namco

Since 1955,

Namco Limited has been engaged in the amusement business as a leader in its field. With the belief that the 21st century will be an "Era of Spirituality," we are focusing on what we call "High-Touch Digital Entertainment." This concept involves the creation of services that fuse digital media with a spirit of adventure, and high-tech with a human touch. In this pursuit, we aim to expand as entertainment innovators in a world where amusement knows no borders.

Annual Report 2002

From* 1993 *to the present: History of the Namco Group

The two wheels that drive the Namco Group are its expertise in facility operations and its formidable capabilities in product development.

Since establishing its dominant position as a facility operator in 1993, the Namco Group has been one of only a few groups engaged in worldwide facility operations. The Namco Group's spirit of hospitality is offered to its customers at every one of its facilities. An important aspect of our facility operations is that we can receive direct reactions from customers.

In addition, the Group has led the market by continuously offering software that uses its cutting-edge developmental capabilities to fully exploit the potentials of various hardware products that have been launched. Especially with the launch of the Sony PlayStation in 1994, the home videogame software business has entered a new era. It has developed into one of the pillars that support the Namco Group. Our capabilities for development have also been demonstrated in the coin-operated game machine market, as we have established new genres through products such as sensory videogame machines.

A Decade of Progr

Net Sales (Millions of yen)

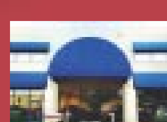
1993 — **74,212**

Released Ridge Racer, a driving simulation coin-operated game using System 22, a real-time, three-dimensional computer graphics system board.

1994 — **87,642**

Introduced Ridge Racer for Sony's PlayStation.

1995 — **94,475**



Established Namco Holding Corp. in the U.S.

1996 — **110,188**

Announced Tekken for Sony's PlayStation.

1997 — **139,808**

Opened Namco NamjaTown, a theme park of dreams and nostalgia, in Tokyo.

SIX-YEAR SUMMARY

NAMCO LIMITED and subsidiaries
Years ended 31st March

	Millions of yen						Thousands of U.S. dollars
	1997	1998	1999	2000	2001	**2002**	**2002**
For the year:							
Net sales	¥139,808	¥145,761	¥145,517	¥148,066	¥146,554	**¥152,136**	**$1,250,604**
Operating income (loss)	14,902	11,772	8,271	6,720	(2,866)	**6,133**	**50,415**
Income (loss) before income taxes	15,824	9,337	7,914	12,671	(9,196)	**2,952**	**24,266**
Net income (loss)	7,787	4,164	3,566	6,288	(6,000)	**2,035**	**16,728**
Per share of common stock: (in yen and U.S. dollars):							
Net income (loss)—Primary	163.94	78.60	65.82	115.00	(109.09)	**36.95**	**0.30**
Cash dividends applicable to the year	30.00	30.00	30.00	30.00	15.00	**17.00**	**0.14**
At year-end:							
Shareholders' equity	76,110	84,355	89,566	99,774	91,646	**96,133**	**790,242**
Total assets	141,492	142,992	144,120	168,567	138,962	**144,140**	**1,184,875**
Number of shares outstanding: (thousands):	51,544	53,625	54,828	55,068	55,087	**55,087**	

Note: U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥121.65=U.S.$1.

ess and Beyond ...

145,761

Increased investment in Nikkatsu Corporation by ¥3 billion, making it a wholly owned subsidiary.

日活株式会社
NIKKATSU CORPORATION

1998

145,517

Created Namco Station for NTT DoCoMo's i-mode service; expanded and improved contents.

ナムコステーション™
namco®

1999

148,066

Release of Sony's PlayStation 2 and Namco's corresponding software, Ridge Racer V.

2000

146,554

Released Mr. Driller for three different home consoles.

2001

152,136

Opened communication park Shima-Shima Town in Kawasaki, in conjunction with Benesse Corporation.

© Benesse Corporation

2002

MESSAGE FROM THE CHAIRMAN

To Our Shareholders

It is more than a half-century since Namco started its original business. We have since achieved a wide variety of objectives, and now management is passing to the next generation for new objectives. I, Namco's founder, have become chairman of the Board of Directors, and the presidency has been assigned to Kyushiro Takagi, whose message is presented on pages 4–5. Here, I will summarize the results of fiscal year 2002, ended March 31, 2002.

During the term under review, the Japanese economy was unable to stage a meaningful recovery, despite rising public expectations of the new Koizumi government and its reformist pledges. The September 11 terrorist attacks on the United States that took place in the middle of the term exacerbated global concerns about society and the economy and discouraged consumer spending.

The amusement industry experienced a growing trend toward cooperation among major companies and fiercer competition in response to the shrinkage of the amusement market, as well as soaring development costs for higher performance and graphic resolution of home and portable game machines and new game consoles.

In this environment, the Company instituted organizational change on April 1, 2001, as the first phase of structural reform, along with other actions designed to restore profitability. Intending to remove the causes of our losses in the previous term and to enable a quick response to the rapidly changing circumstances, these changes had three major features: (1) streamlining of the organization for higher efficiency, (2) restructuring of existing business sectors to match the market, and (3) active input of management resources into creating new businesses for expansion. As a result of independent efforts to improve business efficiency in every unit, we succeeded in overcoming the crisis in the previous term and in raising sales and ordinary profit to a level beyond the target in the revised medium-term plan. In addition, we launched the second structural reform for establishment of medium- and long-term growth strategies in October 2001. We have also created a strategy report, which is used as a guideline for our operations.

In the Amusement Facility Operations segment, we are reducing management costs and closing unprofitable facilities in Japan as part of a sustained effort to return to a profitable basis and improve operational efficiency. We are also launching new arcades and strengthening operational capabilities to improve the gross margin and establish an independent shop system. The business environment is also difficult in the North American market. We have aggressively closed unprofitable arcades and developed innovative arcades. We have also bolstered our system at Head Office for management guidance and support. In the European market, we acquired a large-scale amusement complex in the United Kingdom in March 2001, while we shut down loss-making facilities in France and Germany. Our facility management has therefore placed a clear priority on profitability.

In the course of industrial realignment, I announced the so-called owners' alliance for reciprocal ownership of stocks with the founders of Square Co., Ltd. and Enix Corporation in April 2001, forming a loose partnership among the three companies. We also announced a comprehensive partnership with Sega Corporation in the amusement business. Based on this coalition, we will further promote cost restructuring in areas common to both companies as well as the pursuit of new business opportunities centered on the on-line game business with a view to developing a new entertainment industry through collaboration and competition.

Consequently, compared with the previous term on a consolidated basis, net sales rose 3.8%, or ¥146,554 million, to ¥152,136 million, operating income of ¥6,133 million was recorded compared with a operating loss of ¥2,866 million, and net income of ¥2,035 million was posted compared with a net loss of ¥6,000 million.

Basic Policy for Corporate Management

Namco has set the creation of its original "High-Touch Digital Entertainment" as its basic policy, which combines digital media with the Company's belief that the 21st century is an "Era of Spirituality," in its initiative to establish new entertainment services.

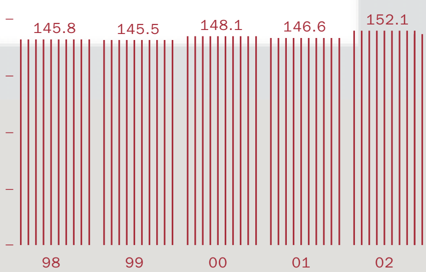
The information technology (IT) revolution is changing not only the economy and the industry, but also our lifestyles, our cultures and what is most related to human nature such as intellect, feelings and willpower. The times require new ways, places and tools of enjoyment. Convinced that the ultimate goal of human beings is the enjoyment of a truly human analog life, we will continue to strive to create High-Touch Digital Entertainment.

We will increase the independence of our business entities and effectively mobilize our managerial resources to continuously improve return on equity (ROE).

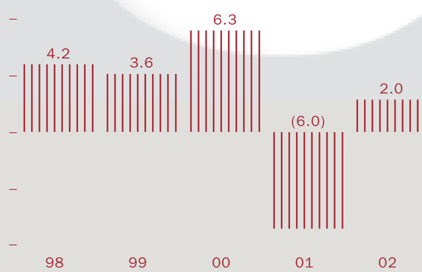
Basic Policy for Corporate Profit Sharing

Returning profit to shareholders is one of Namco's key management policies. We will aggressively invest in facilities and R&D

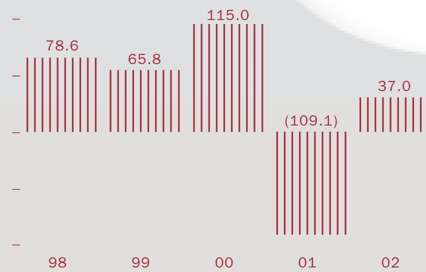
Net Sales
(Billions of yen)



Net Income (Loss)
(Billions of yen)



Net Income (Loss) per Share
(Yen)



activities to keep pace with rapid technical innovation in the amusement industry for the development of new products and technologies and for further reinforcement of our corporate competitiveness, and will be setting a dividend payout rate of 30% in accordance with our basic principle of allotting the results of operating performance. In the previous term, we recorded a substantial deficit and paid a dividend of only ¥15. In the term under review, we achieved a favorable balance with our first round of structural reforms. With a determination to further improve our business results with the second round of structural reforms, we added a special dividend of ¥2 to the regular dividend of ¥15, to pay a dividend of ¥17 per stock. Consequently, the dividend payout is 47.5%, ROE is 2.3% and the net worth ratio is 1.1% for the term under review.

Our Challenges

In October 2001, we effectively mobilized our managerial resources to launch the second round of structural reforms, with the aim of building an ambitious management system to survive a dramatically changing market. In February 2002, we formulated a report entitled "Namco Growth Strategic Initiative." An organizational change in May this year was designed to put the scenario contained in the report into practice.

Medium- to Long-Term Corporate Management Strategies

The "Namco Growth Strategic Initiative" defined five challenges to be met through the removal of obstacles to growth in the three major segments of Home Videogame Software, Coin-Operated Game Machines and Amusement Facility Operations, and through revisions to enable input of managerial resources to promising businesses. The five challenges are: (1) exhaustive reinforcement of the content business, (2) emphasis on Web and mobile communications, (3) full-fledged entry into the pachinko and *pachislot* machine market, (4) improvement in the profitability of Amusement Facility Operations, (5) a buildup of sales capabilities in Coin-Operated Game Machines, as well as the enhancement of the efficiency of Head Office functions. Accordingly, organizational changes were made to achieve these goals.

(1) Exhaustive reinforcement of content business

We set up a Contents & Technology (CT) Company for the development of businesses from conventional arcade and console game software production to general content production. With our existing development and sales capabilities concentrated on the in-house company, we established a multiple-content business to expand operating profit and market share. This covers such inter-business entertainment areas as multi-genre games, toys, videos, music and publications for a wide array of users and overseas markets.

To increase our organizational mobility, we replaced the conventional hierarchical structure with a Producer System. Producers for separate product titles act as leaders that make consistent management and control of the respective projects from product planning to sales and are responsible for profitability.

(2) Emphasis on Web and mobile communications

We launched a Web, Mobile & Contents (WMC) Company to undertake planning, research and development, production and operation of content distribution services for mobile phones, PCs, personal digital assistants (PDAs) and networks using the Internet, to develop it into a core business comparable to the content business.

(3) Full-fledged entry into the pachinko and *pachislot* market

We set up a P-7 Company to promote the pachinko-related business and evolve it into another core business to parallel the content business. The pachinko-related business covers the planning and development of visual software and hardware for pachinko or *pachislot* machines as well as the planning and sales of related products.

(4) Improvement in profitability of Amusement Facility Operations

We established a new Entertainment (ET) Company. This company boasts a strong profit-making structure as an independent business entity with improved profitability in existing amusement facilities, the closure of unsuccessful facilities and the revision of facility operations for personnel cost reduction. It also undertakes the planning and operation of brand-new amusement facilities to develop new markets and customers.

(5) Buildup of capabilities in sales of Coin-Operated Game Machines

We created an Amusement (AM) Company. With the functions of development, sales, production and distribution concentrated on this in-house enterprise for the revitalization and growth of the Coin-Operated Game Machines segment, we aim to meet the needs of a broad array of users as well as of overseas markets to expand market share and operating profits. We are also revising the product genres and removing the high-cost structure with the reduction of production costs and indirect workers, as well as expanding sales with the introduction of a careful sales approach to enhance profitability.

To increase our organizational mobility, we abolished the conventional hierarchical structure and introduced a Producer System. Producers for separate product titles act as leaders that enable consistent management and control of projects from product planning to sales. The producers are also responsible for profitability.

(6) Enhancement in the efficiency of Head Office functions

The Corporate Office performs all Head Office functions. Its primary mission is to provide support for the streamlining of business operations across the Company to help boost Companywide profits.

(7) Improvement of Namco and its affiliated companies

We are substantially reinforcing the managerial strategy headquarters and expand its functions to become a broad management aid in decision-making and operations at the Group level to assist our president. To facilitate the transition to our new system and to make the most effective use of our managerial resources, the headquarters now has six specialized groups (for managerial strategies, financial strategies, personnel strategies, affiliated company management, information strategies and intellectual assets) as subordinate organizations, so it is involved in the core strategies of Group management.

(8) New businesses

We are operating a new Incubation Center to cultivate and develop new businesses that will be medium- or long-term pillar businesses, and to establish new business models. The Center is positioned as an organization that will evolve into our sixth or seventh in-house company in the future. We will also use the Center to assess the future prospects of businesses to execute their reorganization and liquidation.

Masaya Nakamura

Masaya Nakamura
Chairman
October 2002

On May 1, 2002, I was privileged to assume the role of president and chief executive officer of Namco Limited—a position held for almost 50 years by Mr. Masaya Nakamura, our Company's founder. It is my great hope to fill this formidable role with the distinction demonstrated by Mr. Nakamura, who continues as Namco's chairman.

Launch of the Second Structural Reform

As reported in Namco's Annual Report 2001, the Namco Group recorded substantial losses during fiscal 2001, for which I would like to apologize to all shareholders, employees, customers and other parties. After the peak of fiscal 1997, Namco's financial condition had been gradually deteriorating until the losses were ultimately posted. As a response, management has resolved to carry out drastic reforms as its highest priority.

In November 2000, our policy development project was launched, and the Namco Revival Plan was designed as the first phase of the Company's structural reform for drastic changes. This phase targets "defensive reform," and focuses on recovering the Company's basic strength as a business.

Toward achieving this objective, in April 2001 the Company's 13 divisions were consolidated into five divisions, each of which formulated policies to facilitate a return to profitability. Unfortunately, we were obliged to encourage voluntary retirement, and we implemented a range of measures to achieve our numerical targets. As the effects of these measures can be observed in the results for the fiscal year under review, it leads me to believe we are on the right track.

We launched the second structural reform in May 2002. While the first structural reform was our defensive strategy, the second reform can be referred to as our "aggressive strategy," and projects medium- and long-term business growth.

To address this reform, we started by objectively identifying the Company's problems, and found the following three.

First, we discovered that the only notable business contributing to corporate value was our Home Videogame Software segment. Secondly, we found we were no longer considered a leading company in three of our core businesses, including our mainstay Home Videogame Software segment. Thirdly, Namco has the following personnel and organizational problems: (1) the areas of responsibility for our businesses are not clearly identified from functional and moral aspects, (2) performance management does not work, (3) the decision-making process does not facilitate quick, optimal decisions, and (4) staff members are neither effectively used nor motivated.

Review of Resource Allotment

Based on the above assessment, we reviewed our business portfolio and resource allocation. Namco's guidelines for future resource allocation and growth strategies are illustrated in the diagram on page 5.

First, the most notable point is the strong emphasis on our game content business. We set up the Contents & Technology (CT) Company to establish a multiple-content business, putting the synergy of entertainment in multiple game genres into perspective. Behind this are two themes: (1) strengthening the game software business, and (2) entering new spheres of business to prepare for the maturity of the game software market.

Regarding the first theme—strengthening the game software business—we thoroughly reviewed our marketing activities. What we found was that Namco had overlooked some important market areas. For example, in its user and hardware strategies, Namco had failed to target the lower-age segment, which is a large, important part of the market. It is essential to increase our share of this segment in the future. To achieve this goal, we need to take a comprehensive approach in the development of such strategies as strengthening our media mix.

For our geographical strategies, some important considerations are that growth in the Japanese market is expected to remain minimal in the future, whereas large growth can be expected in the North American market. In addition, the European market is also expected to grow, although not by as much as the North American market. Consequently, we will continue striving to develop game software targeting these regions. To this end, we will strengthen the structure of Namco Hometek Inc., which is a subsidiary for the development and sales of home videogame software in North America. In addition, with respect to our product genre strategies, we will place high priority on role-playing games (RPGs) as an established, popular genre, which used to be a weak area for Namco, and strive to make our products the standard in the market.

We project that sales in the Home Videogame Software segment will peak in fiscal 2005, with the current three game platforms playing a central role. Accordingly, we will make optimal use of Namco's market presence.

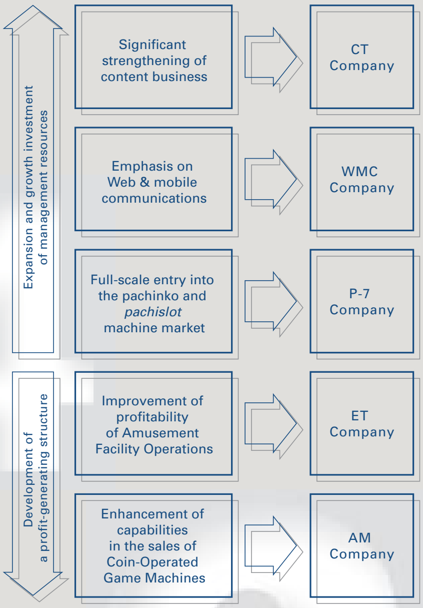
Regarding the second theme—to prepare for the expected decline after the maturity of the game software market—we aim to commence content development for the markets where future growth can be expected. These markets include network entertainment, computer graphic (CG) animation and high-tech toys.

Next, with the emphasis on Web and mobile communications, we set up the Web, Mobile & Contents (WMC) Company with the intention of developing it into our core business in the future. As IT progresses, Namco must expand its services for providing content to carriers in the new online fields instead of those offline, and in broadband instead of narrowband, as these are currently the major services in this business. In addition, we have to work harder to develop this business while taking a comprehensive view of the position where the three game platforms—the current leaders of the home videogame market—will be positioned as information terminals after 2005 and as online terminals.

To make a full-scale entry into the pachinko and *pachislot* machine markets, we set up the P-7 Company and aim to develop it into another of our core businesses. This market is on a global scale of ¥1 trillion, and it represents a huge market with ongoing product diversification. As such, it is attractive for such content providers as Namco. By adopting the strategies of multiplex collection through the multiple use of content that the Namco Group currently holds or will develop in the future, we aim to promote this business comprehensively to include software and hardware and related products.

Namco expects that all of the above initiatives will substantially contribute to profitability as its businesses can be developed using the Company's content. While profit will be made where possible, more capital will be invested in continual content development. We regard this investment as normal capital circulation.

Guidelines for Resource Allotment



	Millions of yen			
Consolidated Income and Loss Plan	02/3 Term Actual	03/3 Term Prospect	04/3 Term Planned	05/3 Term Planned
Net sales	¥152,136	¥158,800	¥175,000	¥216,400
Operating profit	6,133	8,100	14,500	25,300
Ordinary income	4,664	7,700	13,500	24,200
Net income	2,035	4,400	8,000	14,500
Plan by Consolidated Segment				
[Net Sales]				
Coin-Operated Game Machines	¥ 18,291	¥ 18,100	¥ 20,300	¥ 24,100
Home Videogame Software	35,520	41,800	46,000	73,200
Amusement Facility Operations	77,181	73,900	73,900	76,600
Restaurant Operations	4,229	5,700	10,400	12,800
Movies and Graphics	9,903	11,600	12,600	14,900
Other	7,012	7,700	11,800	14,800
Total	¥152,136	¥158,800	¥175,000	¥216,400
[Operating Income]				
Coin-Operated Game Machines	¥ 1,494	¥ 1,000	¥ 2,100	¥ 3,500
Home Videogame Software	7,750	8,800	9,200	15,600
Amusement Facility Operations	2,087	3,300	6,600	7,800
Restaurant Operations	(65)	100	800	1,300
Movies and Graphics	(150)	0	200	500
Other	(1,373)	(200)	700	1,600
Corporate Items or Deletions	(3,608)	(4,900)	(5,100)	(5,000)
Total	¥ 6,133	¥ 8,100	¥ 14,500	¥ 25,300

Management strategies to improve profitability and develop a profit-generating structure are being undertaken for Amusement Facility Operations and sales of Coin-Operated Game Machines. To facilitate these strategies, we set up the Entertainment (ET) Company and the Amusement (AM) Company. Although these areas are major businesses for the Namco Group, the market is not expected to grow in the future and we anticipate severe conditions. Accordingly, instead of actively investing management resources, we will continue these businesses by developing a profit-generating structure and by improving profitability.

We will also address the reform of these major businesses without sparing any part of the companies. In particular, we will set a profit index as a criterion for evaluation. We will clarify the details in this area and report the details within the Company. If our target is not achieved, we will either direct more effort to develop the profit-generating structure of the business or withdraw from the business altogether, depending on the prevailing conditions. Further, we will take a bolder, more comprehensive approach with these two businesses in line with the above guidelines.

In addition, we have established the Incubation Center to cultivate and develop new businesses. As this center has helped to develop the pachinko- and slot-machine-related businesses and mobile phone content delivery business, we will explore and develop new businesses to develop them into new pillars of growth. Currently, these include welfare-related businesses, involving the development and sales of welfare equipment and the production of the facilities; and the education business. In the future, the Incubation Center is also expected to develop various businesses centered on networks.

We have set up the Corporate Office to facilitate enhancing the efficiency of Company-wide business management. The Corporate Strategic Planning Office was formed to coordinate the entire Group and to develop medium-term management plans and management strategies. The Corporate Office will work toward integration by improving efficiency, and Namco will reinforce the Corporate Strategic Planning Office.

While each of the Namco companies work intensively together, we will strive to achieve synergy throughout all of Namco and maximize profit.

Introduction of the Company System

Namco introduced the Company System to formulate strategies for each business, with the following objectives: (1) to create an environment where the valuable opinions of younger employees can be incorporated by providing a flat organizational structure, (2) to integrate systems and sales, and (3) to clarify autonomous responsibility for generating profits by operating each division.

Another important part of Namco's organizational change is the introduction of the Producer System for the CT Company and AM Company. Under this system, a producer is assigned to each project and assigns staff to the tasks of planning, development, sales and sales promotion within the project team. The producer is responsible for all processes from beginning to end and has a high level of authority and line management. The producer and the team are assessed by their results compared with such targets as worldwide profits. This initiative makes it possible to create more interesting products that meet the needs of the market more speedily and at lower cost.

Targeting Positive Results for Fiscal 2005

Namco's new medium-term plan has been developed based on the above initiatives, as illustrated in the diagram. We believe it to be a solid plan with achievable objectives. With the focus on the optimization of shareholder value as one of our management policies, we will set a target of ROE of 15%, and will implement our management initiatives with confidence.

Namco will review the essential aspects of entertainment to meet shareholders' expectations, and we will continue to progress with our growth strategy to create a brilliant future.

We thank our shareholders and ask for their continued understanding and support.

Kyushiro Takagi

Kyushiro Takagi
President and Chief Executive Officer
October 2002

Q 1.

What are the future strategies and plans for the Home Videogame Software segment?

Among the businesses undertaken by Namco, Home Videogame Software features the highest profit rate and the greatest potential for growth. There is considerable market interest in this business, and shareholders have high expectations for its future. In response to the suggestion that most of Namco's resources should be concentrated into this business, we shall implement aggressive strategies to further expand its profits as part of the Company's structural reform.

Namco's Strategi

Namco has formulated two specific medium-term targets. These are: (1) to attain operating income for the CT Company of ¥15 billion, and (2) to sell 20 million units of our home videogame titles worldwide—both of which we want to achieve by fiscal 2005. Given the harsh operating environment at Namco and overall trends in the home videogame market, the above may be considered ambitious. However, management believes these targets to be attainable if the Company focuses on addressing market segments it has missed, and on bolstering its operating efficiency.

Following are Namco's strategies for achieving the above targets.

First is our regional strategy. While the Japanese market is likely to expand only slightly or remain stagnant, the markets in Europe and the United States are far more active and offer more abundant possibilities. This is true especially of the North American market. It is necessary to launch high-quality products in areas that match the cultures of those markets. For this purpose, the capabilities of Namco Hometek Inc.—our product development and sales subsidiary in North America—need to be improved, especially when it comes to product development.

Second is our user strategy. We shall intensify our efforts to focus on lower-age users, a market segment Namco has thus far missed but that has great potential. As a related platform strategy, we shall provide more game titles for Nintendo's GameCube, which is very popular among lower-age groups.

Third is our genre strategy. There are popular genres in the home videogame market that are not yet Namco's strengths, and we need to work on developing them. Specific examples include role-playing games (RPGs), action and simulation games. Making Namco's games the de facto standard is necessary for all genres, and we hope to gain users for standard titles. RPG and simulation games warrant special attention, because they are suitable as content for network videogames, and we shall concentrate our efforts on delivering this software in the near future.

Moreover, Namco shall also focus efforts on its media mix to increase sales and enhance the added value of its products. We shall attempt to create games that incorporate other companies' popular characters, to use our existing high-profile characters for

es for the Future

purposes other than videogames, and to collaborate with companies in totally different industries. Through these measures, Namco hopes to make users more familiar with the games' stories and characters through diverse media, thereby increasing demand for its videogames.

Fourth is our distribution strategy. Namco will maintain its policy of using Sony Computer Entertainment Inc.'s distribution network for Sony products, owing to such significant advantages as information gathering, risks accompanying stocks and strong support for sales promotion. With Nintendo products, distribution shall be consigned to Nintendo Co., Ltd., and that company's strong distribution network will be used to maximize sales.

Namco is determined to attain its goals through the above strategies, and we hope the outcome meets the expectations of our shareholders.

2.

Could you please describe Namco's policies in its North American Amusement Facility Operations?

Our Amusement Facility Operations in North America are facing an extremely harsh environment. During the fiscal year under review, same-facility sales declined 6.2%, which mirrors a fundamental shift in the significance of shopping malls in people's daily lives in the United States. Until recently, consumers would spend their entire day at shopping malls. In the current economic environment, however, people will not patronize these centers without a specific purpose. This situation has triggered a polarization of malls, characterized by those that attract large numbers of people and those unable to draw visitors. Most of Namco's amusement facilities are situated in shopping malls. Accordingly, Namco's unprofitable amusement facilities are those situated in centers experiencing a dwindling number of customers. Although this factor is largely beyond our control, other problems we are encountering relate specifically to Namco. One of our most serious issues has been an inadequate response in repairing malfunctioning coin-operated game machines. A marked erosion in our maintenance capabilities occurred during the period of the IT bubble in North America, when many of our top-notch facility managers were recruited by other companies.

During the fiscal year under review, our North American amusement facility operations suffered a loss of approximately US$10 million. This consisted of an approximately US$7 million decline in revenues that resulted from lower sales from unprofitable outlets and a slowdown in the number of customers, particularly at tourist destinations, following the September 11 terrorist attacks. The remaining US$3 million was attributable to closing costs from the scrapping of unprofitable outlets.

In response to the above losses and to further support a structural rebuilding of Namco, we scrapped a total of 44 facilities during the fiscal year under review. Further, we plan to close 59 facilities in fiscal 2003, 51 in fiscal 2004, and 28 in fiscal 2005. The Company operated 120 to 130 unprofitable facilities at the end of fiscal 2002, and intends to complete the closure of all of them over the next three years. The first question that naturally comes to mind is why the pace of closure is so slow. For reasons involving lease periods, we decided that this rate of closure is optimal from the perspective of minimizing cash-outs. Closing of stores according to this schedule will allow us to more effectively utilize our assets, including the allocation of assets to revenue-sharing facilities, although this will result in expenses for closing stores.

Also, the parent company has dispatched a support team that is preparing manuals for our Amusement Facility Operations, as well striving to raise the level of operations. As a result, of our 28,000 coin-operated game machines in the United States, we have reduced the number of those out of service due to malfunctions from 5,000 to 2,000 machines. Each machine generates average weekly sales of US$110, and reducing the number of units out of service has allowed us to recover around US$17 million in sales.

Through the implementation of the preceding measures, we aim to reduce our losses to US$4.5 million and we are currently well on our way to recovery. In fiscal 2005, we plan to operate around 150 amusement centers and generate operating income of US$10 million.

3.

Why does your business plan assume that profits from the sale of Coin-Operated Game Machines will grow significantly?

The Coin-Operated Game Machines segment mainly includes sales in two areas: amusement facilities and pachinko systems. As previously mentioned, sluggishness in the amusement facilities market has forced our structural reform effort to implement strategies for strengthening competitiveness to improve the profitability of the business. On the other hand, pachinko systems are among the core businesses that are set to experience higher sales and profits, as the pachinko market is expected to grow.

Therefore, our mid-term business plan assumes growth in sales with improved sales in pachinko systems. Namco has developed software and substrates for the liquid crystal parts of pachinko and *pachislot* machines, and has sold them to manufacturers. Sales from the business totaled ¥2.5 billion in fiscal 2002 and are expected to be ¥2.1 billion in fiscal 2003, ¥3.2 billion in fiscal 2004 and ¥5 billion in fiscal 2005. We will ramp up development in line with these estimates, and having increased the number of titles by three during fiscal 2002, we plan to release five titles during fiscal 2003, eight during fiscal 2004 and 12 during fiscal 2005 (these figures include *pachislot* game machine titles). Namco boasts a broad array of content developed for both home videogame software and coin-operated game machines. This gives us an edge in that we can develop software while maintaining high profit margins, because we can make effective use of the content we have accumulated.

Meanwhile, we assume that sales from amusement facilities have reached a plateau, as the market is unlikely to show any significant growth in the near future. We

plan to improve the profitability of this business through cost cutting. Specific measures include: (1) using common parts and general-use cabinets (in a tie-up with Sega on cabinet designs for mid-term use); (2) reducing idling during the development process (introducing the Producer System and process managers); (3) capping technical research costs (through faster decision-making, market-oriented product development and the promotion of research activities linked to product commercialization); and (4) reducing administrative personnel costs (by improving efficiency through consolidated production and sales, concentration of office facilities, and other means).
In particular, we estimate that the use of common parts and general-use cabinets will produce a cost savings of about 7.5% by fiscal 2005. We will therefore concentrate our efforts on this area to improve overall profitability.

4.

Could you explain future development in Namco's non-core Restaurant Operations, Movies and Graphics and Other segments?

The principal aim of our recent restructuring is to maximize the Namco Group's profits. Accordingly, we plan to consolidate or eliminate businesses and subsidiaries that have been hindering performance—with no exceptions. I would like to outline the specific steps we will take in each business, beginning with our Restaurant Operations business, which is the segment that includes Italian Tomato Ltd. Our involvement in restaurants dates back to 1986, when we acquired the Italian Tomato Group. This acquisition was in line with our ambition to become a comprehensive entertainment and culture-related company, and we considered food an integral component of culture. Also, we determined that food and beverages would play a key role in encouraging customers to spend longer amounts of time at the amusement facilities that are part of our Amusement Facility Operations. This was the rationale that prompted us to enter the Restaurant Operations sector. At present, however, it has become evident that the Restaurant Operations segment will not develop into a Namco core business. Nevertheless, Italian Tomato Café Jr., a chain of self-service restaurants operated by I&K Co., Ltd., has competitive outlets and is performing favorably. We intend to aggressively expand and cultivate this business into a viable format capable of generating sufficient profits. We are planning to make a public offering for the Italian Tomato Group in three years.

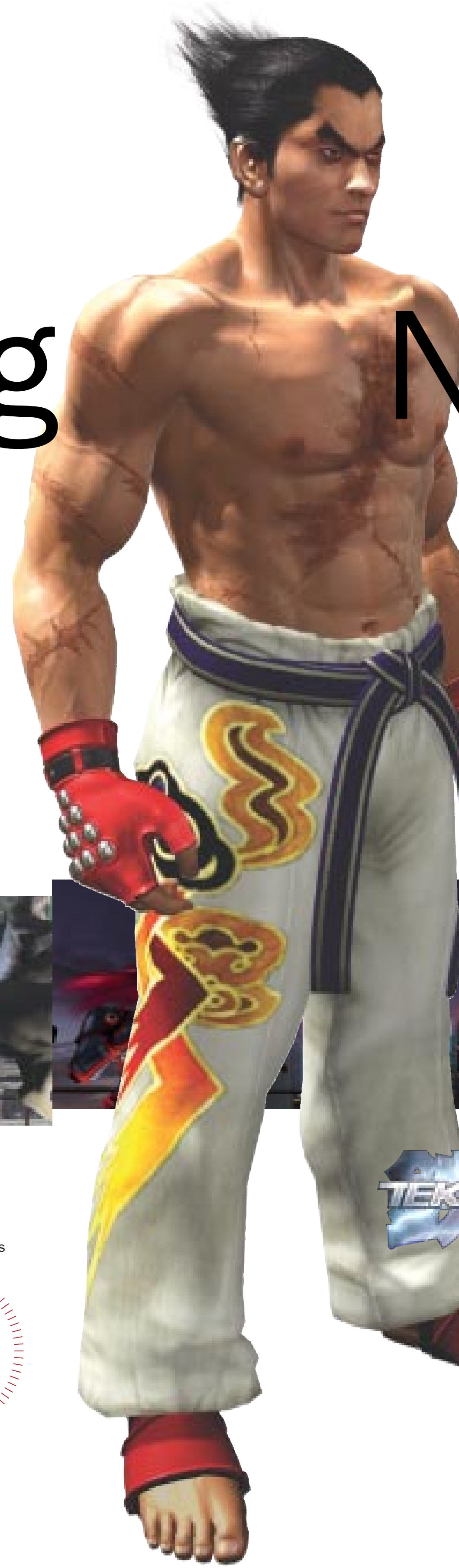
In our Movies and Graphics segment, Nikkatsu Corporation, which handles these operations, engages in the production, delivery and promotion of movies, undertakes a satellite broadcasting business, and sells packaged media. The Japanese movie industry is not yet fully developed and production companies are unable to achieve sufficient profits. Accordingly, it is essential that we secure certain income in other areas of this business. Nikkatsu's high-profit businesses are its satellite broadcasting business and its packaged media businesses. At present, Nikkatsu has a collection of approximately 3,500 past intellectual properties alone. By utilizing this content in our satellite broadcasting and package media, Nikkatsu can generate revenues at low cost. In sports DVDs, Fantasista, which commands an overwhelming share in soccer DVDs, focused its marketing on the World Cup, with particular emphasis on upgrading its soccer-related lineup. The Movies and Graphics segment is also one of Namco's important content businesses and we expect that Nikkatsu will be able to generate synergies as a member of the Namco Group. Animation is the most effective means of achieving fusion with Namco's three principal businesses and we will keep this point in mind as we develop our operations in the future.

In our Other segment, our most unprofitable business is Musicplayground Inc. (MPG), which handles our virtual instrument music delivery through the Internet. Although Musicplayground posted a large loss during the fiscal year under review, it will carry out joint sales promotions with record companies (including a trial version of the MPG service in each new CD package), work to secure profitability, vigorously solicit strategic partners and third-party investors, and stabilize its operations.

Be assured that we will also aggressively dissolve and integrate unprofitable business and work to improve profitability.

Biohazard

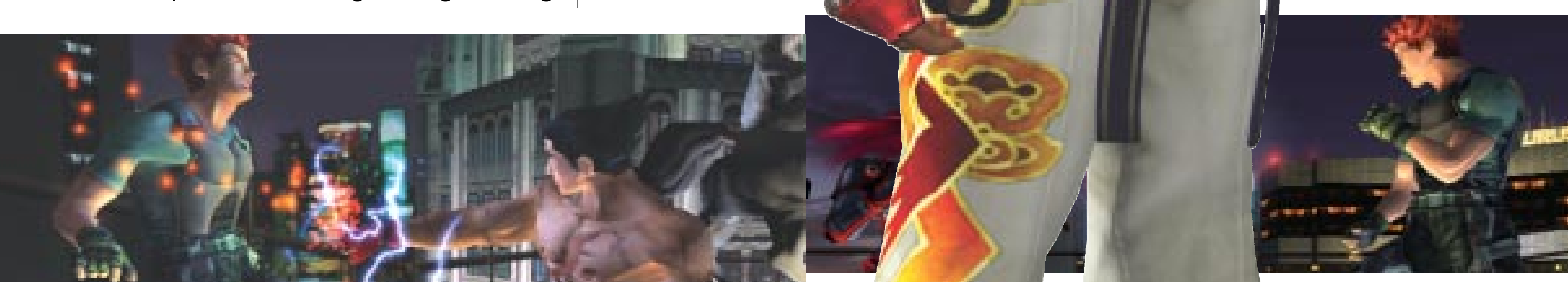
Creating New



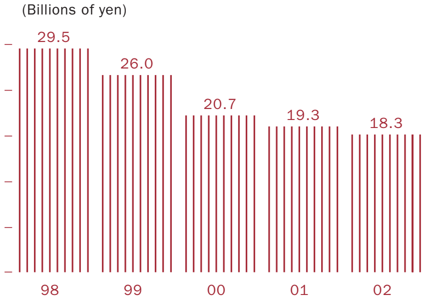
Coin-Operated Game Machines

The Namco Group made concerted efforts for active sales of its brand-name products to the coin-operated game machine markets worldwide.

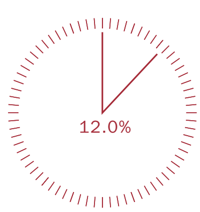
With respect to the arcade machine sales business, despite the downward market trend we maintained strong sales of the mastery game series *Tatsujin* and launched the popular fighting game *Tekken 4*. Also, in collaboration with other companies, we launched *Gun Survivor 2 Biohazard Code: Veronica*, a survival horror shooting game first co-developed with Capcom Co., Ltd.; *Wangan Midnight*, a racing



Net Sales
(Billions of yen)



Share of Net Sales



O.R.B.S.

A version of ***Wani Wani Panic*** *designed for use by disabled people and the elderly*

Entertainment

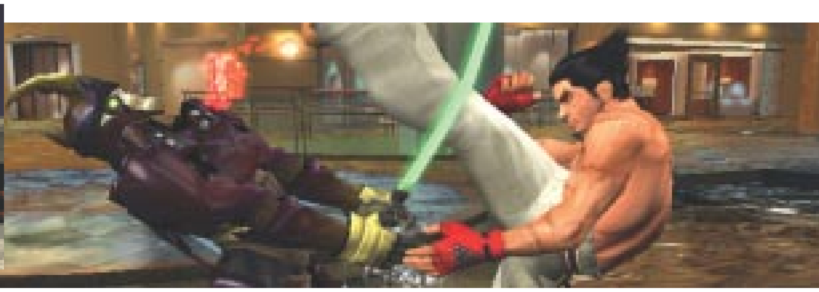
battle game inspired by the popular cartoon serialized in *Weekly Young Magazine* (published by Kodansha); and *Necchu! Professional Baseball 2002*, co-developed with Fuji Television Network, Inc.

In addition, we independently developed the *O.R.B.S.* (Over Reality Booster System) next-generation, general-use arcade cabinet and announced a business partnership with Sega and Nintendo Co., Ltd. for joint development of the *Triforce* next-generation, general-use 3D computer graphics board for next-generation arcade machines, so as to play a leading role in the future arcade game machine market.

In the pachinko-related business, we created the new software and substrates for the liquid crystal parts of pachinko CR *Fever Pac-World SP* for one of Sankyo Corporation's machines, featuring popular videogame character *Pac-Man*. We also continued to develop *System7*, a 3D-compatible board for pachinko and *pachislot* machines, and supplied *CR Battle Hero Densetsu* for Daiichi Shokai Co., Ltd. as the company's first application of the board.

In the human service related business, we designed and produced an outpatient rehabilitation room called *Yosei no Mori* (Fairy Forest), which opened in July on the premises of Minami-Otaru Hospital in the city of Otaru in Hokkaido. This room is based on the Namco Hustle Club Project, which aims at creating a space for a joyful and meaningful life in an aging society. In the future, we will strive to launch three rehabilitation facilities each year to propose an enriched senior life that combines entertainment and welfare.

Consolidated net sales for the segment decreased 5.4% to ¥18,291 million compared with the previous fiscal year. The segment recorded operating income of ¥1,494 million.



CR Fever Pac-World SP (Pachinko)
©Sankyo Corporation

Wangan Midnight
©Michiharu Kusunoki/ Kodansha Ltd.

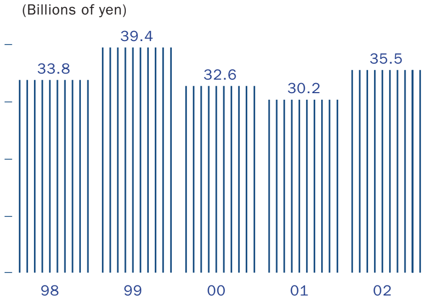
(L) ***Time Crisis II*** *(PlayStation 2)*
(R) ***Xenosaga Episode I: Der Wille zur Macht*** *(PlayStation 2)*

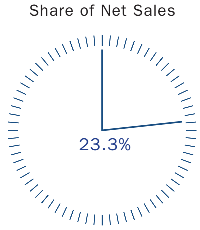
Delivering

Home Videogame Software

Our console game software products, which consist of those converted from popular arcade games but also include original titles, are directed mainly at those platforms with the world's largest market share, namely Sony's PlayStation (PS) and PlayStation 2 (PS2). We are responsible for the production and sales of products for the Japanese, Asian and European markets, while Namco Hometek Inc. handles the products for the U.S. market under our license.

During the term under review, we released *Time Crisis: Project Titan*, *World*





(L) ***Tales of Fandom Vol.1*** *(PlayStation) ©Mutsumi Inomata ©Kousuke Fujishima*
(R) ***Galaga*** *(mobile phone)*

(L) ***Smash Court PRO TOURNAMENT*** *(PlayStation 2)*
(R) ***MotoGP 2*** *(PlayStation 2)*

New Experiences

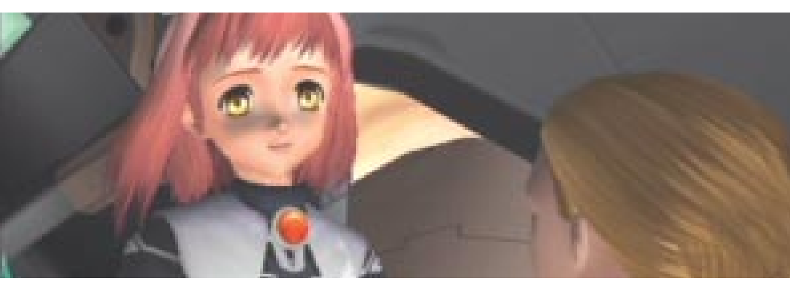
Stadium 5 and *Tales of Fandom Vol. 1* for PS; *Ace Combat 04 Shattered Skies, Vampire Night, MotoGP 2, Xenosaga Episode I: Der Wille zur Macht, Smash Court Tennis Pro Tournament, Tekken 4* and *Alpine Racer 3 for PS2; and Klonoa: Empire of Dreams, Namco Museum, Tekken Advance, and Pac-Man Collection* for Nintendo's Game Boy Advance.

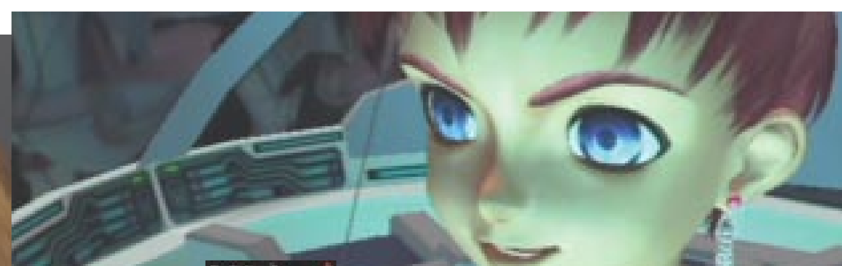
As a strategic move for future development, we announced our support of Microsoft's Xbox next-generation game console. Moreover, we are considering participation in on-line gaming services to be launched by Microsoft in 2002. We also announced a plan to release our powerful titles, *Soul Calibur* and the *Ridge Racer* series, simultaneously for three market-leading high-spec hardware platforms (PS2, Game Cube and Xbox). We aim to be the top software publisher in the next-generation console game market as well.

In the Web & Mobile Content business, we commenced production and distribution of entertainment content for NTT DoCoMo Inc.'s i-mode service, for the new "ezplus" wireless Internet service of KDDI Corporation and the "au" group, as well as for J-Phone Co., Ltd. We are steadily establishing the Namco brand in the content distribution business for Internet-compatible mobile phones, with the development of games for Sony's new "au" mobile phones and our own game distribution business, which we launched in South Korea.

In the European market, we released *Time Crisis: Project Titan for PS* and *Time Crisis II, Ace Combat 04, MotoGP 2 and Klonoa 2* for PS2.

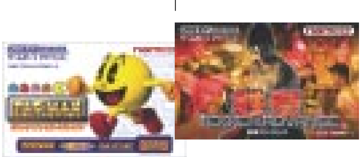
Net sales for the segment increased 17.5% to ¥35,520 million, and operating income rose 59.6% to ¥7,750 million.





(L) ***TEKKEN 4*** *(PlayStation 2)*
(R) ***ACECOMBAT04 shattered skies*** *(PlayStation 2)*

(L) ***Pac-Man COLLECTION*** *(GAME BOY ADVANCE)*
(R) ***TEKKEN ADVANCE*** *(GAME BOY ADVANCE)*



Introducing New

Amusement Facility Operations

The Amusement Facility Operations segment had suffered negative growth for several years, with weak sales and profits. But we have consistently made strong efforts to bolster the operating capabilities of separate arcades for increased customer traffic, by reducing management costs and revising the conditions for new launches. Despite the difficult circumstances, the gross margin has gradually been rising and some arcades have begun to achieve such impressive results as to seemingly disprove the argument that this business sector is stagnating.

Japan

During the term under review, we tested new types of facilities including launching of the mini-zoo *Fureai Pet Garden* in Kamata Tokyu Plaza in Ota Ward, Tokyo, where people are able to play with animals to reduce stress. We also opened the first *ANIPA* indoor petting zoo in the *Mycal Otaru* shopping center in Otaru, Hokkaido, part of our ANIPA project. We were also running nine *Kid's Stadium* facilities at the end of the term under review. *Kid's Stadiums*, launched last year as places where parents and children can play together, have proven very popular. We will also continue to aggressively promote the operation of facilities without game machines, such as those mentioned above. As a large-scale establishment, we opened the amusement complex Namco Wonder Park Sapporo in Sapporo. As of the end of the term under review, Namco NamjaTown in Toshima Ward, Tokyo, had welcomed over 7 million visitors in total since its launch in July 1996.

Team Namja, our squad of customer-gathering facility producers, received an order for the planning and design of an entertainment catering establishment called *Ramen Stadium*. The establishment opened in Hakata, Fukuoka, in December 2001.

As of the end of the term under review, we ran a total of 986 facilities, of which 369 were directly operated, 616 were on the basis of revenue sharing, in which the revenue is allocated according to the operating sales of amusement equipment, and 1 was a theme park.

Overseas Business Operations

North America

The Namco Group is engaged not only in the development, production and sales of commercial amusement equipment and console game software, but also in the management of amusement facilities in different parts of the world.

Namco Experience in Tamworth, U.K.

(From left to right)
ANIPA, Shima-Shima Town, Namco Wonder Park Sapporo

Technology

Namco Cybertainment Inc., which operates amusement facilities in North America, faces a very tough management environment, partly because of the economic slowdown. As in the previous term, it encouraged the closing of unprofitable parlors, shutting 45 directly-operated facilities during the term. On the other hand, the company develops new facilities for a broader array of customers to strengthen its profit-earning capacity, including innovative entertainment facilities combined with restaurants. High in investment efficiency, revenue sharing is to be continuously expanded. As of the end of the term under review, there were 1,049 facilities in North America, of which 282 were under direct control and 767 were run on the basis of revenue sharing.

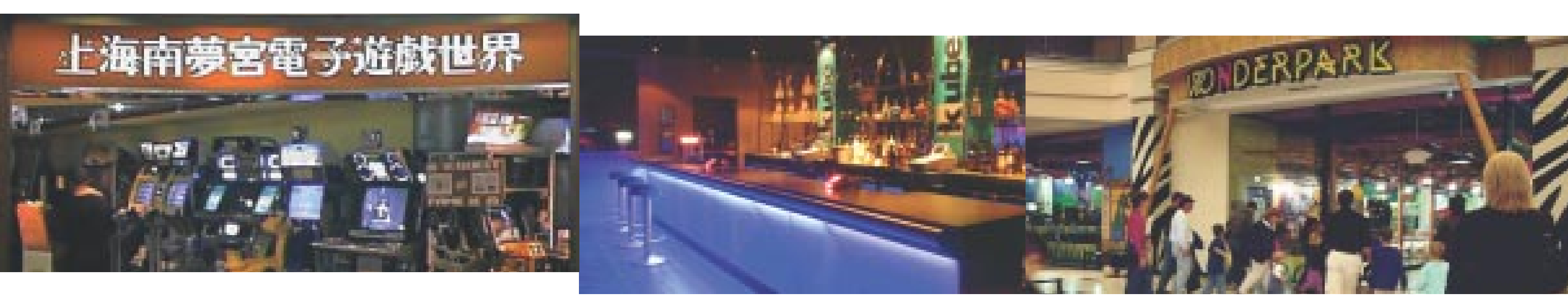
Europe

In the European market, we acquired a large amusement complex including a game facility, bowling alleys, a nightclub and a sport gym in the suburb of Birmingham, in England. This complex made an excellent contribution to improving profit. On the other hand, our profit-oriented operation of amusement establishments closed our shops in Nantes, France, and in Oberhausen, Germany, the results of which were both poor due to the deteriorated market climate. At the end of the term, we had 30 facilities in the European market, of which 9 were directly operated and 21 were run on a revenue-sharing basis.

Asia

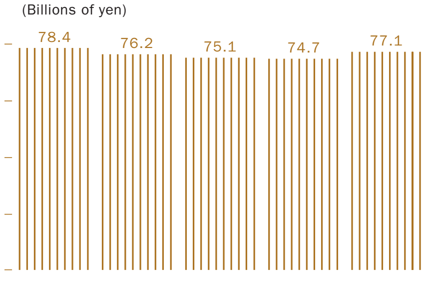
In Asia, we sold an amusement facility in the Shin Kong Mitsukoshi Department Store in Kaohsiung, Taiwan, to a third party in February 2002, as it had suffered a business downturn in a deteriorating management environment. However, sales and profits of 10 directly managed shops in China exceeded our initial expectations at the beginning of the fiscal year. We ran 23 facilities in the Asian market, of which 16 were directly operated and 7 were on a revenue-sharing basis.

In total, as of the end of the term, the Namco Group had 2,088 establishments in and outside Japan, of which 676 were directly run, 1,411 were run on the basis of revenue sharing and 1 was a theme park. Net sales for the segment were up 3.3% to ¥77,181 million. An operating income of ¥2,087 million was recorded, compared with operating loss of ¥821 million in the previous fiscal year.

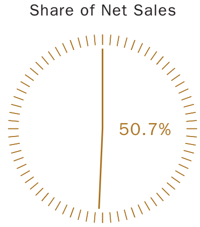


(From left to right)
Namco Wonder Park in Shanghai, China; kube in Tamworth, U.K., Wonder Park in Cincinnati, U.S.A.

Net Sales
(Billions of yen)



Share of Net Sales



Italian Tomato Café Jr.

Exploring

Restaurant Operations

The Italian Tomato Group is the Restaurant Operations segment of the Namco Group. Italian Tomato Ltd. operates restaurants and cafes featuring Italian cuisine and homemade cakes in and outside Japan and I&K Co., Ltd. runs Italian Tomato Café Jr. self-service restaurants all over the country.

The Restaurant Operations segment is still suffering heavily from adverse consumer sentiment. In February 2002, we sold T&E Co., Ltd., a subsidiary operating in the boxed lunch business, to a third party, to further develop our focus on profitability and to withdraw from the relatively unprofitable boxed lunch business.

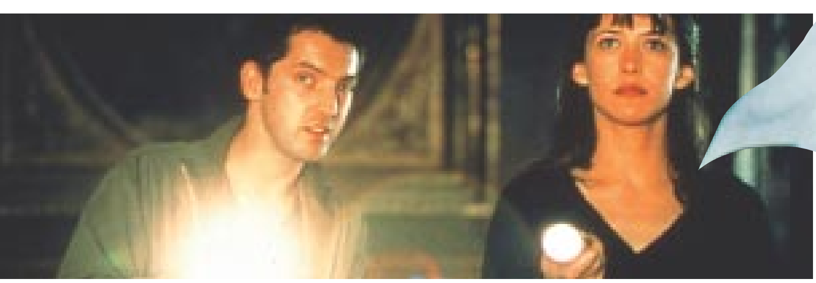
Restaurant Operations recorded net sales of ¥4,229 million, a decrease of 1.2% compared with the previous fiscal year. Operating loss of ¥65 million was recorded, compared with operating income of ¥131 million in the previous fiscal year.

Movies and Graphics

The Nikkatsu Group is the Movies and Graphics segment of the Namco Group. Its business activities encompass the production, distribution and showing of movies, satellite broadcasting, the sale of video software and the commissioned production of popular Japanese movies.

During the term, we signed a contract with Gaga Communications Inc. and Crystal Sky Productions for the planning and development of a film version of our successful game series *Tekken*.

With respect to the distribution business, "*Darkness in the Light*," a film directed by Kei Kumai on the Matsumoto



Belphégor: Le Fantôme du Louvre
©2000 Les films Alain Sarde

KOKUSENYA KASSEN
©KOKUSENYA KASSEN COMMITTEE

JAPAN NATIONAL TEAM DVD

(L) ***Phantom: The Submarine***
©Ilshin Investment Co.,Ltd. All Rights Reserved.
(R) ***Kah-chan***
©2001 Kah-Chan Production Committee

New Businesses

sarin-gas-poisoning incident, drew so many viewers that it was given an extended run. "*Warm Water Under a Red Bridge*," a film by Shohei Imamura due for release in November, enjoys high admiration in and outside Japan, and received the Fiction Film Award in the 20th International Environmental Film Festival. We also distributed many other highly reputed films, including "*Vengo*" (a French-Spanish co-production), "*Nang Nak*" (a Thai production) and "*Phantom: The Submarine*" (a South Korean production).

In the showing business, we showed such original movies as "*Warm Water Under a Red Bridge*" as well as other topical productions including "*Amelie*." In September, we opened *Cine Libre Kobe*, following launches at Hakata Station in May 1999, at Ikebukuro in April 2000, and at Umeda in December 2000. We will continue our consistent efforts to expand the Cine Libre theaters.

We deal with some other promising businesses as well. In the satellite broadcasting business, we distribute two channels, *Channel NECO* and *Rainbow Channel*, to individual subscribers on the SKY PerfecTV! service, to CATV stations and to lodging facilities like hotels. In the video software sales business, we released such titles as "*J-League Players 2000*" and "*80-Year History of Japanese Soccer*" from our sporting entertainment DVD label *Fantasista*, in consideration of the 2002 FIFA World Cup held in June 2002, and as a consequence we won an unrivalled market share in soccer DVDs.

The Movies and Graphics segment recorded net sales of ¥9,903 million, an increase of 14.0% from the previous fiscal term. Operating loss was ¥150 million compared with an operating income of ¥125 million in the previous fiscal year.

Other

Acquired in April 2000 through our U.S. subsidiary, Musicplayground Inc. runs an Internet business centered on music distribution for the enjoyment of musical instruments. This business started distribution in September 2001.

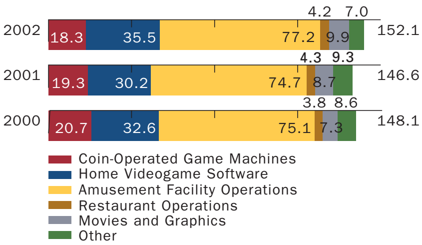
Yunokawa Kanko Hotel Co., Ltd. had few customers in the first half of the term in the wake of the eruptions of Mt. Usu, but is improving its profitability with its sales efforts.

THE SEA WATCHES
©2002 THE SEA WATCHES PRODUCT COMMITTEE

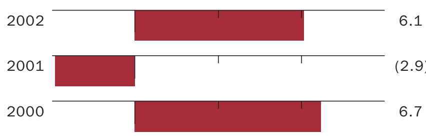
©Nikkatsu Corporation
Scene from* Arashi wo yobu otoko*, broadcast on Channel NECO

FINANCIAL REVIEW

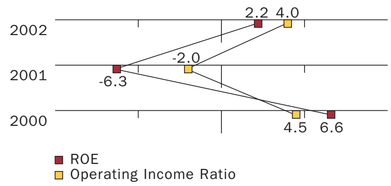
Net Sales by Segment
(Billions of yen)



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, 28 major subsidiaries, and two affiliates.

Analysis of Sales

Namco's consolidated net sales for fiscal 2002, ended March 31, 2002, rose 3.8% to ¥152,136 million. Overseas net sales rose 21.4% to ¥48,853 million, accounting for 32.1% of total net sales, compared with 27.5% in the previous fiscal year. By business segment, net sales increased 17.5% in the Home Videogame Software business to ¥35,520 million, grew 3.3% in Amusement Facility Operations to ¥77,181 million, and rose 14.0% in Movies and Graphics to ¥9,903 million. However, net sales fell 5.4% in the Coin-Operated Game Machines business to ¥18,291 million, edged down 1.2% in Restaurant Operations to ¥4,229 million, and dropped 24.9% in the Other segment to ¥7,012 million.

Analysis of Net Income

On a consolidated basis, cost of sales declined 2.9% to ¥117,283 million, even as net sales increased 3.8% to ¥152,136 million. Accordingly, the gross profit margin increased 5.3 percentage points to 22.9%, compared with 17.6% in the previous term. This improvement was achieved primarily by streamlining corporate operations, lowering procurement costs and rationalizing manufacturing activities.

Selling, general and administrative (SG&A) expenses were virtually unchanged at ¥28,720 million. Due to the increase in net sales, however, SG&A expenses as a percentage of net sales fell from 19.6% in the prior period to 18.9%. We anticipate that further streamlining of corporate management functions will result in even lower SG&A expenses, in percentage terms, in the future.

Total research and development (R&D) expenses were ¥15,655 million, an increase of 46.3% from the previous fiscal year. The rise in R&D expenses in the term under review is a result of the generally higher development costs associated with higher performance for home and portable videogame machines and consoles, and the cost of subcontracted work. The cost of subcontracted work has been included in R&D expenses in fiscal 2002 for the first time.

Operating income totaled ¥6,133 million, a sharp improvement compared with the operating loss of ¥2,866 million in the previous fiscal year. This increase was the result of organizational changes instituted from April 1, 2001, whose main thrusts were streamlining, restructuring and new business creation. We are pleased to report this return to profitability, and expect that our structural reforms will lead to even greater profitability in the future.

Namco's three-largest business segments recorded large increases in operating income over the previous fiscal year. By segment (excluding certain unallocated administrative expenses) Amusement Facility Operations posted operating income of ¥2,087 million, up sharply from the prior period's operating loss of ¥821 million. The Coin-Operated Game Machines segment also returned to profitability, recording operating income of ¥1,494 million, up from the previous fiscal year's loss of ¥3,207 million. In the Home Videogame Software segment, operating income rose 59.6% over the prior period to ¥7,750 million. Restaurant Operations posted an operating loss of ¥65 million, compared with income of ¥131 million the same time last year. Movies and Graphics recorded an operating loss of ¥150 million, compared with operating income of ¥125 million in the previous fiscal year. The Other segment recorded an operating loss of ¥1,374 million, compared with an operating loss of ¥436 million in the prior period.

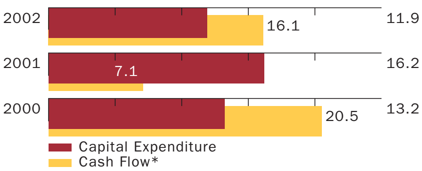
Other income declined 75.4% to ¥676 million, chiefly due to the absence of the large gain on exemption from reassessment debt that was recorded in the prior fiscal

	Millions of yen		
	2000	2001	**2002**
Sales by Segment			
Coin-Operated Game Machines	¥ 20,668	¥ 19,344	**¥ 18,291**
Home Videogame Software	32,558	30,220	**35,520**
Amusement Facility Operations	75,119	74,686	**77,181**
Restaurant Operations	3,808	4,282	**4,229**
Movies and Graphics	7,321	8,687	**9,903**
Other	8,592	9,355	**7,012**
Total	¥148,066	¥146,554	**¥152,136**
Overseas Sales*			
Overseas Sales	¥ 44,507	¥ 40,239	**¥ 48,853**
Net Sales	148,066	146,554	**152,136**
Percentage of Net Sales	30.1%	27.5%	**32.1%**

*Overseas sales include exports and sales by overseas subsidiaries.

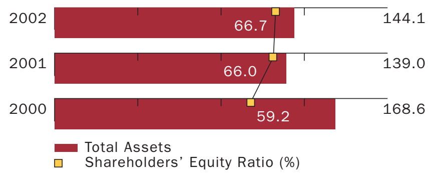
	Millions of yen		
	2000	2001	**2002**
Operating Income by Segment			
Coin-Operated Game Machines	¥ 370	¥ (3,207)	**¥ 1,494**
Home Videogame Software	9,822	4,855	**7,750**
Amusement Facility Operations	573	(821)	**2,087**
Restaurant Operations	80	131	**(65)**
Movies and Graphics	(168)	125	**(150)**
Other	375	(436)	**(1,374)**
Elimination	(289)	294	**229**
Total	¥10,763	¥ 941	**¥ 9,971**
Unallocated Administrative Expenses	¥ 4,043	¥ 3,807	**¥ 3,838**
Operating Income	¥ 6,720	¥ (2,866)	**¥ 6,133**

Capital Expenditure and Cash Flow
(Billions of yen)

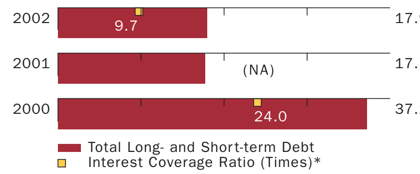


* Cash flow equals net income plus depreciation and amortisation, minus dividends and bonuses to directors and statutory auditors.

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.

period. Other expenses dropped 57.5% to ¥3,857 million, owing mainly to a sharply lower year-on-year figure for revaluation loss on securities, as well as the absences of a ¥1,466 million loss on sale of property and equipment, and of an additional non-recurring retirement payment of ¥1,330 million.

Income before income taxes of ¥2,952 million was recorded, compared with a loss of ¥9,196 million in the prior period. Total income taxes paid were ¥917 million. Accordingly, net income for the period was ¥2,035 million, up from a net loss of ¥6,000 million in the previous fiscal year. Primary net income per share of common stock was ¥36.95, compared with a loss of ¥109.09 in the previous fiscal year. Fully diluted net income per share of common stock was ¥35.97. Management increased cash dividends applicable to the year to ¥17.00 per share from ¥15.00 per share in the prior period.

Analysis of Cash Flows

Net cash provided by operating activities rose 24.6% from the previous fiscal year to ¥15,368 million. The largest line-item contribution to this favorable development was the increase in net income of ¥8,035 million over the prior period. Namco's largest non-cash expense in the past two fiscal years has been depreciation and amortization, with ¥14,085 million recorded in the term under review, down from ¥14,623 million during the same time last year. Depreciation and amortization charges are non-cash expenses which, together with certain other items, are added to net income for the period under review to arrive at net cash provided by operating activities. Deferred income taxes rose ¥20 million, with cash flow rising accordingly. Despite the recording of a non-recurring gain on exemption from reassessment debt of ¥1,911 million in the prior fiscal period, the absence of this item in the term under review reduced net free cash flow in an equal amount.

Increases in non-cash operating assets during a period will, other items held equal, reduce net free cash flow for the period, while decreases in such assets will increase net free cash flow. Similarly, decreases in operating liabilities during a period will reduce net free cash flow, while increases in these items will increase net free cash flow. Trade receivables increased by ¥1,899 million during the fiscal period under review, reducing cash flow accordingly. Similarly, inventories rose ¥2,847 million during the period under review, reducing cash flow accordingly. Trade payables decreased ¥863 million, reducing cash flow accordingly.

Net cash used in investing activities was ¥11,009 million, compared with ¥4,053 million during the same period last year. The largest item in this category was capital expenditure of ¥10,273 million, compared with ¥13,711 million in the previous fiscal year. In addition, a decrease in non-current collateral deposits of ¥6,047 million in the prior fiscal period did not recur, inflating net cash used in investing activities year-on-year.

Net cash used in financing activities was ¥142 million, down from ¥20,109 million in the prior period. Bank borrowings, net, were ¥2,889 million, compared with negative ¥8,244 million in the prior period. A repayment of reassessment debt in the amount of ¥10,512 million from the prior fiscal period did not recur, thereby increasing cash flow from financing activities year-on-year. There was a cash outflow of ¥3,090 million during the fiscal period ending March 31, 2002, for the redemption of convertible bonds.

The effect of exchange rate changes on cash and cash equivalents was ¥650 million for the period under review, up from ¥221 million in the prior period.

A net increase in cash and cash equivalents of ¥4,867 million was recorded for the fiscal period under review, compared with a net decrease in cash and cash equivalents of ¥11,609 million during the same period last year. Total cash and cash equivalents at end of year were ¥25,240 million, an increase of 24.8% over the prior period.

Analysis of Financial Position

Namco's financial position strengthened during the fiscal year ended March 31, 2002, owing to a number of factors: total shareholders' equity increased, the equity ratio at fiscal year-end was up, the ratio of total liabilities to total shareholders' equity decreased, the Company's current ratio improved and net working capital rose sharply.

Total current assets increased 19.7% to ¥61,346 million, driven mainly by increases in cash and inventories. By far the largest factor raising inventories was a sharp increase in work in process of ¥7,201 million, an increase of 156% over the prior fiscal year. Total current liabilities dropped 2.0% to ¥29,659 million. The current portion of long-term debt, trade payables and other payables all fell, while short-term bank loans rose slightly. As a result, net working capital rose 51.0% to ¥31,687 million. The current ratio at fiscal year-end was 2.1 times, compared with 1.7 times at the end of the prior-year period. Net property and equipment fell 4.4% to ¥39,586 million, due mainly to an increase in accumulated depreciation. Total other assets fell 6.7% to ¥43,208 million. Accordingly, total assets rose 3.7% during the period under review to ¥144,140 million.

Interest-bearing debt, defined as short-term bank loans, the current portion of long-term debt, long-term debt and reassessment debt, rose 1.5% during the period to ¥17,914 million. Total liabilities rose 1.2% to ¥46,393 million.

Net shareholders' equity increased 4.9% to ¥96,133 million, primarily reflecting the turnaround to operating profitability, in contrast to the operating loss recorded in the previous fiscal year. As a result of the increase in shareholders' equity, the equity ratio at fiscal year-end improved to 66.7% from 66.0% in the prior period. The ratio of total liabilities to total shareholders' equity fell from 50.0% at the end of the prior period to 48.3% as of March 31, 2002.

Consolidated Balance Sheets

NAMCO LIMITED and subsidiaries
31st March, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	2001	**2002**	**2002**
Current assets:			
Cash (Note 3)	¥ 20,346	**¥ 25,319**	**$ 208,130**
Receivables:			
Trade receivables	16,713	**18,806**	**154,591**
Allowance for doubtful accounts	(424)	**(840)**	**(6,905)**
Net receivables	16,289	**17,966**	**147,686**
Inventories (Note 5)	7,169	**12,504**	**102,787**
Deferred income taxes—current (Note 9)	1,575	**2,522**	**20,732**
Other current assets	5,882	**3,035**	**24,948**
Total current assets	51,261	**61,346**	**504,283**
Property and equipment:			
Amusement machines and facilities	90,777	**92,420**	**759,721**
Buildings and structures	10,369	**10,825**	**88,985**
Machinery and equipment	11,764	**11,886**	**97,707**
Land	6,979	**7,636**	**62,770**
Construction in progress	20	**—**	**—**
Accumulated depreciation	(78,504)	**(83,181)**	**(683,774)**
Net property and equipment	41,405	**39,586**	**325,409**
Other assets:			
Investment securities, including non-consolidated subsidiaries and affiliates (Note 4)	2,274	**1,501**	**12,339**
Leasehold deposits (Note 6)	28,903	**28,274**	**232,421**
Goodwill	1,692	**1,467**	**12,059**
Long-term prepaid expenses	1,408	**1,139**	**9,363**
Deferred income taxes—non-current (Note 9)	6,312	**5,605**	**46,075**
Other non-current assets	5,865	**6,561**	**53,933**
Allowance for doubtful accounts	(158)	**(1,339)**	**(11,007)**
Total other assets	46,296	**43,208**	**355,183**
Total assets	¥138,962	**¥144,140**	**$1,184,875**

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen 2001	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2002
Current liabilities:			
Short-term bank loans	¥ 4,648	**¥ 5,702**	**$ 46,872**
Current portion of long-term debt (Note 7)	3,619	**1,658**	**13,629**
Trade payables	12,045	**11,451**	**94,131**
Other payables	3,806	**3,395**	**27,908**
Accrued income taxes (Note 9)	507	**895**	**7,357**
Accrued expenses	3,325	**3,994**	**32,832**
Other current liabilities	2,325	**2,564**	**21,077**
Total current liabilities	30,275	**29,659**	**243,806**
Long-term debt (Note 7)	9,383	**10,554**	**86,757**
Allowance for employees' retirement benefits (Note 8)	1,231	**1,217**	**10,004**
Other long-term liabilities	4,937	**4,963**	**40,798**
Total liabilities	45,826	**46,393**	**381,365**
Minority interest in consolidated subsidiaries	1,490	**1,614**	**13,268**
Shareholders' equity (Note 10)**:**			
Common stock:			
Authorized—109,685,421 shares			
Issued—55,087,618 shares (2001—55,087,618 shares)	27,369	**27,369**	**224,982**
Additional paid-in capital	26,399	**26,399**	**217,008**
Retained earnings	39,279	**41,251**	**339,096**
Other securities valuation difference	(108)	**(124)**	**(1,019)**
Foreign currency translation adjustments	(1,217)	**1,238**	**10,175**
	91,722	**96,133**	**790,242**
Treasury stock	(76)	**(—)**	**(—)**
Net shareholders' equity	91,646	**96,133**	**790,242**
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	¥138,962	**¥144,140**	**$1,184,875**

Consolidated Statements of Income

NAMCO LIMITED and subsidiaries
Years ended 31st March, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	**2002**	**2002**
Net sales	¥146,554	**¥152,136**	**$1,250,604**
Cost of sales	120,738	**117,283**	**964,102**
Gross profit	25,816	**34,853**	**286,502**
Selling, general and administrative expenses (Note 11)	28,682	**28,720**	**236,087**
Operating income (loss)	(2,866)	**6,133**	**50,415**
Other income:			
Interest and dividends	390	**302**	**2,483**
Gain on sale of property and equipment	—	**124**	**1,019**
Gain on exemption from reassessment debt	1,911	**—**	**—**
Other	449	**250**	**2,055**
	2,750	**676**	**5,557**
Other expenses:			
Interest	404	**340**	**2,795**
Other (Note 12)	8,676	**3,517**	**28,911**
	9,080	**3,857**	**31,706**
Income (loss) before income taxes	(9,196)	**2,952**	**24,266**
Income taxes (Note 9)**:**			
Current	765	**897**	**7,374**
Deferred	(3,961)	**20**	**164**
Net income (loss)	¥ (6,000)	**¥ 2,035**	**$ 16,728**

	Yen		U.S. dollars (Note 2)
Per share of common stock:			
Net income (loss):			
Primary	¥(109.09)	**¥36.95**	**$0.30**
Fully diluted	—	**35.97**	**0.30**
Cash dividends applicable to the year	15.00	**17.00**	**0.14**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

NAMCO LIMITED and subsidiaries
Years ended 31st March, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	**2002**	**2002**
Common stock:			
Balance at beginning of year	¥27,369	**¥27,369**	**$224,982**
Conversion of convertible bonds	0	**—**	**—**
Balance at end of year	27,369	**27,369**	**224,982**
Additional paid-in capital:			
Balance at beginning of year	26,399	**26,399**	**217,008**
Conversion of convertible bonds	0	**—**	**—**
Balance at end of year	26,399	**26,399**	**217,008**
Retained earnings:			
Balance at beginning of year	46,383	**39,279**	**322,885**
Adjustment arising from acquisition of consolidated subsidiaries	—	**(61)**	**(501)**
Addition arising from merger	430	**—**	**—**
Net income	(6,000)	**2,035**	**16,728**
Appropriations:			
Cash dividends	(1,495)	**—**	**—**
Bonuses to directors and statutory auditors	(39)	**(2)**	**(16)**
Balance at end of year	39,279	**41,251**	**339,096**
Other securities valuation difference:			
Balance at beginning of year	—	**(108)**	**(888)**
Net change during the year	(108)	**(16)**	**(131)**
Balance at end of year	(108)	**(124)**	**(1,019)**
Foreign currency translation adjustments:			
Balance at beginning of year	—	**(1,217)**	**(10,004)**
Net change during the year	(1,217)	**2,455**	**20,179**
Balance at end of year	(1,217)	**1,238**	**10,175**
Treasury stock:			
Balance at beginning of year	(377)	**(76)**	**(625)**
Decrease during the year	301	**76**	**625**
Balance at end of year	(76)	**(0)**	**(0)**
Net shareholders' equity	¥91,646	**¥96,133**	**$790,242**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NAMCO LIMITED and subsidiaries
Years ended 31st March, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	**2002**	**2002**
Cash flows from operating activities:			
Net income (loss)	¥ (6,000)	**¥ 2,035**	**$ 16,728**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	14,623	**14,085**	**115,783**
Loss on sale of property, plant and equipment	1,394	**101**	**830**
Loss on disposal of property, plant and equipment	2,235	**1,268**	**10,423**
Revaluation loss on securities	2,475	**763**	**6,272**
Deferred income taxes	(3,961)	**20**	**164**
Gain on exemption from reassessment debt	(1,911)	**—**	**—**
Other non-cash items	929	**1,714**	**14,090**
Changes in operating assets and liabilities:			
Trade receivables	1,183	**(1,899)**	**(15,610)**
Inventories	3,101	**(2,847)**	**(23,403)**
Trade payables	361	**(863)**	**(7,094)**
Accrued income taxes	(1,981)	**388**	**3,189**
Accrued expenses	(519)	**572**	**4,702**
Other, net	443	**62**	**509**
Other payments	(40)	**(31)**	**(253)**
Net cash provided by operating activities	12,332	**15,368**	**126,330**
Cash flows from investing activities:			
Payments for time deposits	(254)	**(31)**	**(255)**
Proceeds from time deposits	4,008	**78**	**641**
Capital expenditure	(13,711)	**(10,273)**	**(84,447)**
Payment of leasehold deposits	(1,878)	**(1,911)**	**(15,709)**
Repayment of leasehold deposits	2,612	**2,004**	**16,473**
Proceeds from sale of property, plant and equipment	1,582	**639**	**5,253**
Acquisition of investment securities	(161)	**(115)**	**(945)**
Increase in non-current collateral deposits	(1,283)	**—**	**—**
Decrease in non-current collateral deposits	6,047	**—**	**—**
Sale of common shares of treasury stock	301	**0**	**0**
Payment in connection with business transfer	(969)	**(928)**	**(7,628)**
Other, net	(347)	**(472)**	**(3,880)**
Net cash used in investing activities	(4,053)	**(11,009)**	**(90,497)**
Cash flows from financing activities:			
Short-term bank loans, net	(8,475)	**476**	**3,913**
Payments for long-term bank loans	742	**3,457**	**28,417**
Proceeds from long-term bank loans	(511)	**(1,044)**	**(8,582)**
Repayment of reassessment debt	(10,512)	**—**	**—**
Redemption of convertible bonds	—	**(3,090)**	**(25,401)**
Cash dividends paid	(1,495)	**—**	**—**
Other, net	142	**59**	**486**
Net cash used in financing activities	(20,109)	**(142)**	**(1,167)**
Effect of exchange rate changes on cash and cash equivalents	221	**650**	**5,342**
Net increase (decrease) in cash and cash equivalents	(11,609)	**4,867**	**40,008**
Cash and cash equivalents at beginning of year	30,728	**20,222**	**166,231**
Cash and cash equivalents on beginning balance arising from merger	1,103	**—**	**—**
Cash and cash equivalents on beginning balance arising from acquisition of consolidated subsidiaries	—	**151**	**1,241**
	31,831	**20,373**	**167,472**
Cash and cash equivalents at end of year (Note 3)	¥20,222	**¥25,240**	**$207,480**

See accompanying notes to consolidated financial statements.

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 confomity 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 amortization of goodwill.

Significant accounting policies are as follows:

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries controlled directly or indirectly by the Company. Significant affiliates over which the Company exercises significant influence in terms of their operating and financial policies as well as a non-consolidated subsidiary have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

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 subsidiary and significant affiliates.

(b) Foreign Currency Translation

Until the year ended 31st March, 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 denominated in foreign currencies at the balance sheet date are translated at the exchange rates in effect as of the balance sheet dates, and the unrealized gain or loss is reflected in other income (expenses).

The accounts of foreign subsidiaries are translated into yen at the year end rates. 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" in "Shareholders' equity".

(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) Investment Securities

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).

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. Based on this classification system, all of the Company's securities are classified as other securities and included in "other assets" as "investment securities".

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 domestic subsidiaries are stated at cost, determined by the moving-average method, adjusted for any substantial and permanent decline in value. Inventories of 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 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, and the amount of any goodwill impairment is measured in conformity with accounting principles and practices generally accepted in the country of incorporation. Goodwill incurred by the Company and 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.

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.

The transition difference of ¥894 million (U.S.$7,349 thousand) arising from the adoption of the new accounting standard was charged to the statement of income in "Other expenses" in the year ended 31st March, 2001.

Actuarial gains and losses are amortized using the straight-line method in the year following the year in which the gain or loss is recognized, over the estimated average remaining service years of employees. Most foreign subsidiaries have various retirement plans, principally defined contribution plans, covering substantially all of their employees.

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 the Company's 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 an estimated amount of ¥1,929 million and ¥1,984 million (U.S.$16,309 thousand) at 31st March, 2001 and 2002, respectively, and is included in "Other long-term liabilities".

(j) Income Taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements for the years ended 31st March, 2001 and 2002 with respect to the differences between the financial reporting and tax bases of assets and liabilities, 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.

(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, 2002.

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 ¥121.65 = U.S.$1, the approximate exchange rate at 24th June, 2002.

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

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
	2001	**2002**	**2002**
Cash	¥20,346	**¥25,319**	**$208,130**
Time deposits with maturities greater than three months	(124)	**(79)**	**(650)**
Cash and cash equivalents	¥20,222	**¥25,240**	**$207,480**

4. 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:				
Equity securities	¥ 958	¥42	¥ 94	¥ 906
Other	521	—	132	389
	¥1,479	¥42	¥226	¥1,295
2002:				
Other securities:				
Equity securities	**¥ 516**	**¥26**	**¥ 50**	**¥ 492**
Other	**519**	**—**	**189**	**330**
	¥1,035	**¥26**	**¥239**	**¥ 822**

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
2002:				
Other securities:				
Equity securities	**$4,242**	**$214**	**$ 411**	**$4,044**
Other	**4,266**	**—**	**1,554**	**2,713**
	$8,508	**$214**	**$1,965**	**$6,757**

The following is a summary of non-marketable securities:

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
2001:		
Other securities:		
Equity securities	¥586	$4,817
2002:		
Other securities:		
Equity securities	**¥365**	**$3,000**

Investments in non-consolidated subsidiaries and affiliates, which are included in "Investment securities", are ¥393 million and ¥314 million (U.S.$2,582 thousand) at 31st March, 2001 and 2002, respectively.

Proceeds, gross realized gains and losses from the sales of other securities in the year ended 31st March, 2001 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Proceeds	¥153	**¥21**	**$173**
Gross realized gains	¥ —	**¥ 4**	**$ 33**
Gross realized losses	¥ 72	**¥ —**	**$ —**

5. Inventories

Inventories at 31st March, 2001 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Merchandise	¥ 854	**¥ 1,236**	**$ 10,160**
Products	1,731	**1,765**	**14,509**
Raw materials	934	**1,458**	**11,985**
Work in process	2,812	**7,201**	**59,194**
Supplies	838	**844**	**6,939**
	¥7,169	**¥12,504**	**$102,787**

6. Leasehold Deposits

Leasehold deposits at 31st March, 2001 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Deposits for amusement facility operations and restaurant operations	¥23,115	**¥22,672**	**$186,371**
Deposits for office space	1,539	**1,288**	**10,588**
Other deposits	4,249	**4,314**	**35,462**
	¥28,903	**¥28,274**	**$232,421**

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, 2001 and 2002 amounted to ¥19,642 million and ¥19,956 million (U.S.$164,044 thousand), respectively.

7. Long-term Debt

Long-term debt at 31st March, 2001 and 2002 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
0.8% unsecured convertible bonds due 28th September, 2001 convertible into common stock at ¥3,106 per share	¥ 3,090	**¥ —**	**$ —**
0.9% unsecured convertible bonds due 30th September, 2003 convertible into common stock at ¥3,106 per share	7,178	**7,178**	**59,005**
Bank loans	2,734	**5,034**	**41,381**
	13,002	**12,212**	**100,386**
Current portion	(3,619)	**(1,658)**	**(13,629)**
	¥ 9,383	**¥10,554**	**$ 86,757**

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.$36,169 thousand) plus the aggregate amount of net income of the Company.

The aggregate annual maturities of long-term debt outstanding at 31st March, 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars
2003	¥ 1,658	$ 13,629
2004	8,723	71,706
2005	1,057	8,689
2006	205	1,685
Later year	569	4,677
	¥12,212	$100,386

8. Employees' Retirement Benefits

The plan's funded status and amount recognized in the accompanying consolidated balance sheets at 31st March, 2001 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Retirement benefit obligation	¥ 5,020	**¥ 4,959**	**$ 40,764**
Plan assets at fair value	(3,117)	**(2,866)**	**(23,559)**
Retirement benefit obligation in excess of plan assets	1,903	**2,093**	**17,205**
Unrecognized actuarial loss	(672)	**(876)**	**(7,201)**
Allowance for employees' retirement benefits	¥ 1,231	**¥ 1,217**	**$ 10,004**

Net periodic benefit cost for the years ended 31st March, 2001 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Service cost	¥ 399	**¥443**	**$3,642**
Interest cost on retirement benefit obligation	126	**116**	**954**
Estimated return on plan assets	(95)	**(95)**	**(781)**
Amortisation of transition difference on adoption of accounting standard for retirement benefits	894	**—**	**—**
Amortisation of unrecognized actuarial loss	—	**48**	**394**
Net periodic cost	¥1,324	**¥512**	**$4,209**

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

	2001	**2002**
Method of the benefit attribution	"Benefit/year-of-service" approach	
Discount rate	2.6%	2.6%
Estimated rate of return on plan assets	3.5%	3.1%
Period of amortization of transition difference on adoption of accounting standard for retirement benefits	1 year	—
Period of amortization of unrecognized actuarial gain or loss	Actuarial gains and losses are amortized using the straight-line method in the year following the year in which the gain or loss is recognized, over 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 42% in the years ended 31st March, 2001 and 2002.

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

The effective income tax rate reflected in the accompanying consolidated statements of income for the years ended 31st March, 2001 and 2002 differs from the Japanese normal income tax rate primarily because of 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 for the years ended 31st March, 2001 and 2002 is as follows:

	2001	**2002**
Japanese normal income tax rate	42.0%	**42.0%**
Increase (reduction) in income taxes resulting from:		
Valuation allowance	(1.6)	**(19.8)**
Inhabitant tax per capita	(2.3)	**6.7**
Other	(3.1)	**0.9**
Effective income tax rate	35.0%	**29.8%**

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at 31st March, 2001 and 2002 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Deferred tax assets:			
Tax loss carryforward	¥ 3,327	**¥2,080**	**$17,098**
Devaluation loss on securities	1,059	**1,391**	**11,434**
Depreciation and amortisation	964	**1,557**	**12,799**
Allowance for retirement benefits for directors and statutory auditors	810	**830**	**6,823**
Allowance for employees' retirement benefits	465	**454**	**3,732**
Other	2,547	**2,562**	**21,061**
Total gross deferred tax assets	9,172	**8,874**	**72,947**
Valuation allowance	(1,285)	**(747)**	**(6,140)**
Total net deferred tax assets	7,887	**8,127**	**66,807**
Deferred tax liabilities:			
Revaluation of property and equipment	(57)	**(57)**	**(469)**
Other	(60)	**(51)**	**(419)**
Total gross deferred tax liabilities	(117)	**(108)**	**(888)**
Net deferred tax assets	¥ 7,770	**¥8,019**	**$65,919**

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Deferred tax assets—current	¥1,575	**¥2,522**	**$20,732**
Deferred tax assets—non-current	6,312	**5,605**	**46,075**
Deferred tax liabilities—current (included in other current liabilities)	(47)	**(46)**	**(378)**
Deferred tax liabilities—non-current (included in other long-term liabilities)	(70)	**(62)**	**(510)**
	¥7,770	**¥8,019**	**$65,919**

10. Shareholders' Equity

The Japanese Commercial Code provided previously that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until such reserve equals 25% of common stock. The Japanese Commercial Code, amended effective on 1st October, 2001, provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until the aggregate amount of additional paid-in capital and legal reserve equals 25% of common stock. The legal reserve of Namco Limited was ¥1,435 million (U.S.$11,796 thousand) as of 31st March, 2002 and 2001, respectively, which was included in retained earnings.

Of the total amount of additional paid-in capital and legal reserve, ¥6,842 million (U.S.$56,243 thousand), representing 25% of common stock at 31st March, 2002, is not available for dividends but may be used to reduce a deficit or may be transferred to common stock.

Cash dividends, directors' and statutory auditors' bonuses and appropriations to the legal reserve charged to retained earnings during the years ended 31st March, 2001 and 2002 represent dividends and bonuses paid out during each period and the related appropriations to the legal reserve.

The accompanying consolidated financial statements do not include any provision for a dividend of ¥17 per share aggregating ¥936 million (U.S.$7,694 thousand) and bonuses to directors and statutory auditors aggregating ¥80 million (U.S.$658 thousand) declared in June 2002.

11. Research and Development Expenses

The total amount of expenses of the Research and Development Department for the years ended 31st March, 2001 and 2002 amounted to ¥10,702 million and ¥15,655 million (U.S.$128,689 thousand), respectively. ¥6,120 million and ¥6,544 million (U.S.$53,794 thousand) were charged to selling, general and administrative expenses in 2001 and 2002, respectively.

12. Other Expenses

The composition of other expenses—other for the years ended 31st March, 2001 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Revaluation loss on securities	¥2,475	**¥ 763**	**$ 6,272**
Foreign exchange loss	—	**55**	**452**
Amortisation of goodwill	239	**293**	**2,409**
Impairment loss on goodwill	—	**578**	**4,751**
Loss on disposal of property and equipment	159	**171**	**1,406**
Provision for doubtful accounts in connection with other assets	88	**584**	**4,801**
Minority interest in consolidated subsidiaries	54	**126**	**1,036**
Loss on sale of property and equipment	1,466	**—**	**—**
Amortisation of transition difference on adoption of accounting standard for retirement benefits	894	**—**	**—**
Additional retirement payments	1,330	**—**	**—**
Revaluation loss on property and equipment	986	**89**	**732**
Other	985	**858**	**7,052**
	¥8,676	**¥3,517**	**$28,911**

13. Contingent Liabilities

At 31st March, 2001 and 2002 contingent liabilities for loans guaranteed by the Company amounted to ¥19 million and ¥12 million (U.S.$99 thousand), respectively.

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to subsequently discount such notes at banks. At 31st March, 2001 and 2002, the Company was contingently liable with respect to trade notes receivable discounted in the amounts of ¥48 million and ¥31 million (U.S.$255 thousand), respectively. Notes discounted are removed from the balance sheets.

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

14. Supplemental Cash Flow Information

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Cash paid during year for			
Interest	¥ 437	**¥337**	**$2,770**
Income taxes	3,359	**514**	**4,225**

Non-cash activities

In 2001 and 2002, there were no material non-cash investing and financing activities.

15. Stock Option Plan

On 27th June, 1998, the Company's shareholders approved a stock option 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.

Options under this plan were 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. On 30th June, 2001, this stock option plan closed due to cancellation of all outstanding options.

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

	1998 plan No. of shares
Outstanding at 31st March, 1998	—
Granted on 27th June, 1998	119,000
Exercised	—
Cancelled	(1,500)
Outstanding at 31st March, 1999	117,500
Exercised	—
Cancelled	(3,000)
Outstanding at 31st March, 2000	114,500
Exercised	—
Cancelled	(114,000)
Outstanding at 31st March, 2001	500
Exercised	—
Cancelled	(500)
Outstanding at 31st March, 2002	—

16. Segment Information

(a) Business Segment Information

The Company and its subsidiaries 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	Elimination or 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	74,955	19,814	30,247	4,378	8,704	9,511	(1,055)	146,554
Operating expenses	75,776	23,021	25,392	4,247	8,579	9,947	2,458	149,420
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
2002:								
Net sales to customers	**¥77,181**	**¥18,291**	**¥35,520**	**¥4,229**	**¥9,903**	**¥7,012**	**¥ —**	**¥152,136**
Intersegment sales	**256**	**288**	**1**	**93**	**13**	**164**	**(815)***	**—**
Total	**77,437**	**18,579**	**35,521**	**4,322**	**9,916**	**7,176**	**(815)**	**152,136**
Operating expenses	**75,350**	**17,085**	**27,771**	**4,387**	**10,066**	**8,550**	**2,794**	**146,003**
Operating income	**2,087**	**1,494**	**7,750**	**(65)**	**(150)**	**(1,374)**	**(3,609)****	**6,133**
Identifiable assets	**55,688**	**12,273**	**21,893**	**2,901**	**8,956**	**12,867**	**29,562**	**144,140**
Depreciation and amortisation	**11,088**	**521**	**621**	**99**	**349**	**1,326**	**81**	**14,085**
Capital expenditure	**9,248**	**306**	**232**	**457**	**459**	**947**	**294**	**11,943**

	Thousands of dollars							
	Business segments							
	Amusement Facility Operations	Coin-Operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other	Elimination or Corporate Items	Consolidated
2002:								
Net sales to customers	**$634,451**	**$150,358**	**$291,985**	**$34,764**	**$81,406**	**$57,641**	**$ —**	**$1,250,604**
Intersegment sales	**2,104**	**2,367**	**8**	**764**	**107**	**1,348**	**(6,700)***	**—**
Total	**636,556**	**152,725**	**291,993**	**35,528**	**81,513**	**58,989**	**(6,700)**	**1,250,604**
Operating expenses	**619,400**	**140,444**	**228,286**	**36,062**	**82,746**	**70,284**	**22,967**	**1,200,189**
Operating income	**17,156**	**12,281**	**63,707**	**(534)**	**(1,233)**	**(11,295)**	**(29,667)****	**50,415**
Identifiable assets	**457,772**	**100,888**	**179,967**	**23,847**	**73,621**	**105,771**	**243,009*****	**1,184,875**
Depreciation and amortisation	**91,147**	**4,283**	**5,105**	**814**	**2,869**	**10,900**	**666**	**115,783**
Capital expenditure	**76,021**	**2,515**	**1,907**	**3,757**	**3,773**	**7,785**	**2,417**	**98,175**

* Elimination of intersegment sales.

** Includes unallocated administrative expenses of ¥3,807 million in 2001 and ¥3,838 million (U.S.$31,549 thousand) in 2002.

*** Assets included in Elimination or Corporate Items are primarily surplus money (cash and deposits) of the Company, long-term investment fund (investment securities) and other assets in administration department amounted to ¥32,486 million in 2001 and ¥35,800 million (U.S.$294,286 thousand) in 2002.

(b) Geographical Segment Information

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

	Millions of yen					
	Japan	North America	Europe	Asia	Elimination or Corporate Items	Consolidated
2001:						
Net sales to customers	¥115,216	¥25,728	¥4,557	¥1,053	¥ —	¥146,554
Intersegment sales	1,950	78	43	—	(2,071)*	—
Total	117,166	25,806	4,600	1,053	(2,071)	146,554
Operating expenses	116,644	25,377	4,710	1,218	1,471	149,420
Operating income	522	429	(110)	(165)	(3,542)**	(2,866)
Identifiable assets	89,205	17,824	5,238	667	26,028	138,962
2002:						
Net sales to customers	**¥111,015**	**¥35,030**	**¥5,026**	**¥1,065**	**¥ —**	**¥152,136**
Intersegment sales	**2,367**	**63**	**6**	**0**	**(2,436)***	**—**
Total	**113,382**	**35,093**	**5,032**	**1,065**	**(2,436)**	**152,136**
Operating expenses	**103,816**	**34,682**	**5,068**	**1,243**	**1,194**	**146,003**
Operating income	**9,566**	**411**	**(36)**	**(178)**	**(3,630)****	**6,133**
Identifiable assets	**86,486**	**21,388**	**5,861**	**402**	**30,003**	**144,140**

	Thousands of dollars					
	Japan	North America	Europe	Asia	Elimination or Corporate Items	Consolidated
2002:						
Net sales to customers	**$912,577**	**$287,957**	**$41,315**	**$8,755**	**$ —**	**$1,250,604**
Intersegment sales	**19,458**	**519**	**49**	**0**	**(20,026)***	**—**
Total	**932,035**	**288,476**	**41,364**	**8,755**	**(20,026)**	**1,250,604**
Operating expenses	**853,400**	**285,097**	**41,660**	**10,218**	**9,814**	**1,200,189**
Operating income	**78,635**	**3,379**	**(296)**	**(1,463)**	**(29,840)****	**50,415**
Identifiable assets	**710,941**	**175,816**	**48,179**	**3,305**	**246,634*****	**1,184,875**

* Elimination of intersegment sales.
** Includes unallocated administrative expenses of ¥3,807 million in 2001 and ¥3,838 million (U.S.$31,549 thousand) in 2002.
*** Assets included in Elimination or Corporate Items are primarily surplus money (cash and deposits) of the Company, long-term investment fund (investment securities) and other assets in administration department amounted to ¥32,486 million in 2001 and ¥35,800 million (U.S.$294,286 thousand) in 2002.

(c) Overseas Sales Information

Overseas sales of the Company and its subsidiaries for the years ended 31st March, 2001 and 2002 amounted to ¥40,239 million (27.5% of consolidated net sales) and ¥48,853 million (U.S.$401,586 thousand) (32.1% 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, 2001 and 2002, 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, 2001 and 2002, 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 retirement benefits and financial instruments and the revised accounting standard 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, 2002 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.

Shin Nihon & Co.

Tokyo, Japan
24th June, 2002

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.

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Date of Establishment
June 1, 1955

Number of Employees (Parent Company)
2,096 (As of May 31, 2002)

Number of Shareholders
17,949 (As of March 31, 2002)

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

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President and Chief Executive Officer
Kyushiro Takagi*

Executive Vice President
Akiyoshi Sarukawa*

Managing Directors
Masahiro Tachibana*
Yasuhiko Asada
Keiji Tanaka
Shukuo Ishikawa

Director
Koichiro Homma

Director and Advisor
Ryuji Hashiguchi
(The above directors serve as division executives)

Corporate Auditors
Shigeru Yamada
Nobuo Okabe
Toshinori Hayashida
Mitsuo Ichikawa

Senior Executive Officers
Jun Higashi
Yoichi Haraguchi

Executive Officers
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(As of June 22, 2002)

**Representative Directors*

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(As of June 30, 2002)

Amusement to Entertainment

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