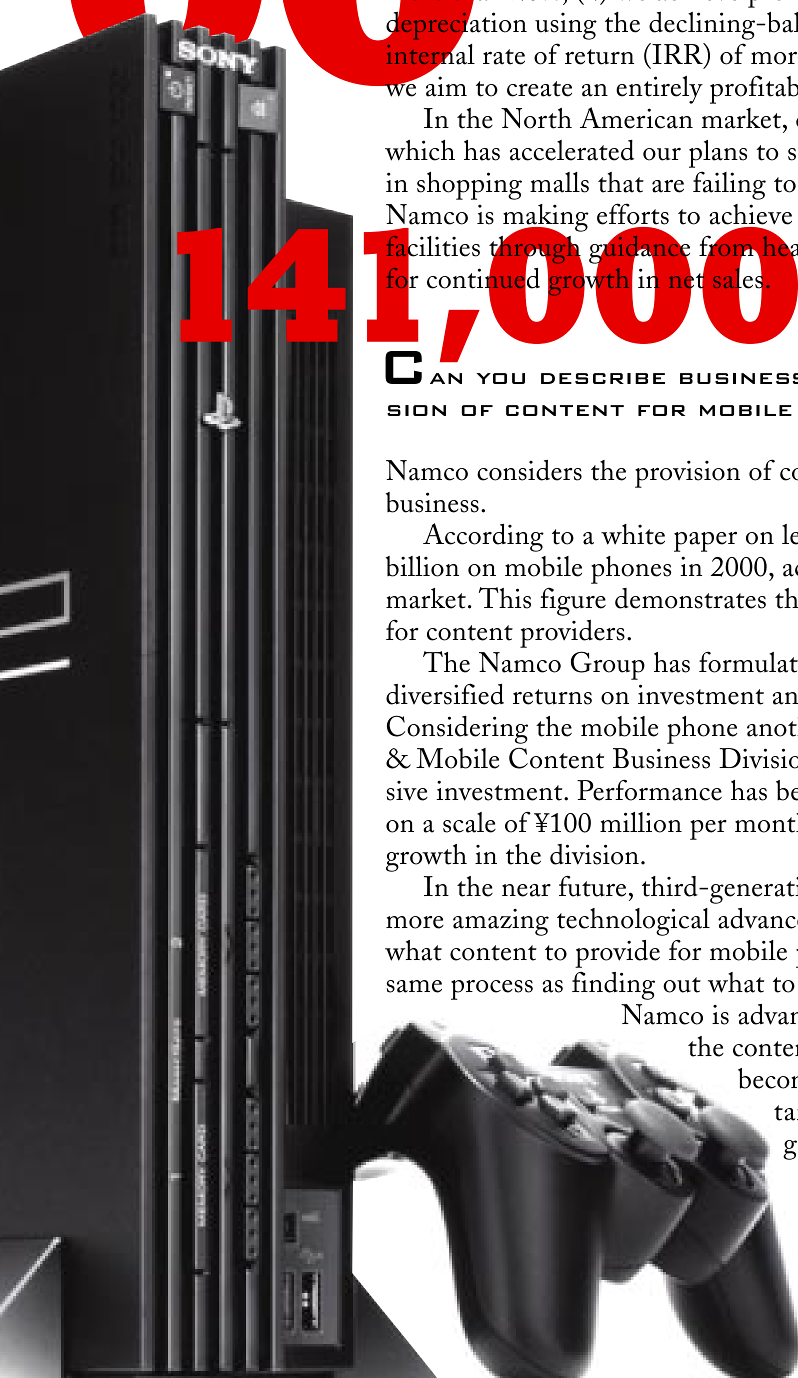


CAN YOU DESCRIBE BUSINESS DEVELOPMENTS FOR THE PROVISION OF CONTENT FOR MOBILE PHONES?

Namco considers the provision of content for mobile phones an important business.

According to a white paper on leisure, Japanese people spent ¥141 billion on mobile phones in 2000, accounting for 1.7% of the entire leisure market. This figure demonstrates the breadth of the mobile phone market for content providers.

The Namco Group has formulated the basic strategies of aiming for diversified returns on investment and the adoption of multiple platforms. Considering the mobile phone another platform, we established the Web & Mobile Content Business Division and followed through with aggressive investment. Performance has been favorable, growing to achieve sales on a scale of ¥100 million per month, and we look forward to further growth in the division.

In the near future, third-generation mobile phones will emerge with more amazing technological advances in store. Acquiring a clear view of what content to provide for mobile phones and other platforms is the same process as finding out what to provide for household platforms. Namco is advancing research toward participation in the content provision market with the aim of becoming the foremost provider of entertainment content for such next-generation terminals.

COIN-OPERATED GAME MACHINES

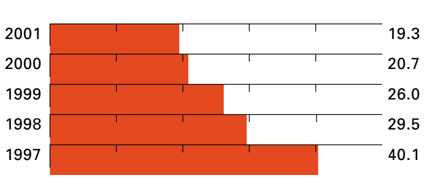
Coin-Operated Game Machines

THE NAMCO GROUP made concerted efforts to market Namco brand products in coin-operated game machine markets around the world.

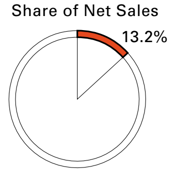
In Japan, amid persistent market contraction, we released the truck driving game *Truck Kyosokyoku* with a decorative truck motif, a first in the game industry. We developed *Tatsujin Game* as a new genre and introduced *Ryori no Tatsujin*, *Tairyo-Daiko 337 Byoshi* and *Taiko no Tatsujin*. We plan to further develop the series in the future.

In addition, we launched the dancing game *Koi no Parapara Daisakusen* and introduced it mainly in directly operated locations. Other games were well received, including *Ridge Racer V Arcade Battle*, *Ninja Assault*, *Vampire Night*, which was jointly developed with Sega Corporation and development subsidiary Wow Entertainment Inc., and *Photo*

Coin-Operated Game Machines Net Sales
(Billions of yen)



Share of Net Sales



We create New ENTERTAINMENT for worldwide consumers.

Battle, which employs a single lens reflex camera made by Minolta Corporation.

However, sales volume was weak owing to firm restraints on capital investment by arcade operators in Japan and overseas.

Consequently, net sales for the segment decreased 6.4% to ¥19,344 million compared with the previous fiscal year. The segment recorded an operating loss of ¥3,207 million.

Above: *Ninja Assault*
Below: (From left to right) *Ninja Assault, Photo Battle, Ridge Racer V Arcade Battle, Kart Duel*

NAMCO DELIVERS A NEW MULITIPLATFO

HOME VIDEOGAME SOFTWARE

Home Videogame Software

NAMCO SELLS home videogame software adapted from popular arcade games and original titles, centered on titles for Sony's PlayStation, the dominant platform in world markets. The parent company produces and markets software for the Japanese, European and other Asian markets, and Namco Hometek Inc. produces and markets titles for the North American market under license from the parent company.

During the fiscal year under review, we marketed products for a wide variety of platforms in line with our multiple platform strategy. Of these products, we released *Mr. Driller* for the PlayStation, Dreamcast and Nintendo Game Boy Color at the same time.

(Above)
The Klonoa character from *Klonoa 2*.

ERA OF
RM ENTERTAINMENT

(From left to right)
Mr. Driller 2 (Game Boy Advance),
Mr. Driller (PlayStation),
Mr. Driller (Dreamcast),
Mr. Driller (Game Boy Color), *7 (Seven)—Cavalry of Molmorth—, MotoGP, Tales of Eternia, Liberogrande 2, Tales of Phantasia: Narikiri Dungeon*

For the domestic market, Namco introduced *Tales of Eternia*, *Libero Grande 2* and *Khamrai* as titles for Sony's PlayStation, as well as *MotoGP*, *7 (Seven)—The Cavalry of Molmorth—* and *Klonoa 2* as titles for Sony's PlayStation 2.

We also released titles for the Nintendo Game Boy Color including *Tales of Phantasia: Narikiri Dungeon* and a title for the Nintendo Game Boy Advance named *Mr. Driller 2*.

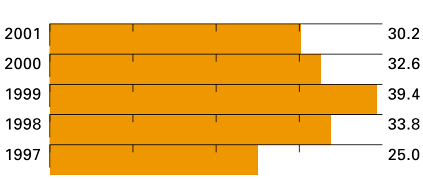
In the North American market, *Tekken 3 (Greatest Hits)* for Sony's PlayStation and *Namco Museum* for the Nintendo 64 received favorable responses. We also introduced three titles comprising *Tekken Tag Tournament*, *Ridge Racer V* and *MotoGP* for Sony's PlayStation 2 as it went on the market in September 2000.

For the European market, we revealed titles for the PlayStation including *Time Crisis: Project Titan*, *Ms. Pac-Man Maze Madness*, *Point Blank 3* and *Ghoul Panic* in addition to releasing *Tekken Tag Tournament*, *Ridge Racer V* and *MotoGP* for Sony's PlayStation 2, which were also launched in the United States.

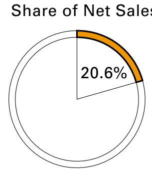
We expanded our entertainment content distribution business, centering on games for mobile phones compatible with NTT DoCoMo, Inc.'s "iαppli," which extends its i-mode service with Java. While keeping one eye on the future of network games, a major business opportunity, Namco will bolster operations as an entertainment content provider by exploring tie-ups with leading companies in the network-related industry.

Net sales for the segment declined 7.2% to ¥30,220 million, and operating income fell 50.6% to ¥4,855 million.

Home Videogame Software Net Sales
(Billions of yen)



Share of Net Sales



We introduce facilities that use NETWORK TECHN

Amusement Facility Operations

Amusement facility operations of the Namco Group promote the installation of highly profitable amusement machines developed by Namco. We make every effort to provide exciting entertainment to customers by increasing the appeal of our amusement machines with operation enhancements and effects. A review of Namco-operated amusement facilities in the following markets follows.

Japan

Namco opened a total of 24 directly operated facilities in Japan, including Namco Wonder Park Hawks Town in Fukuoka Prefecture, one of the largest amusement complexes in Kyushu with bowling lanes and batting cages; Namco Wonder Park Gifu in Gifu Prefecture, an amusement facility featuring car themes including life-sized car racing attractions; and Namco Entertainment World Tokyo Pitan City in Tokyo, a theme park that recreates street scenes of Hong Kong.

In addition, the Company's Namco NamjaTown in Tokyo welcomed its five millionth guest in July 2000. Namco Wonder Eggs 3, also in Tokyo, closed its doors on December 31, 2000, after about nine years of operations, owing to the expiration of its land-leasing contract.

In tune with the arrival of a networked society, we opened our first Internet access space, *Chi Kou Raku*, in Aichi Prefecture under a new business model of time-based fees. Although the

(From left to right)
Namco Wonder Park Hawks Town, Wonder Park in Puerto Rico, XS Orlando, Namco Wonder Park Gifu, Namco Wonder Park Hawks Town

AMUSEMENT

Amusement Facility Operations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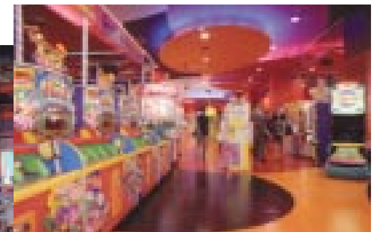


flagship facility is nothing more than a concept trial at this time, it will become a meaningful foundation should we decide to take the concept to multiple locations and provide interactive gaming services on the premises. We plan to aggressively develop this new business.

Amid a downturn in the amusement facility operating environment, Namco closed 70 unprofitable locations during the fiscal year under review, surpassing initial plans to close 28 locations, to strengthen profitability.

At fiscal year-end, the number of amusement facilities in Japan totaled 1,083 locations, of which 394 were directly managed arcades, 688 were amusement facilities where Namco's amusement machines were operated under revenue-sharing arrangements and one was a theme park.

North America

Namco Cybertainment Inc., which operates amusement facilities in the United States, closed 24 directly operated facilities to shut down unprofitable locations in response to the lackluster amusement facility market in the U.S.

However, Namco Cybertainment plans to continue expanding the number of highly profitable, directly managed facilities and high-return revenue-sharing agreements. In line with this plan, in November 2000, Namco Cybertainment reviewed the best locations and purchased 48 directly operated arcades and arranged revenue-sharing agreements with 37 facilities of Pocket Change America Inc., the third largest operator in the United States.

We are following through with plans to develop facilities that attract a broader range of customers, including amusement complexes with integrated restaurants. In January 2001, we opened Wonder Park, an entertainment complex geared toward families, in Puerto Rico. In June of the same year, we opened XS Orlando, an amusement facility with a restaurant in Orlando, Florida.

At the end of the fiscal year, Namco had 913 facilities in North America, of which 322 were directly managed arcades and 591 were amusement facilities where Namco's amusement machines were operated under revenue-sharing arrangements.

Europe

In Europe, Namco recorded strong revenues from Namco Stations at The Trafford Centre, which opened in the suburbs of Manchester in the United Kingdom in 1998, and in Majadahonda, Spain. Our Namco Station at County Hall in London saw an increase in sales since the opening of the London Eye Ferris wheel in February 2000.

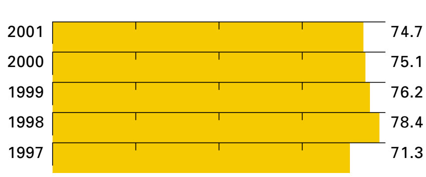
At fiscal year-end, Namco had 28 facilities in Europe, of which 10 were directly managed arcades and 18 were amusement facilities where Namco's amusement machines were operated under revenue-sharing arrangements.

Asia

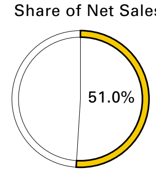
In China, Namco worked to strengthen marketing in its two principle bases in Hong Kong and Shanghai. At fiscal year-end, amusement facilities in Asia totaled 38, comprising 17 directly managed arcades and 21 facilities where Namco's amusement machines were operated under revenue-sharing arrangements.

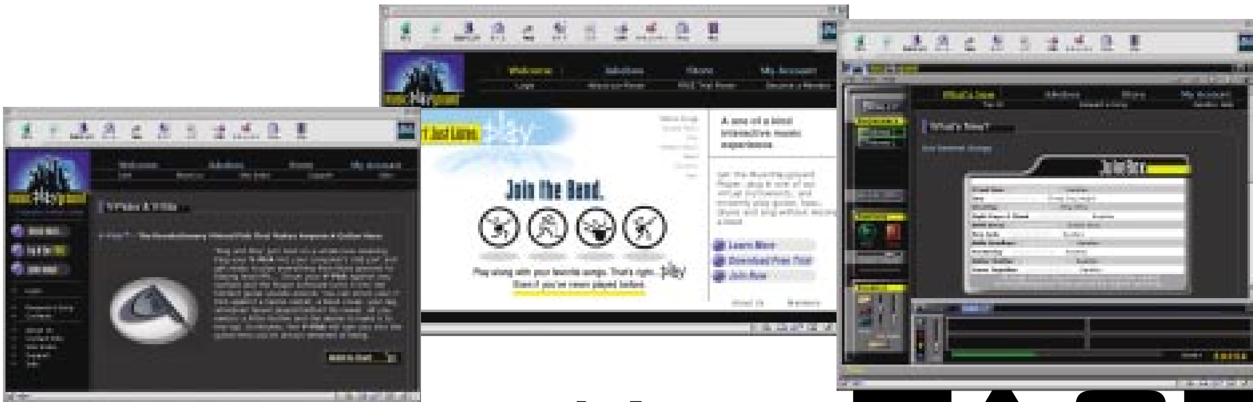
Namco Group's amusement facilities at fiscal year-end totaled 2,062 worldwide, consisting of 743 directly managed arcades, 1,318 facilities where Namco's amusement machines were operated under revenue-sharing arrangements and one theme park. Net sales for the segment were down 0.6% to ¥74,686 million. An operating loss of ¥821 million was recorded, compared with operating income of ¥573 million in the previous fiscal year.

Amusement Facility Operations Net Sales
(Billions of yen)



Share of Net Sales





We combine New TASTE and new ENTERTAIN

Restaurant Operations

RESTAURANT OPERATIONS are conducted by Italian Tomato Ltd., a chain of Italian restaurants and cake shops, I&K Co., Ltd., which operates Italian Tomato Cafe Jr. self-service restaurants, and T&E Co., Ltd., which supplies boxed lunches primarily to corporate clients.

Although business conditions for restaurant operations continued to be

RESTAURANT OPERATIONS MOVIES AND GRAPHICS, AND OTHER

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© Nikkatsu Corporation

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adversely affected by weak consumer sentiment, all three aforementioned companies posted net sales higher than expected, and worked to improve profits.

Outlets at fiscal year-end totaled 263, comprising 51 directly managed outlets and 212 franchise outlets.

Restaurant operations recorded net sales of ¥4,282 million, an increase of 12.4% compared with the previous fiscal year. Operating income advanced 63.8% to ¥131 million.

Left: Musicplayground
Above: (From left to right)
A scene from the movie *"Darkness in the Light,"*
A scene from the movie *"A Hundred Miles,"*
Cine Libre Umeda,
Musicplayground

Movies and Graphics

Nikkatsu Corporation continued to expand its network of *Cine Libre* theaters nationwide with the opening of *Cine Libre Ikebukuro* in April 2000 and *Cine Libre Umeda* in December 2000 to follow the grand opening of *Cine Libre Hakatae Station* in May 1999. The period film "*Dora-Heita*" (Diary of a Town Magistrate), released in May 2000 to widespread acclaim, was a great success. "*Darkness in the Light*," a film directed by Kei Kumai based on the Matsumoto sarin-gas-poisoning incident, also opened to favorable reviews in March 2001. The director of "*Dora-Heita*," Kon Ichikawa, was awarded the Berlinale Camera (Special Meritorious Award) at the 50th Berlin International Film Festival. Director Kei Kumai went on to receive the same award this year.

Namco is proceeding with plans to make movies of its popular game software and screen the movies worldwide.

The movies and graphics segment recorded net sales of ¥8,687 million, an increase of 18.7% from the previous term. Operating income was ¥125 million compared with an operating loss of ¥168 million in the previous fiscal year.

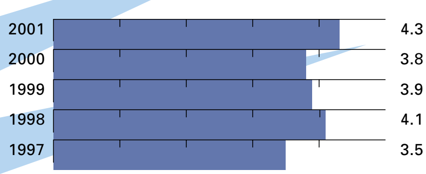
Other

Grasping as a business opportunity the heightened social concerns for the global environment and recycling in the 21st century, the Company established Namco Ecolotech Ltd. in April 2000 as a subsidiary to engage mainly in the recycling of foamed plastics. We aim to develop the ecology-related business and businesses that maximize the use of personnel, technology and our marketing network.

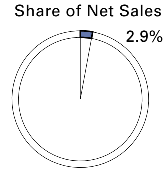
As a part of initiatives to foster Internet-related businesses, Namco acquired Musicplayground Inc. (MPG) through its subsidiary in the United States, and launched an interactive music entertainment Web site there. In promoting our 21st century concept of "High Touch Digital Entertainment," or the fusion of advanced technology and human interaction, Namco believes that the combination of its cutting-edge 3D computer graphics technologies, MPG's real-time signal processing technology and Internet technologies will be highly effective in creating various forms of innovative entertainment for world audiences.

Net sales in the segment increased 8.6% to ¥9,335 million. An operating loss of ¥436 million was recorded, compared with operating income of ¥375 million a year earlier.

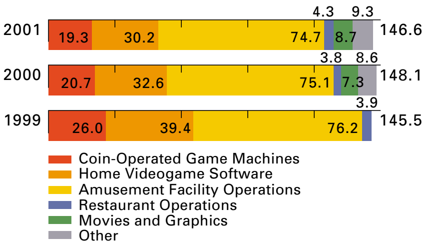
Restaurant Operations Net Sales
(Billions of yen)



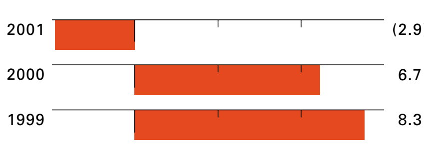
Share of Net Sales



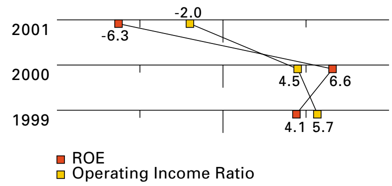
Net Sales by Segment
(Billions of yen)



Operating Income (Loss)
(Billions of yen)



ROE and Operating Income Ratio
(%)



Scope of Consolidation

In accordance with generally accepted accounting principles in Japan, the consolidated financial statements include the accounts of Namco Limited and 28 major subsidiaries. Namco Ecolotech Ltd., established in the fiscal year under review, and Musicplayground Inc., acquired in the fiscal year under review, were added to the scope of consolidation.

Analysis of Sales

Consolidated net sales slipped 1.0% to ¥146,554 million due to continued domestic and overseas market stagnation and cuts in arcade operator investment. Overseas net sales decreased 9.6% to ¥40,239 million, accounting for 27.5% of total net sales, compared with 30.1% during the previous term. By region, the Americas accounted for 65.6% of overseas net sales, Europe 29.6% and Asia and Oceania 4.9%. Domestic sales increased 2.7% to ¥106,315 million, or 72.5% of the total.

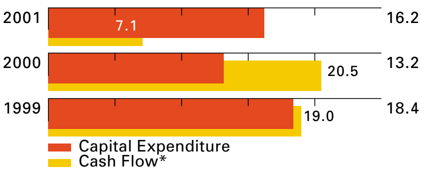
	Millions of yen		
Sales by Segment	1999	2000	**2001**
Coin-Operated Game Machines	¥ 25,968	¥ 20,668	**¥ 19,344**
Home Videogame Software	39,434	32,558	**30,220**
Amusement Facility Operations	76,229	75,119	**74,686**
Restaurant Operations	3,886	3,808	**4,282**
Movies and Graphics	—	7,321	**8,687**
Other	—	8,592	**9,355**
Total	¥145,517	¥148,066	**¥146,554**

	Millions of yen		
Overseas Sales*	1999	2000	**2001**
Overseas Sales	¥ 52,151	¥ 44,507	**¥ 40,239**
Net Sales	145,517	148,066	**146,554**
Percentage of Net Sales	35.8%	30.1%	**27.5%**

* Overseas sales include exports and sales by overseas subsidiaries.

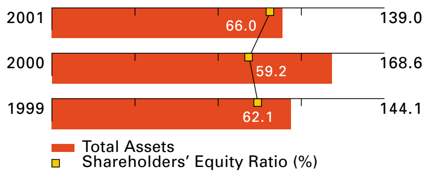
	Millions of yen		
Operating Income by Segment	1999	2000	**2001**
Coin-Operated Game Machines	¥ (1,668)	¥ 370	**¥ (3,207)**
Home Videogame Software	15,560	9,822	**4,855**
Amusement Facility Operations	(779)	573	**(821)**
Restaurant Operations	(53)	80	**131**
Movies and Graphics	(294)	(168)	**125**
Other	—	375	**(436)**
Elimination	(5)	(289)	**294**
Total	¥ 12,761	¥ 10,763	**¥ 941**
Unallocated Administrative Expenses	4,490	4,043	**3,807**
Operating Income	¥ 8,271	¥ 6,720	**¥ (2,866)**

Capital Expenditure and Cash Flow
(Billions of yen)

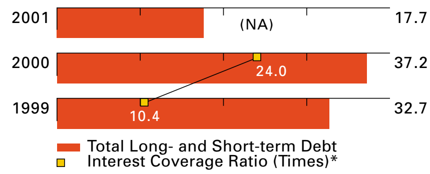


* Cash flow equals net income plus depreciation and amortisation, minus dividends and bonuses to directors and statutory auditors.

Total Assets and Shareholders' Equity Ratio
(Billions of yen)



Total Long- and Short-term Debt and Interest Coverage Ratio
(Billions of yen)



* Interest coverage ratio equals income before income taxes plus interest expense, divided by interest expense.

Analysis of Net Income

Cost of sales increased 6.7% to ¥120,738 million, mainly owing to expenditures associated with structural improvement, and the gross profit margin declined 6.0 percentage points compared with the previous fiscal year to 17.6%. Selling, general and administrative (SG&A) expenses were virtually unchanged at ¥28,682 million, and SG&A expenses as a percentage of net sales increased from 19.1% to 19.6%. Research and development expenses were ¥10,702 million, an increase of 12.5%. An operating loss of ¥2,866 million was recorded, compared with operating income of ¥6,720 million in the previous fiscal year.

By segment (excluding unallocated administrative expenses), the amusement facility operations segment recorded an operating loss of ¥821 million, compared with operating income of ¥573 million in the previous term. The coin-operated game machines segment posted an operating loss of ¥3,207 million, compared with operating income of ¥370 million a year earlier. In the home videogame software segment, operating income fell 50.6% to ¥4,855 million. Restaurant operations recorded operating income of ¥131 million, a year-on-year increase of 63.8%. The movies and graphics segment recorded operating income of ¥125 million, compared with an operating loss of ¥168 million in the previous year, while the other segment recorded an operating loss of ¥436 million, compared with operating income of ¥375 million during the previous term.

Other income declined 72.6% to ¥2,750 million, owing mainly to the absence of a gain on sale of marketable securities and a gain on sale of property and equipment, which totaled ¥4,825 million and ¥4,110 million, respectively, in the previous year. Other expenses increased ¥4,992 million to ¥9,080 million mainly due to an increase in revaluation loss on securities to ¥2,475 million, a loss on sale of property and equipment of ¥1,466 million, an amortisation of transition difference on adoption of accounting standard for retirement benefits of ¥894 million, an additional retirement payment of ¥1,330 million and a revaluation loss on property and equipment of ¥1,073 million.

A loss before income taxes of ¥9,196 million was recorded, compared with income before income taxes of ¥12,671 million during the previous fiscal year. The effective tax rate was 35.0%, compared with 49.6% during the previous fiscal year. Net loss totaled ¥6,000 million, compared with net income of ¥6,288 million a year earlier. Primary net loss per share of common stock was ¥109.09, compared with primary net income per share of ¥115.00 in the previous term. Management decreased cash dividends applicable to the year to ¥15.00 per share from ¥30.00 per share in the previous fiscal year.

Analysis of Cash Flows and Financial Position

Net cash provided by operating activities dropped ¥4,246 million to ¥12,332 million. Depreciation and amortisation decreased 8.0% to ¥14,623 million.

Net cash used in investing activities declined ¥3,799 million to ¥4,053 million, owing mainly to a change in time deposits, net of ¥3,754 million, and a decrease in non-current collateral deposits of ¥6,047 million.

Net cash used in financing activities climbed 23.6% to ¥20,109 million mainly due to an increase in repayment of reassessment debt totaling ¥10,512 million.

In aggregate, cash and cash equivalents at end of year declined 34.2% to ¥20,222 million.

Total current assets fell 30.0% to ¥51,261 million following decreases in cash and inventories. Total current liabilities dropped 21.9% to ¥30,275 million, mainly owing to a decrease in short-term bank loans. As a result, net working capital declined 39.2% to ¥20,986 million. The current ratio was 1.7 times, compared with 1.9 times a year earlier.

Net property and equipment dropped 10.6% to ¥41,405 million, owing mainly to a decrease in land. Total other assets declined 5.5% to ¥46,296 million. As a result, total assets decreased 17.6% to ¥138,962 million.

Interest-bearing debt, defined as short-term bank loans, current portion of long-term debt, long-term debt and reassessment debt, declined 52.6% to ¥17,650 million mainly due to the repayment of reassessment debt.

Net shareholders' equity decreased 8.1% to ¥91,646 million, reflecting declines in retained earnings, other securities valuation difference and foreign currency translation adjustments. The equity ratio at fiscal year-end was 66.0%, compared with 59.2% a year earlier. Return on average total equity was -6.3%, compared with 6.6% a year earlier.

Consolidated Balance Sheets

NAMCO LIMITED and subsidiaries
31st March, 2000 and 2001

Assets	Millions of yen 2000	Millions of yen 2001	Thousands of U.S. dollars (Note 2) 2001
Current assets:			
Cash (Note 3)	¥ 34,833	¥ 20,346	$ 163,490
Securities (Note 4)	3,881	—	—
Trade receivables	17,520	16,713	134,294
Allowance for doubtful accounts	(275)	(424)	(3,410)
Inventories (Note 5)	10,072	7,169	57,604
Deferred income taxes (Note 9)	820	1,575	12,655
Other current assets	6,415	5,882	47,270
Total current assets	73,266	51,261	411,903
Property and equipment:			
Amusement machines and facilities	91,863	90,777	729,425
Buildings and structures	10,412	10,369	83,318
Machinery and equipment	12,141	11,764	94,529
Land	9,409	6,979	56,077
Construction in progress	466	20	162
Accumulated depreciation	(77,998)	(78,504)	(630,808)
Net property and equipment	46,293	41,405	332,703
Other assets:			
Investment securities, including non-consolidated subsidiaries and affiliates (Note 4)	1,109	2,274	18,273
Leasehold deposits (Note 6)	29,807	28,903	232,248
Goodwill	1,188	1,692	13,592
Long-term prepaid expenses	1,697	1,408	11,313
Deferred income taxes (Note 9)	2,877	6,312	50,723
Non-current collateral deposits	4,764	—	—
Other non-current assets	7,566	5,707	45,851
Total other assets	49,008	46,296	372,000
Total assets	¥168,567	¥138,962	$1,116,606

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen 2000	Millions of yen 2001	Thousands of U.S. dollars (Note 2) 2001
Current liabilities:			
Short-term bank loans	¥ 11,311	¥ **4,648**	$ **37,350**
Current portion of long-term debt (Note 7)	2,105	**3,619**	**29,083**
Trade payables	11,462	**12,045**	**96,789**
Other payables	3,637	**3,806**	**30,584**
Accrued income taxes (Note 9)	2,488	**507**	**4,075**
Accrued expenses	3,676	**3,325**	**26,718**
Other current liabilities	4,082	**2,325**	**18,666**
Total current liabilities	38,761	**30,275**	**243,265**
Long-term debt (Note 7)	12,365	**9,383**	**75,395**
Reassessment debt	11,436	**—**	**—**
Allowance for retirement benefits for employees (Note 8)	417	**1,231**	**9,894**
Other long-term liabilities	4,408	**4,937**	**39,671**
Total liabilities	67,387	**45,826**	**368,225**
Minority interest in consolidated subsidiaries	1,406	**1,490**	**11,975**
Shareholders' equity (Note 10):			
Common stock of ¥50 par value:			
Authorized—109,685,421 shares			
Issued—55,087,618 shares (2000—55,068,026 shares)	27,369	**27,369**	**219,921**
Additional paid-in capital	26,399	**26,399**	**212,129**
Retained earnings	46,383	**39,279**	**315,619**
Other securities valuation difference	—	**(108)**	**(867)**
Foreign currency translation adjustments	—	**(1,217)**	**(9,784)**
	100,151	**91,722**	**737,018**
Less costs of common shares of treasury stock	377	**76**	**612**
Net shareholders' equity	99,774	**91,646**	**736,406**
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	¥168,567	**¥138,962**	**$1,116,606**

Consolidated Statements of Income

NAMCO LIMITED and subsidiaries
Years ended 31st March, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	2001	2001
Net sales	¥148,066	¥146,554	$1,177,614
Cost of sales	113,132	120,738	970,173
Gross profit	34,934	25,816	207,441
Selling, general and administrative expenses (Note 11)	28,214	28,682	230,470
Operating income (loss)	6,720	(2,866)	(23,029)
Other income:			
Interest and dividends	339	390	3,133
Gain on sale of marketable securities	4,825	—	—
Gain on sale of property and equipment	4,110	—	—
Gain on exemption from reassessment debt	—	1,911	15,353
Other	765	449	3,607
	10,039	2,750	22,093
Other expenses:			
Interest	551	404	3,243
Other (Note 12)	3,537	8,676	69,718
	4,088	9,080	72,961
Income (loss) before income taxes	12,671	(9,196)	(73,897)
Income taxes (Note 9):			
Current	5,029	765	6,146
Deferred	1,354	(3,961)	(31,829)
Net income (loss)	¥ 6,288	¥ (6,000)	$ (48,214)

	Yen		U.S. dollars (Note 2)
Per share of common stock:			
Net income (loss):			
Primary	¥115.00	¥(109.09)	$(0.88)
Fully diluted	109.06	—	—
Cash dividends applicable to the year	30.00	15.00	0.12

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

NAMCO LIMITED and subsidiaries
Years ended 31st March, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	2001	2001
Common stock:			
Balance at beginning of year	¥26,997	¥27,369	$219,917
Conversion of convertible bonds	372	0	4
Balance at end of year	27,369	27,369	219,921
Additional paid-in capital:			
Balance at beginning of year	26,027	26,399	212,125
Conversion of convertible bonds	372	0	4
Balance at end of year	26,399	26,399	212,129
Retained earnings:			
Balance at beginning of year	37,143	46,383	372,704
Cash and cash equivalents on beginning balance arising from consolidation of previously equity accounted entities	3,245	—	—
Addition arising from merger	—	430	3,458
Carry-back adjustments of income taxes	1,419	—	—
Net income	6,288	(6,000)	(48,214)
Appropriations:			
Cash dividends	(1,638)	(1,495)	(12,011)
Bonuses to directors and statutory auditors	(74)	(39)	(318)
Balance at end of year	46,383	39,279	315,619
Other securities valuation difference:			
Balance at beginning of year	—	—	—
Net change during the year	—	(108)	(867)
Balance at end of year	—	(108)	(867)
Foreign currency translation adjustments:			
Balance at beginning of year	—	—	—
Net change during the year	—	(1,217)	(9,784)
Balance at end of year	—	(1,217)	(9,784)
Treasury stock:			
Balance at beginning of year	(601)	(377)	(3,028)
Decrease during the year	224	301	2,416
Balance at end of year	(377)	(76)	(612)
Net shareholders' equity	¥99,774	¥91,646	$736,406

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NAMCO LIMITED and subsidiaries
Years ended 31st March, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	2001	2001
Cash Flows from Operating Activities:			
Net income (loss)	¥ 6,288	¥ (6,000)	$ (48,214)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	15,889	14,623	117,504
Gain (loss) on sale of property, plant and equipment	(4,110)	1,394	11,202
Gain on sale of marketable securities	(4,825)	—	—
Loss on disposal of property, plant and equipment	350	2,235	17,960
Revaluation loss on securities	271	2,475	19,885
Deferred income taxes	1,354	(3,961)	(31,829)
Gain on exemption from reassessment debt	—	(1,911)	(15,353)
Other non-cash items	1,448	929	7,462
Changes in operating assets and liabilities:			
Trade receivables	(2,486)	1,183	9,502
Inventories	874	3,101	24,912
Trade payables	605	361	2,900
Accrued income taxes	1,544	(1,981)	(15,920)
Accrued expenses	(230)	(519)	(4,173)
Other, net	(320)	443	3,574
Other payments	(74)	(40)	(319)
Net cash provided by operating activities	16,578	12,332	99,093
Cash Flows from Investing Activities:			
Change in time deposits, net	(4,024)	3,754	30,167
Capital expenditure	(11,574)	(13,711)	(110,173)
Increase in investments in securities	(3,415)	—	—
Proceeds from sale of investments in securities	5,538	—	—
Proceeds from sale of property, plant and equipment	10,490	1,582	12,714
Acquisition of investments in securities	—	(161)	(1,300)
Increase in non-current collateral deposits	(3,361)	(1,283)	(10,310)
Decrease in non-current collateral deposits	—	6,047	48,592
Purchase of common shares of treasury stock	224	301	2,416
Other, net	(1,730)	(582)	(4,677)
Net cash used in investing activities	(7,852)	(4,053)	(32,571)
Cash Flows from Financing Activities:			
Bank borrowings, net	(13,521)	(8,244)	(66,243)
Repayment of reassessment debt	(1,107)	(10,512)	(84,475)
Cash dividends paid	(1,638)	(1,495)	(12,011)
Other, net	1	142	1,145
Net cash used in financing activities	(16,265)	(20,109)	(161,584)
Effect of exchange rate changes on cash and cash equivalents	(429)	221	1,779
Net decrease in cash and cash equivalents	(7,968)	(11,609)	(93,283)
Cash and cash equivalents at beginning of year	35,194	30,728	246,907
Cash and cash equivalents on beginning balance arising from merger	—	1,103	8,863
Cash and cash equivalents on beginning balance arising from additions of subsidiaries	3,502	—	—
	38,696	31,831	255,770
Cash and cash equivalents at end of year (Note 3)	¥ 30,728	¥ 20,222	$ 162,487

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NAMCO LIMITED and subsidiaries
31st March, 2000 and 2001

1. Basis of Financial Statement Presentation and Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared from the accounts maintained by Namco Limited ("the Company") in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The Company and its domestic subsidiaries maintain their books of account in conformity with generally accepted accounting principles in Japan, and its foreign subsidiaries in conformity with those of the United States and other generally accepted accounting principles, based on where the subsidiaries are incorporated. No adjustments have been reflected in the accompanying consolidated financial statements to present the accounts of the foreign subsidiaries in compliance with Japanese accounting principles as followed by the Company. However, it is the opinion of the management of the Company that the accounting principles followed by the foreign subsidiaries do not substantially differ from those followed by the Company, except for methods of depreciation of property and equipment and amortisation of goodwill.

Significant accounting policies are as follows:

(a) Principles of Consolidation

Until the year ended March 31, 1999, the consolidated financial statements included the accounts of the Company and its significant subsidiaries (owned more than 50%) and investments in certain unconsolidated subsidiaries and significant affiliates (owned 20% to 50%) were accounted for by the equity method.

In accordance with the revised accounting standard for consolidation which became effective the year ended March 31, 2000, the accompanying consolidated financial statements for the years ended March 31, 2000 and 2001 include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

Due to this change in accounting policy for consolidation, the number of consolidated companies increased by 4 in the year ended March 31, 2000.

In order to facilitate consolidation, subsidiaries mainly adopt an annual fiscal period that ends on the last day of February.

The Company has applied the equity method, after elimination of unrealized intercompany profit, for investments in non-consolidated subsidiaries and significant affiliates.

(b) Foreign Currency Translation

Until the year ended March 31, 2000, receivables and payables, except for non-current receivables and payables, denominated in foreign currencies at the balance sheet date were translated at the exchange rates in effect as of the balance sheet date or at foreign exchange forward contract rates and the unrealized gain or loss reflected in other income (expenses). Non-current receivables and payables denominated in foreign currencies were translated at the exchange rates in effect as of the transaction date.

Effective from the year ended 31st March, 2001, the Company adopted the revised accounting standard for foreign currency transactions ("Opinion Concerning Establishment of Accounting for Foreign Currency Transactions", the Business Accounting Deliberation Council, 22nd October, 1999). Under the revised accounting standard, all receivables and payables, including non-current receivables and payables, denominated in foreign currencies at the balance sheet date are translated at the rates in effect as of the balance sheet dates, and the unrealized gain or loss is reflected in other income (expenses). There was no effect of translating non-current receivables and payables in foreign currencies using the rate at the balance sheet date for the year ended 31st March, 2001. Foreign currency translation adjustments, which were classified in "Assets" in the prior year's consolidated financial statements are now included in "Shareholders' equity". Foreign currency translation adjustments amounted to ¥1,639 million (U.S.$13,171 thousand) at 31st March, 2000 and were included in "Other non-current assets". The prior year's consolidated financial statements have not been restated.

The accounts of foreign subsidiaries are translated into yen at the rates in effect at the end of the year. Gains and losses resulting from translation are generally excluded from the statements of income and are accumulated under the balance sheet caption "Foreign currency translation adjustments".

(c) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers cash, bank deposits which may be withdrawn on demand and all highly liquid investments with maturities of three months or less that are easily transferable to cash and without diminution of principal to be cash and cash equivalents.

(d) Securities and Investment Securities

Until the year ended 31st March, 2001 listed securities held for temporary and long-term investment purposes were included in the balance sheet captions "Securities" and "Investment securities", respectively, and were stated at the lower of cost or market on an individual basis, cost being determined by the moving-average method. Other securities were stated at cost, determined by the moving-average method.

Effective from the year ended 31st March, 2001, the Company adopted the new accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting for Financial Instruments", the Business Accounting Deliberation Council, 22nd January, 1999). To comply with the new accounting standard, the Company changed the valuation method of securities, golf membership, and derivatives. The prior year's consolidated financial statements have not been restated. As a result of these changes, the loss before income taxes for the year ended 31st March 2001 increased by ¥132 million (U.S.$1,058 thousand).

The accounting standard for financial instruments requires the Company to classify its securities into one of the following three categories; trading, held-to-maturity, or other securities. At the beginning of the year, the Company reviewed the classification of all securities. Based on the classification, all securities are included in "investment securities" as "other assets".

To comply with the accounting standard for financial instruments, other securities with a market value are principally carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized in "Other securities valuation difference" in "Shareholders' equity". Other securities without market value are principally carried at cost. The cost of other securities sold is principally computed based on the moving average-method

(e) Inventories

Inventories of the Company and the domestic subsidiaries are stated at cost, determined by the moving-average method, adjusted for any substantial and permanent decline in value. Inventories of the foreign subsidiaries are stated at the lower of cost (principally first in, first out) or market (net realizable value).

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed principally under the declining-balance method for assets held by the parent company and domestic subsidiaries and under the straight-line method for assets held by foreign subsidiaries, at rates based on estimated useful lives of the assets according to general class, type of construction and use.

Repairs and maintenance which do not improve or extend the life of the related assets are expensed.

(g) Goodwill

Goodwill represents the excess of the purchase price over the fair market value of net assets acquired in business combinations. Goodwill incurred by foreign subsidiaries is amortized principally using the straight-line method over 15 years. Goodwill incurred by the Company and the domestic subsidiaries is charged to income when incurred.

(h) Research and Development Expenses

Research and development expenses are charged to income as selling, general and administrative expenses of the period in which they are incurred. When the management of the Company indicates its intention to produce and market a product, related research and development expenses are accounted for as production costs of the product.

(i) Retirement Benefits

Under the Company's and its domestic subsidiaries' employee retirement plan, employees are entitled to receive lump-sum or pension payments based on length of service and current basic salary. Amounts payable under the plan are provided by a funded pension plan. Until the year ended 31st March, 2000, pension premiums were charged to expenses upon payment. Amounts payable to employees who were not covered by the pension plan were provided as unfunded retirement allowances. Until the year ended 31st March, 2000, unfunded retirement allowances had been provided in the accompanying consolidated balance sheets based on 40% of the estimated liability assuming all employees were voluntarily retire on the balance sheet date.

Most foreign subsidiaries have various retirement plans, principally defined contribution plans, covering substantially all of their employees.

Effective from the year ended 31st March, 2001, the Company adopted the new accounting standard for retirement benefits ("Opinion Concerning Establishment of Accounting Standard for Retirement Benefits", the Business Accounting Deliberation Council, 16th June, 1998). In accordance with this standard, the allowance for retirement benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets. As a result of adoption of this standard in the current year, retirement benefit costs decreased by ¥102 million (U.S.$822 thousand), operating loss decreased by ¥98 million (U.S.$790 thousand), and loss before income taxes increased by ¥796 million (U.S.$6,396 thousand).

The transition difference of ¥894 million (U.S.$7,186 thousand) arising from the adoption of the new accounting standard is charged to expenses in the year ended 31st March, 2001, and the amortisation cost is included in other expenses.

While the Company has no legal obligation, it is customary practice in Japan to make lump-sum payments to directors or statutory auditors upon retirement, with the approval of shareholders at the annual shareholders' meeting. According to established guidelines, the amount of such allowance is computed based upon payment factors determined by position and length of service as director or statutory auditor. Allowance for retirement benefits for directors and statutory auditors required under the plan has been provided at estimated amount of ¥1,859 million (U.S.$14,935 thousand) and ¥1,929 million (U.S.$15,498 thousand) at 31st March, 2000 and 2001, respectively, and is included in "Other long-term liabilities."

(j) Income Taxes

Until the year ended March 31, 1999, deferred income taxes were not recognized by the Company although tax-effect accounting had been adopted by the foreign consolidated subsidiaries.

In accordance with a new accounting standard for income taxes which became effective March 31, 2000, deferred tax assets and liabilities have been recognized in the consolidated financial statements for the years ended March 31, 2000 and 2001 with respect to the differences between the financial reporting and tax bases of assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The effects of the adoption of the new standard for income taxes to total assets and total liabilities at March 31, 2000 and for income for the year ended March 31, 2000 were insignificant.

(k) Net Income and Cash Dividends per Share

In computing primary net income per share, the average number of shares of common stock outstanding during each year has been used.

The computation of fully diluted net income per share reflects the effect of common shares contingently issuable upon the conversion of convertible bonds as if such bonds had been converted at the beginning of the year or at the time of issue in the case of newly issued bonds after giving effect to the elimination of interest expenses, less income tax effect, applicable to the convertible bonds.

Cash dividends per share represent dividends declared for the respective year.

(l) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended 31st March, 2001.

2. U.S. Dollar Amounts

The financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥124.45 = U.S.$1, the approximate exchange rate at 25th June, 2001.

This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at that date.

3. Cash and Cash Equivalents

A reconciliation of the cash per consolidated balance sheets and cash and cash equivalents per statements of cash flows is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Cash	¥34,833	¥20,346	$163,490
Less:			
Time deposits with maturities greater than three months	4,105	124	1,003
Cash and cash equivalents	¥30,728	¥20,222	$162,487

4. Securities and Investment Securities

The acquisition cost, carrying amount (market value) and gross unrealized holding gain and loss for other securities with a market value are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
2001:				
Other securities:				
Listed corporate share	¥ 958	¥42	¥ 94	¥ 906
Other	521	—	132	389
	¥1,479	¥42	¥226	¥1,295

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
2001:				
Other securities:				
Listed corporate share	$ 7,701	$338	$ 755	$ 7,284
Other	4,186	—	1,062	3,124
	$11,887	$338	$1,817	$10,408

The following is a summary of non-marketable securities:

	Millions of yen	
	Carrying amount	Thousands of U.S. dollars
2001:		
Other securities:		
non-listed corporate share	¥586	$4,707

Investments in non-consolidated subsidiaries and affiliates, which are included in "Investment securities, including non-consolidated subsidiaries and affiliates", are ¥291 million (U.S.$2,335 thousand) and ¥393 million (U.S.$3,158 thousand) at 31st March, 2000 and 2001, respectively.

Securities and investment securities at 31st March, 2000 are summarized as follows:

	Millions of yen
	2000
Securities—Listed corporate shares	¥3,881
Investment securities:	
Listed corporate shares	¥ 8
Non-listed corporate shares	810
	¥ 818

The market value of listed securities at 31st March, 2000 was ¥3,343 million (U.S.$26,865 thousand).

5. Inventories

Inventories at 31st March, 2000 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Merchandise	¥ 921	¥ 854	$ 6,859
Products	3,606	1,731	13,911
Raw materials	1,417	934	7,503
Work in process	3,070	2,812	22,594
Supplies	1,058	838	6,737
	¥10,072	¥7,169	$57,604

6. Leasehold Deposits

Leasehold deposits at 31st March, 2000 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deposits for amusement facility operations and restaurant operations	¥23,982	¥23,115	$185,736
Deposits for office space	1,525	1,539	12,366
Other deposits	4,300	4,249	34,146
	¥29,807	¥28,903	$232,248

Such leasehold deposits do not bear interest and are generally refundable when the lease is terminated.

The Companies conduct amusement facility operations and restaurant operations on properties leased from lessors under long-term lease contracts. Lease expenses for amusement facility operations and restaurant operations for the years ended 31st March, 2000 and 2001 amounted to ¥19,916 million (U.S.$160,034 thousand) and ¥19,642 million (U.S.$157,833 thousand), respectively.

7. Long-term Debt

Long-term debt at 31st March, 2000 and 2001 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
0.8% unsecured convertible bonds due 28th September, 2001 convertible into common stock at ¥3,106 per share	¥ 3,091	¥ 3,090	$ 24,829
0.9% unsecured convertible bonds due 30th September, 2003 convertible into common stock at ¥3,106 per share	7,178	7,178	57,678
Bank loans	4,201	2,734	21,971
	14,470	13,002	104,478
Less current portion	2,105	3,619	29,083
	¥12,365	¥ 9,383	$ 75,395

For the benefit of the holders of the 0.8% and 0.9% convertible bonds, the Company has agreed that the aggregate amount of payments of cash dividends may not exceed ¥4,400 million (U.S.$35,356 thousand) plus the aggregate amount of net income of the Company starting from the year ended 31st March, 1995.

8. Retirement Benefits

The plan's funded status and amount recognized in the accompanying consolidated balance sheet at 31st March, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Retirement benefit obligation	¥ 5,020	$ 40,335
Plan assets at fair value	(3,117)	(25,043)
Retirement benefit obligation in excess of plan assets	1,903	15,292
Unrecognized transition difference at adoption of accounting standard for retirement benefits	—	—
Unrecognized actuarial loss	(672)	(5,398)
Unrecognized prior service cost	—	—
Allowance for retirement benefits for employees	¥ 1,231	$ 9,894

Net periodic benefit cost for the year ended 31st March, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Service cost	¥ 399	$ 3,209
Interest cost on retirement benefit obligation	126	1,012
Estimated return on plan assets	(95)	(768)
Amortisation of transition difference on adoption of accounting standard for retirement benefits	894	7,186
Amortisation of unrecognized actuarial gain or loss	—	—
Amortisation of unrecognized prior service cost	—	—
Net periodic cost	¥ 1,324	$ 10,639

The actuarial assumptions and basis for the calculation of retirement severance benefits are as follows:

	2001
Method of the benefit attribution	"benefit/year-of-service" approach
Discount rate	2.6%
Estimated rate of return on plan assets	3.5%
Period of amortisation of unrecognized prior service cost	—
Period of amortisation of transition difference at adoption of accounting standard for retirement benefits	1 Year
Period of amortisation of unrecognized actuarial gain or loss	Actuarial gain or loss are amortized using the straight-line method which is within the estimated average remaining service years of employees.

9. Income Taxes

The Company is subject to Japanese corporate, inhabitant and enterprise taxes based on income, which in aggregate resulted in a normal tax rate of approximately 47% in the year ended 31st March, 1999 and 42% in the years ended 31st March, 2000 and 2001.

Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective income tax rate reflected in the accompanying consolidated statement of income for the year ended 31st March, 2001 differs from the Japanese normal income tax rate primarily because of the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effects of permanently non-deductible expenses.

A reconciliation of the Japanese normal income tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests for the years ended 31st March, 2000 and 2001 is as follows:

	2000	2001
Japanese normal income tax rate	42.0%	**42.0%**
Increase (reduction) in income taxes resulting from:		
Increase (reduction) in valuation allowance	5.1	**(1.6)**
Inhabitant tax per capita	1.7	**(2.3)**
Other	0.8	**(3.1)**
Effective income tax rate	49.6%	**35.0%**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at 31st March, 2000 and 2001 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deferred tax assets:			
Tax loss carryforward	¥ 1,168	**¥ 3,327**	**$ 26,733**
Devaluation loss on securities	95	**1,059**	**8,507**
Depreciation and amortisation	905	**964**	**7,744**
Allowance for retirement benefits for directors and statutory auditors	781	**810**	**6,509**
Allowance for retirement benefits for employees	132	**465**	**3,738**
Other	1,755	**2,547**	**20,472**
Total gross deferred tax assets	4,836	**9,172**	**73,703**
Less valuation allowance	(1,139)	**(1,285)**	**(10,325)**
Net deferred tax assets	3,697	**7,887**	**63,378**
Deferred tax liabilities:			
Unrealized profit in property and equipment	(36)	**(57)**	**(460)**
Other	(14)	**(60)**	**(485)**
Total gross deferred tax liabilities	(50)	**(117)**	**(945)**
Net deferred tax assets	¥ 3,647	**¥ 7,770**	**$ 62,433**

10. Shareholders' Equity

The Japanese Commercial Code requires that at least 50% of the issue price of new shares be transferred to the common stock account, provided 50% of the issue price is greater than the par value of common stock. In accordance with such requirement, 50% of the proceeds from the new shares issue based upon the conversion of convertible bonds was transferred to the common stock account and the remaining 50% was credited to additional paid-in capital.

The Commercial Code provides that an amount equal to at least 10% of the amount to be disbursed as distribution of retained earnings be appropriated as a legal reserve until such reserve equals 25% of stated capital. The amount of the legal reserve of Namco Limited was ¥1,278 million (U.S.$10,269 thousand) as of 31st March, 2000 and ¥1,435 million (U.S.$11,530 thousand) as of 31st March, 2001, respectively, which were included in retained earnings.

Additional paid-in capital and legal reserve are not available for dividends but may be used to reduce a deficit or may be transferred to stated capital.

Cash dividends, directors' and statutory auditors' bonuses and appropriations to the legal reserve charged to retained earnings during the years ended 31st March, 2000 and 2001 represent dividends and bonuses paid out during such period and the related appropriations to the legal reserve.

The accompanying consolidated financial statements do not include any provision for a dividend and bonuses to the directors and statutory auditors since the Company will not make such an appropriation of retained earnings.

11. Research and Development Expenses

Total amount of the expenses of the research and development department for the years ended 31st March, 2000 and 2001 amounted to ¥9,513 million (U.S.$76,416 thousand) and ¥10,702 million (U.S.$85,994 thousand), respectively. ¥5,537 million (U.S.$44,516 thousand) of ¥9,513 million and ¥6,120 million (U.S.$49,173 thousand) of ¥10,702 million were charged to selling, general and administrative expenses in 2000 and 2001, respectively.

12. Other Expenses

The composition of other expenses—other for the years ended 31st March, 2000 and 2001 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Revaluation loss on securities	¥ 271	**¥ 2,475**	**$ 19,885**
Inventory write down	1,160	**—**	**—**
Foreign exchange loss	148	**—**	**—**
Amortisation of goodwill	124	**239**	**1,921**
Loss on disposal of property and equipment	350	**159**	**1,280**
Consolidation adjustment—amortisation of excess of consolidation over fair value	501	**—**	**—**
Minority interest in consolidated subsidiaries	209	**54**	**432**
Loss on sale of property and equipment	—	**1,466**	**11,777**
Amortisation of transition difference on adoption of accounting standard for retirement benefits	—	**894**	**7,186**
Additional retirement payment	—	**1,330**	**10,687**
Revaluation loss on property and equipment	—	**986**	**7,920**
Other	774	**1,073**	**8,630**
	¥ 3,537	**¥ 8,676**	**$ 69,718**

13. Contingent Liabilities

At 31st March, 2000 and 2001 contingent liabilities for loans guaranteed by the Company amounted to nil balance and ¥19 million (U.S.$152 thousand), respectively.

In the opinion of management of the Company, it is not anticipated that any substantial loss will result from these contingencies.

14. Stock Option Plan

In June 1997, the Company's shareholders approved a stock option plan (the 1997 plan), which permitted the Company to grant options for up to 115,000 shares of its common stock to all directors (except the chairman and chief executive officer) and eligible key employees. The 1997 plan is exercisable from 1st April, 1998 to 31st March, 2001, and the option price per share was set at ¥4,165 on the date the options were granted.

In addition, on 27th June, 1998, shareholders approved a stock option plan (the 1998 plan), which permitted the Company to grant options for up to 119,000 shares of its common stock to all directors (except chairman and chief executive officer) and eligible key employees. The 1998 plan is exercisable from 1st July, 2000 to 30th June, 2003, and the option price per share was set at ¥2,357 on the date the options were granted.

At 25th June, 2001, all stock option plans closed due to expiration or cancellation.

A summary of changes in common stock options is as follows:

	1997 plan No. of shares	1998 plan No. of shares
Outstanding at 1st April, 1997	—	—
Granted on June 27, 1997	115,000	—
Exercised	—	—
Cancelled	(1,000)	—
Outstanding at 31st March, 1998	114,000	—
Granted on June 27, 1998	—	119,000
Exercised	—	—
Cancelled	(2,500)	(1,500)
Outstanding at 31st March, 1999	111,500	117,500
Exercised	(81,000)	—
Cancelled	(1,500)	(3,000)
Outstanding at 31st March, 2000	29,000	114,500
Exercised	—	—
Expired	(28,500)	—
Cancelled	(500)	(114,000)
Outstanding at 31st March, 2001	—	500

15. Segment Information

(a) Business Segment Information

The Companies operate in six business segments, as indicated below.
Certain corporate administrative expenses have not been allocated to segments due to the nature of the expense.

	Millions of yen							
	Business segments							
	Amusement Facility Operations	Coin-Operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other	Corporate Items	Consolidated
2000:								
Net sales to customers	¥75,119	¥20,668	¥32,558	¥3,808	¥ 7,321	¥ 8,592	¥ —	¥148,066
Intersegment sales	264	438	24	82	16	205	(1,029)*	—
Total net sales	75,383	21,106	32,582	3,890	7,337	8,797	(1,029)	148,066
Operating income	573	370	9,822	80	(168)	375	(4,332)**	6,720
Identifiable assets	62,720	15,933	14,826	2,676	19,106	16,125	37,181	168,567
Depreciation and amortisation	13,229	796	474	93	286	225	786	15,889
Capital expenditure	10,893	733	619	104	386	46	411	13,192

	Millions of yen							
	Business segments							
	Amusement Facility Operations	Coin-Operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other	Corporate Items	Consolidated
2001:								
Net sales to customers	**¥74,686**	**¥19,344**	**¥30,220**	**¥4,282**	**¥8,687**	**¥ 9,335**	**¥ —**	**¥146,554**
Intersegment sales	**269**	**470**	**27**	**96**	**17**	**176**	**(1,055)***	**—**
Total net sales	**74,955**	**19,814**	**30,247**	**4,378**	**8,704**	**9,511**	**(1,055)**	**146,554**
Operating income	**(821)**	**(3,207)**	**4,855**	**131**	**125**	**(436)**	**(3,513)****	**(2,866)**
Identifiable assets	**58,874**	**12,603**	**15,450**	**2,926**	**8,464**	**14,713**	**25,932**	**138,962**
Depreciation and amortisation	**12,236**	**750**	**628**	**90**	**285**	**542**	**92**	**14,623**
Capital expenditure	**11,761**	**334**	**650**	**217**	**747**	**2,178**	**310**	**16,197**

* Elimination of intersegment sales.
**Includes unallocated administrative expenses of ¥4,043 million in 2000 and ¥3,807 million in 2001.

(b) Geographical Segment Information

Summarized data for the Companies' operations (sales within Japan and outside Japan) is as follows:

	Millions of yen			
	Within Japan	Outside Japan	Corporate Items	Consolidated
2000:				
Net sales to customers	¥115,324	¥32,742	¥ —	¥148,066
Intersegment sales	3,978	177	(4,155)*	—
Total net sales	119,302	32,919	(4,155)	148,066
Operating income	8,271	2,799	(4,350)**	6,720
Identifiable assets	111,676	21,097	35,794	168,567
2001:				
Net sales to customers	**¥115,216**	**¥31,338**	**¥ —**	**¥146,554**
Intersegment sales	**1,950**	**121**	**(2,071)***	**—**
Total net sales	**117,166**	**31,459**	**(2,071)**	**146,554**
Operating income	**522**	**154**	**(3,542)****	**(2,866)**
Identifiable assets	**89,205**	**23,729**	**26,028**	**138,962**

* Elimination of intersegment sales.
**Includes unallocated administrative expenses of ¥4,043 million in 2000 and ¥3,807 million in 2001

(c) Overseas Sales Information

Overseas sales of the Companies for the years ended 31st March, 2000 and 2001 amounted to ¥44,507 million (30.1% of consolidated net sales) and ¥40,239 million (27.5% of consolidated net sales), respectively.

Independent Auditors' Report

KPMG

The Board of Directors and Shareholders
Namco Limited

We have audited the consolidated balance sheets of Namco Limited and consolidated subsidiaries as of 31st March, 2000 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Namco Limited and consolidated subsidiaries at 31st March, 2000 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan, applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, Namco Limited and consolidated subsidiaries have adopted the new accounting standards for consolidation and tax-effect accounting effective the year ended 31st March, 2000, and the new accounting standards for retirement benefits and financial instruments and the revised accounting standards for foreign currency transactions effective the year ended 31st March, 2001, in the preparation of the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2001, are presented solely for the convenience of the reader. 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 2 to the consolidated financial statements.

Century Ota Showa & Co.

Tokyo, Japan
25th June, 2001

See Note 1 to the consolidated financial statements, which explains the basis of preparing the consolidated financial statements of Namco Limited under Japanese accounting principles and practices.

Corporate Data

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Date of Establishment
June 1, 1955

Number of Employees (Parent Company)
2,097 (As of May 31, 2001)

Number of Shareholders
21,198 (As of March 31, 2001)

Listing of the Company's Shares
First Section of the Tokyo Stock Exchange

Independent Certified Public Accountants
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Directors and Statutory Auditors

Chairman and Chief Executive Officer
Masaya Nakamura*

Vice Chairman
Ryuji Hashiguchi*

Executive Vice President
Kyushiro Takagi*

Managing Directors
Akiyoshi Sarukawa*
Masahiro Tachibana*
Yasuhiko Asada
Keiji Tanaka
Shukuo Ishikawa

Director
Koichiro Homma
(The above directors serve as division executives)

Statutory Auditors
Shigeru Yamada
Nobuo Okabe
Toshinori Hayashida
Mitsuo Ichikawa

Division Executives
Shigeichi Ishimura
Tsugio Kinoshita
Jun Higashi
Seiichi Hirota
Yoichi Haraguchi
Mamoru Ikezawa
Akira Osugi
Shigeru Yokoyama
Noboru Suzuki
Koichi Tashiro
Keiji Azuma
Keishi Degawa

(As of June 30, 2001)

**Representative Directors*

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(As of May 31, 2001)

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PRINTED IN JAPAN