

Annual Report 2005

For the year ended March 31, 2005



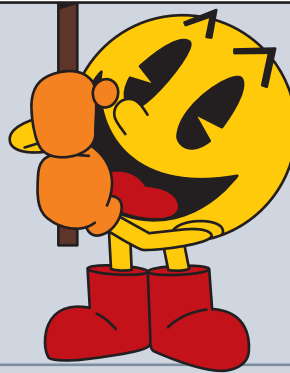
Challenge the Next Stage !

50
ANNIVERSARY

namco®

Profile

NAMCO LIMITED (NAMCO) traces its origins to the installation of two coin-operated horse rides in a department store in 1955. Ever since, NAMCO has consistently led the way in the development of amusement facilities, coin-operated game machines and theme parks—helping people experience the fun they have always dreamed of through numerous forms of entertainment. In recent years, rapid advances in information technology have significantly transformed entertainment equipment, as well as how and where people choose to play. True to its vision of being a highly creative organization, NAMCO is developing new modes of entertainment from many angles, giving free rein to its adaptable and wide-ranging product development capabilities. NAMCO is committed to meeting new challenges with its sights set on expanding its presence in the realm of global entertainment.



Contents

Financial Highlights	1
To Our Shareholders	2
A Message From the Chairman, Masaya Nakamura	2
A Message From the President, Shigeichi Ishimura	3
A Message From Vice Chairman, Kyushiro Takagi	5
A Message From Executive Vice President, Shukuo Ishikawa	6
A Message From Executive Vice President, Jun Higashi	8
Core Businesses: Fiscal 2005 Operating Overview	10
Fundamental Policy and Measures Regarding Corporate Governance	12
Directors and Corporate Auditors	14
Financial Section	15
Corporate Directory	42
Corporate Data and Stock Information	43

Forward-Looking Statements

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of NAMCO LIMITED and subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the Company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

Financial Highlights

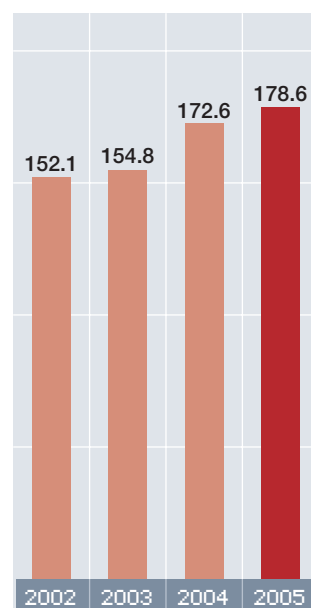
NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31, 2003, 2004 and 2005

	Millions of yen			Thousands of U.S. dollars
	2003	2004	2005	2005
For the year:				
Net sales	¥154,777	¥172,594	¥178,552	\$1,678,909
Operating income	9,470	15,430	15,086	141,852
Net income	4,116	7,546	9,465	88,999
At year-end:				
Total assets	143,214	148,117	154,474	1,452,506
Shareholders' equity	96,647	101,811	107,773	1,013,380
Per share of common stock:				
Net income (Primary)	¥ 72.35	¥ 133.00	¥ 83.63	\$ 0.79
Cash dividends applicable to the year	30.00	40.00	40.00	0.38

Note: U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥106.35=U.S.\$1

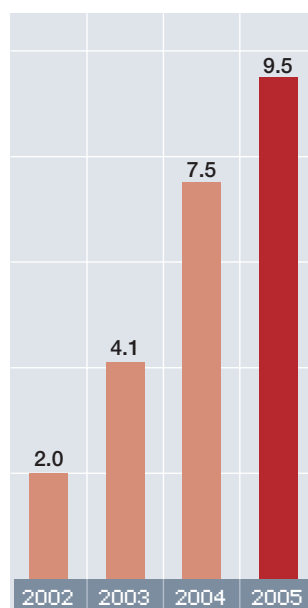
Net sales

(Billions of yen)



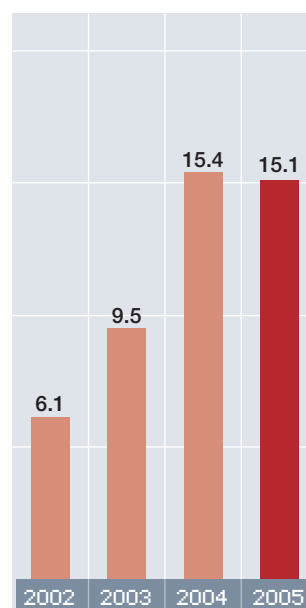
Net income

(Billions of yen)



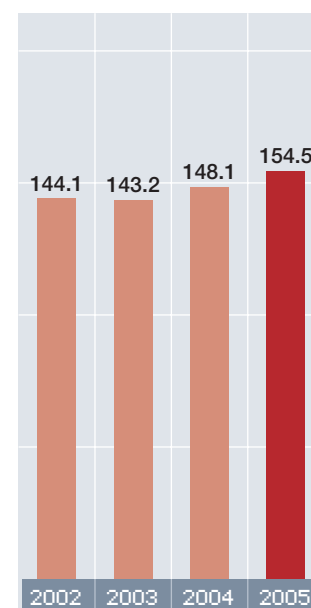
Operating income

(Billions of yen)



Total assets

(Billions of yen)



A Message From the Chairman, Masaya Nakamura

The NAMCO-Bandai Management Integration

In May 2005, we announced we would be integrating our management with Bandai Co., Ltd. by establishing a holding company called NAMCO BANDAI Holdings Inc. in September 2005. As an operating company under this new holding company structure, NAMCO will work to generate greater corporate value against a backdrop of major change and intense competition in the business environment.

Charles Darwin, the celebrated founder of modern evolutionary theory, is reported to have said that the key to successful evolution was not an animal's strength or intelligence, but whether it was capable of adapting to change. Our integration with Bandai is the result of carefully considering how best to adapt to predicted change in our industry. I am confident that this decision will benefit all NAMCO shareholders.

NAMCO's Mission Remains Unchanged

We celebrated NAMCO's 50th anniversary in June 2005. Marking this milestone, we took the bold decision to implement far-reaching change in our business before embarking on our next half century as a company.

However, the three fundamental principles that anchor all the entertainment products and services we provide remain unchanged. First, that "to play is human" (*homo ludens*), a view of humanity formulated by Dutch historian Johan Huizinga. Second, that the 21st century will be an "Era of Spirituality," a perspective on the future proposed by French intellectual André Malraux. And third, encapsulating NAMCO's economic philosophy, that the more advanced an industry is, the greater value it creates.

Supported by these perspectives on humanity and its future, as well as our own economic philosophy, we have redefined the mushrooming service industry as comprising a third sector involving physical labor, a fourth appealing to the intellect, and a fifth that engages the emotions. We have positioned NAMCO as a pioneer in the fifth sector, providing services that appeal to the emotional aspects of people's lives, and in a sixth sector, where businesses offer services that instill willpower and raise spiritual awareness in people.

In our quest to develop and commercialize these higher service domains, we aim to help realize one of the ultimate goals of humanity—to make play part of culture. Consequently, our overarching mission, to contribute to the emergence of a more fulfilling and optimistic society in the spirit of *homo ludens*, remains unchanged.

Our New Management Approach

NAMCO BANDAI Holdings' new corporate statement is "Dreams, Happiness and Excitement." NAMCO and Bandai have both worked to deliver dreams and excitement to customers since they were founded. Underpinned by this shared ideal, both companies will work together to pursue the possibilities of "play" from a global perspective, aiming to create highly appealing entertainment and boost corporate value.

Personally, since founding NAMCO and working over the past 50 years to make "play" a viable commercial endeavor, I remain as passionate as ever about this business. In my capacity as senior advisor to NAMCO BANDAI Holdings, I will do my best to support the new company and the industry as a whole by offering my advice to management from a broad perspective.



June 2005

Masaya Nakamura

Chairman & Chief Visionary Officer



A Message From the President, Shigeichi Ishimura

Overview of Fiscal 2005

For the NAMCO Group, the past year was characterized by three key initiatives: efforts to improve profitability in our three core business segments of Coin-operated Game Machines, Home Videogame Software, and Amusement Facility Operations; the optimal allocation of resources into promising growth areas such as home videogame software sales, mobile phone content distribution and LCD units for pachinko and pachislot machines; and upfront investments in new businesses to support medium- and long-term growth.

In fiscal 2005, Coin-operated Game Machines underpinned the Group's consolidated results, thanks to the popularity of mainstay products in the domestic market and a strong performance by the pachinko and pachislot LCD business. The Home Videogame Software segment also made a significant contribution to overall performance with year-on-year increases in both sales and operating income. This reflected robust sales of leading titles and new software developed for the latest handheld games, as well as rising membership in mobile phone content distribution sites and strong demand for fee-based downloads. In Amusement Facility Operations, sales from new directly managed facilities and revenue generated by food theme park planning projects were strong, although sales struggled at existing facilities which were affected by poor weather and other factors. Although segment sales rose compared to the year earlier, operating income dropped year on year.

These and other factors resulted in consolidated operating income of ¥15,086 million, down ¥344 million or 2.2%, and net income of ¥9,465 million, up ¥1,919 million or 25.4%, on net sales of ¥178,552 million, an increase of ¥5,958 million or 3.5% compared to fiscal 2004.

Fiscal 2005 was also the final year of the three-year medium-term management plan we began implementing in May 2002. However, we fell short

in achieving a number of the plan's targets, including those for net sales, operating income and ROE.

On November 19, 2004, we carried out a 2-for-1 stock split for shareholders of record on September 30, 2004. This step was taken from the perspective of returning profits to shareholders and boosting the liquidity of NAMCO shares. In addition to the stock split, we increased the annual dividend in real terms by ¥20.0 per share, reflecting the increase in net income for fiscal 2005 and including a commemorative dividend to mark NAMCO's 50th anniversary.

New Management Structure and Organization

NAMCO has implemented a raft of reforms since fiscal 2001 to restructure its operations. After completing these reforms, we began moving back onto the offensive and introduced strategies for further growth. Despite failing to attain some of the targets in our medium-term management plan, we have achieved some qualitative improvements in our operations. Seeing this as an excellent opportunity, we adopted a new management structure and realigned our organization in April 2005 to implement a new growth strategy from the start of fiscal 2006 called "Next Stage." These steps were also taken to enhance NAMCO's management capabilities in response to drastic changes in the operating environment.

Under the new management structure, Kyushiro Takagi has been appointed Vice Chairman, while I have been given the honor of replacing him as NAMCO's President and Chief Executive Officer. Shukuo Ishikawa and Jun Higashi have been appointed to the post of Executive Vice President, creating a powerful management team that will work to reinforce NAMCO's operations and maximize profits.

Meanwhile, the main objective of realigning the Group's organization is to create an operating framework more capable of generating



added value. This led us to create the posts of Group Executive Contents Business and Group Executive Location Business. The former is responsible for overseeing the Contents & Technology (CT), Amusement Machine (AM) and Contents & Expansion (CX) in-house companies, working to find further multi-use applications for our content and technologies and encouraging greater cooperation among these Companies. The latter will manage the Entertainment (ET) Company, which is responsible for NAMCO's Amusement Facility Operations. The objective in this case is to ensure that moves into new location businesses are fully realized, resulting in a more robust operating base. Shukuo Ishikawa has been appointed Group Executive Contents Business, while Jun Higashi has been given the post of Group Executive Location Business.

Outlook for Fiscal 2006

In April 2005, we sold some of our shares in consolidated subsidiary Italian Tomato Ltd. As a result, from fiscal 2006, Restaurant Operations will no longer be included in our business segments. This decision to sell a portion of our equity interest in the company was taken as part of efforts to realign our operations, aimed at focusing fully on entertainment businesses and accelerating measures to reinforce core businesses.

NAMCO celebrated its 50th anniversary in June 2005. Anchored by our new management structure and organization, we will work to strengthen our existing key businesses and extend NAMCO's reach into new business domains. Aiming to take NAMCO to the "Next Stage" of growth, we also plan to generate the best possible results from the re-

sources we possess. Due to our decision to integrate with Bandai Co., Ltd., we plan to review our current management plan and forecasts, disclosing new figures to the markets via IR channels when appropriate. However, at the current time, we are projecting net income of ¥8.9 billion on consolidated net sales of ¥190.0 billion for the year ending March 31, 2006.

Realizing Our Mission and Maximizing Corporate Value

Author of *Man, Games and Play*, Roger Caillois classifies "play" into four universal categories—competition, chance, simulation, and vertigo. Our everyday lives incorporate significant elements of "play," whether simulation in learning or training, or the feeling of vertigo when experiencing major or inspiring events.

As a comprehensive entertainment company, NAMCO's overarching mission is to contribute to creating more fulfilling, optimistic and healthy lifestyles through play. Although our industry is likely to remain challenging, we will work to realize this mission while continuing to fulfill our corporate social responsibility, ultimately striving to maximize NAMCO's corporate value.



June 2005

Shigeichi Ishimura

President & Chief Executive Officer

A Message From Vice Chairman, Kyushiro Takagi

A New Start With NAMCO BANDAI Holdings

As you may already know, NAMCO and Bandai Co., Ltd. have decided to integrate their management through an exchange of shares. Effective from the provisional date of September 29, 2005, we will set up a holding company with Bandai called NAMCO BANDAI Holdings Inc. This company will have a range of responsibilities, such as formulating and executing medium- and long-term strategy for the entire Group, supporting the implementation of operating company business strategy, and managing the overall business. NAMCO, Bandai and their respective subsidiaries will become operating companies of the holding company, working to maximize the corporate value of the whole Group. As chairman of the new holding company, I plan to devote myself to management that focuses on the interests of shareholders.

Integration Background and Goals

Due to the spread and growth of network infrastructure driven by technological innovation, global competition is now a reality in the entertainment industry worldwide. In the Japanese market, amid the falling birthrate and diversifying hobby and entertainment choices, companies now have to do much more to win over customers—to sustain stable earnings they have to aggressively engage in research and development, and create and supply highly appealing products and services. To remain a viable force in a market characterized by these changes and intensifying competition, we have to expand our operations and tap new demand to create a powerful company. Based on this thinking, and aiming to increase our corporate value, we came to the decision that an integration with Bandai, underpinned by a shared philosophy and business strategy, is the best approach to selectively maximize our resources.

The new holding company will leverage synergies in both companies' entertainment businesses by fusing and complementing their respective strengths: NAMCO's game and content development and extensive amusement facility network, and Bandai's character merchandising. Our shared goal over the medium- and long-term will be to build a new business model capable of prevailing in the face of global competition.

Issues for the New Management Team

The biggest issue to face the holding company's new management team will be how best to combine and complement both companies' respective strengths, in order to generate powerful synergies in their entertainment businesses.

Over the medium- and long-term, we will also have to craft a new business model that ensures we remain competitive on the global stage. In doing this, we must also demonstrate the benefits of our integration to the markets.

With this integration, we will create an entertainment group unparalleled worldwide. Going forward, NAMCO BANDAI Holdings will strive to provide high-quality, exciting entertainment, aiming to become a global leader in the industry. At the same time, guided by predictions of market trends at home and abroad, we will use our rapid decision-making and operational execution capabilities to respond quickly to changes in the business landscape, further boosting the corporate value of the new Group.



June 2005
Vice Chairman
Kyushiro Takagi



A Message From Executive Vice President, Shukuo Ishikawa



Shukuo Ishikawa

Executive Vice President

Challenge the Next Stage!

A New Role as Group Executive Contents Business

On April 1, 2005, I was appointed Group Executive Contents Business, responsible for overseeing the Contents & Technology (CT), Amusement Machine (AM) and Contents & Expansion (CX) in-house game content development companies. With this position comes a real sense of responsibility, particularly because the combined fiscal 2006 net sales and operating income targets for these companies are ¥90.0 billion and ¥13.2 billion, respectively, accounting for a significant portion of Group targets.

NAMCO has derived certain benefits from its adoption of the in-house company system. However, in my new role as Group Executive Contents Business, I plan to implement a strategy that encourages even greater levels of cooperation among these companies, as well as other measures that will promote improved sharing of expertise and technology, in addition to content multiuse. With these measures in place, our goal, most importantly, will be to boost the earnings of all three companies.

Objective One: Promote Linked Product and Hardware Strategies

NAMCO has sought to shift its operational focus from games to content. Despite this, we are still not generating enough synergies in the

development of joint content for coin-operated game machines, videogame software and mobile phones, particularly at the medium-term product proposal and product planning stages.

To resolve this problem, under my guidance, we will promote greater information sharing at the product strategy formulation stage to maximize the earnings of our three content development companies. Similarly, we will roll out a joint hardware strategy for system boards and other components used in commercial, home-use and other products.

One example of our linked product strategy is the *Tekken* series. In the year under review, we used *Tekken* content in multiple formats and products, including arcade games, home videogames, mobile content and pachislot machines, making a significant contribution to earnings. Only a company like NAMCO that operates a network of global amusement facilities, supplies coin-operated game machines and distributes mobile content, can make this kind of business model viable. Through our integration with Bandai, channels for content multiuse will increase, providing an excellent opportunity to further raise profits.

Objective Two: Complement Our Strengths

Since introducing the in-house company system three years ago, each company, through its business activities, has built up a portfolio of approaches, expertise and technologies that incorporate unique strengths. Going forward, my aim is to promote greater information exchange among these companies so that we can share these "assets," thereby generating stronger results.

To give one specific example, the AM Company has introduced a new approach to product development. Instead of passively creating one size-fits-all products, the company now proactively works to develop products more closely tailored

to perceived market needs. Using scientific modeling to identify likely product requirements, this approach has driven better-than-anticipated results over the past three years. This AM Company strength has been enthusiastically adopted by the CT and CX companies, illustrating that we have already started creating the necessary framework to promote effective information exchange among these three companies.

Objective Three: Increase Exchanges of Content Creators

One merit of the in-house company system is that it enables more rapid, integrated manufacturing and sales activities. On the downside, it prevents us from flexibly allocating content creators to promising short- and medium-term development projects. To eliminate this weakness, one of the jobs of Group Executive Contents Business will be to increase the exchange of content creators among the CT, AM and CX companies. At the same time, by freeing these personnel from the limitations of specific in-house companies and business fields, we will encourage more out-of-the-box creativity that links commercial, home-use and mobile products. I believe the result will be the generation of value across all our content development businesses.

Measures for Each In-house Company

Encouraging the CT, AM and CX companies to work more closely together is obviously important. But ensuring they make the most of their independent operating stance is also crucial. Although my role as Group Executive Contents Business entails providing support to these companies from the perspective of optimizing overall product strategy, it is vital that each individual company, under their respective presidents, continues to operate independently in their own business fields.

Consequently, NAMCO will implement a number of measures specific to each in-house company. In the CT Company, we plan to fully use our strategy of efficiently developing new titles to create software for new platforms, starting with the Xbox 360 due for launch at the end of 2005, and followed by the PlayStation3 and Nintendo Revolution. In the AM Company, we will focus on maintaining the position of our leading coin-operated game machine brands and investing in new products. The CX Company comprises two elements: the pachinko and pachislot LCD business, and the mobile phone business. In the former, NAMCO will put in place an operating structure more resilient to business trends at client companies, and create a business capable of supplying high-value-added products and generating stronger earnings. In the latter, growth will be achieved despite a maturing domestic market by channeling resources into promising growth areas such as North America.

Aiming to Be Nothing Less Than the Global Leader

Based on the combined capabilities of our CT, AM and CX companies, I believe NAMCO has what it takes to become the world's top content company. We want to be nothing less than the global leader. Although we have numerous powerful rivals in the industry, if each in-house company can become the dominant force in its respective field, we can definitely transform NAMCO into the world's leading comprehensive developer of game content. In my role as Group Executive Contents Business, I will work relentlessly to attain this goal.

June 2005

Shukuo Ishikawa

Executive Vice President & Group Executive Content Business

A Message From Executive Vice President, Jun Higashi



Jun Higashi

Executive Vice President

Challenge the Next Stage !

A New Role as Group Executive Location Business

Effective April 1, 2005, I was appointed Group Executive Location Business, responsible for overseeing the Entertainment (ET) Company in the Amusement Facility Operations segment. The remit of this role is to enhance the earnings power of existing businesses, including those located overseas, secure a competitive position in the field, and develop new business formats to build earnings pillars outside the amusement facility business.

Management Based on the “High-touch Concept”

When NAMCO was established 50 years ago, it initially focused on the amusement facility business, starting off with the installation of two coin-operated horse rides in a department store. Since then, we have constantly sought to satisfy the needs of customers with our concept of “play.” Support from these customers has enabled us to continue operations now for half a century.

Today, after 50 years, our Amusement Facility Operations segment has a wider customer base than ever before and continues to evolve. Especially in the past two to three years, we have significantly expanded the number of sites located

in shopping malls, widening our customer base beyond young adults and families. Footfall at our food theme parks also reflects a diverse range of customers, young and old, male and female. In Japan, amusement facilities are now recognized as a form of wholesome entertainment.

In recent years, entertainment offered via the Internet, mobile phones and other advanced technologies has seen tremendous growth. Nonetheless, the popularity of our amusement facilities has continued to grow. I believe this is due to the increasing importance of one idea that underpins our basic philosophy in this business—the “High-touch Concept.” Put simply, this describes entertainment centers that families and groups of friends can visit to “communicate” and have a great time, mainly through tactile game experiences such as prize and medal games that users can actually touch and feel. In our increasingly cyber-oriented world, the value of “High-touch” entertainment continues to grow.

The mission of NAMCO’s Location Business is to help create intangible value—enjoyable memories and experiences—based on tactile, three-dimensional fun and communication with friends and family. This will mean fusing all the elements of location, space, time, content and people using our “High-touch Concept.”

Initiative One: Develop Entertainment Complexes

Taking our Amusement Facility Operations to the next stage of development means one thing—introducing entertainment complexes. The majority of NAMCO facilities currently rely on the sites where they are located, shopping malls for example, to attract customers. But shopping malls and other large-scale commercial premises have limited space for developing locations. Consequently, in order to grow using the entertainment complex format, we have to free ourselves from the physical restrictions of these sites.

Specifically, our policy will be to work with partners to overcome these barriers by creating entertainment facilities that will have movie theaters, bowling alleys, food theme parks and other entertainment formats under one roof, all based on the concept of “play” and all capable of attracting customers in their own right. Using this approach, we plan to secure a competitive advantage in the market that we can also leverage in our existing facilities.

In order to support this kind of business development, we need to boost our facility planning capabilities to ensure these new entertainment complexes generate returns that are commensurate with the large investments needed to establish them. With this in mind, we have set up the ET Development Division, charged with enhancing our property development and facility planning skills.

Initiative Two: From Amusement to Entertainment

Shifting our focus from “Amusement to Entertainment” is our latest slogan in Amusement Facility Operations. This reflects our desire to move away from simply offering amusement through game machines and other hardware, to become an entertainment company that delivers the highest levels of customer service based on the tenets of hospitality, excitement, and self-fulfillment. This thinking will guide our development of a new location business. Combined with steps to reduce costs by paring back personnel expenses and prize costs, our objective is to boost profitability in Amusement Facility Operations.

A New Location Business: Responding to Demographic Change

Japan’s falling birthrate and aging population is an issue NAMCO must address. Our response will be to extend the reach of our business and

target a wider customer base. Currently, operations outside our traditional amusement facility domain account for nearly 15% of segment sales. Our policy is to further increase this ratio.

We are taking a number of steps to respond to Japan’s falling birthrate, including generating synergies with Bandai’s character merchandising activities and working with partner Benesse Corporation to plan and run *Shima-Shima Town*—entertainment parks where kids and parents can have fun together. Meanwhile, as the number of elderly in Japan increases, we have set up *Kaikaya*, a day-care facility, and are examining other new welfare business opportunities. In parallel, we plan to expand our food theme park business, which has become an increasingly familiar and popular form of entertainment in Japan, evidenced by strong results from these sites. We will also actively develop new business models based on health and therapeutic themes. These steps are all aimed at expanding our customer base and building new earnings pillars.

Reinforcing Overseas Operations

Overseas, initiatives in the U.S. and Europe are having some positive affects, with operations shaking off their recent poor performance and moving into the black. To ensure this trend continues, we will build a new operating structure in these regions by closing unprofitable locations and taking other strategies. Supported by a new business base that is already emerging in Europe and Asia, we plan to focus on generating stronger growth.

June 2005

Jun Higashi

Executive Vice President & Group Executive Location Business

Core Businesses: Fiscal 2005 Operating Overview

CT Company (Home Videogame Software)

Ace Combat 5: The Unsung War



In Japan, the CT Company posted higher sales and earnings year on year. Supporting this performance were strong sales of *Tales of Rebirth*, *Ace Combat 5: The Unsung War*, and *Tekken 5*, all for the PlayStation 2 (PS2), *Ridge Racers* for the PlayStation Portable (PSP), *Pac-Pix* for the Nintendo Double Screen (DS), as well as a number of other titles launched for new mobile phone handsets.

In North America, strong sales were recorded by *Street Racing Syndicate (SRS)*, a multi-platform title for the PS2, GameCube and Xbox, *Ace Combat 5: The Unsung War* and *Tekken 5* for the PS2 as well as role-playing games (RPGs) such as *Xenosaga Episode II* for the PS2, and *Tales of Symphonia* for the GameCube, titles which have

mainly been popular in Japan until recently. Despite healthy sales of repeat and lower-priced titles, including *NAMCO Museum* for the PS2, GameCube and Xbox, sales and earnings in North America were down overall compared to a year earlier when *Soul Calibur II* proved hugely popular.

In Europe, the company achieved buoyant sales of *Ace Combat 5: The Unsung War** and *Smash Court Tennis Pro Tournament 2*, both for the PS2, as well as repeat and lower-priced titles.

In Asia, sales and earnings were both higher, thanks to robust demand for *Tekken 5*, *Katamari Damacy* and *Ace Combat 5: Unsung War* for the PS2, as well as other titles.

* Sold as *Ace Combat: Squadron Leader* in Europe

Pac-Pix



Wangan Midnight MAXIMUM TUNE



AM Company (Coin-Operated Game Machines)

In Japan, sales of *Tekken 5*, driving game *Wangan Midnight MAXIMUM TUNE*, the multi-player battle game *Dragon Chronicle ONLINE*, and the photo-seal printing machine *Setsu-Getsu-Ka* were all strong. Repeat sales of popular prize-crane pusher games such as the *Sweet Land* series remained robust.

Standout performers in North America were *Tekken 5*, *Wangan Midnight MAXIMUM TUNE* and *Ms. Pac-Man/Galaga*, while *Tekken 5* and *Pac-Man Ball* did well in Europe.

CX Company (Coin-Operated Game Machines and Home Videogame Software)

In the Coin-Operated Game Machines segment, the CX Company primarily manufactures LCDs for pachinko and pachislot machines in Japan. Sales of the LCD display unit for the *Pachislot Tekken* to YAMASA CO., LTD. made a significant contribution to results.

In Japan, in the Home Videogame Software segment, the *Taiko no Tatsujin* site for mobile phone users remained popular with customers. During the year, the CX Company launched new mobile phone sites such as *TEKKEN-NET*, corresponding with the roll out of the *Tekken 5* coin-operated game machine. The company also began offering the popular “Tales

of” RPG series via a mobile content download site, reworked for NTT DoCoMo, Inc.’s FOMA 900i and 901i mobile handsets as *Tales of Breaker*. These and other steps supported efforts to increase subscribers to NAMCO mobile phone sites. As of March 31, 2005, the number of subscribers totaled 955,600, up from 836,400 at the previous fiscal year-end.

Overseas, NAMCO subsidiaries are accelerating expansion of the game content distribution business for mobile phones. *Pac-Man* and *Ms. Pac-Man* were particularly popular in North America, while sales to Vodafone and Orange subscribers in Europe were healthy.

*Pachislot
Tekken*



Tales of Breaker



ET Company (Amusement Facility Operations)

In Japan, sales at existing locations declined 3.4% year on year due to the negative impact of a record hot summer, a succession of typhoons and other factors. The popularity of prize games, which have generated the greatest proportion of facility sales, also seems to have run its course.

The ET Company actively opened new locations during fiscal 2005 based on existing formats and new business models. Food theme parks, pioneered by NAMCO, are now an established form of accessible entertainment in Japan. During the year under review, NAMCO food theme parks performed well, led by *NAMCO Namja Town* in Tokyo, which comprises *Ikebukuro Gyoza Stadium* and two other attractions.

Newly opened sites such as *Nagoya Menya Yokocho* in Aichi Prefecture all proved popular and achieved strong customer footfall.

In the U.S., although NAMCO continued to take steps to expand its network of facilities operated under revenue-sharing arrangements, close unprofitable sites and reduce costs, sales at existing directly managed locations fell 9.2% year on year, dragging down overall sales and earnings. In Europe, operations were generally favorable with sales and earnings both up on the previous year. In Asia, the operating environment remained difficult due to new store opening regulations and restrictions on imports of game machines.

Nagoya Menya Yokocho



Fundamental Policy and Measures Regarding Corporate Governance

Fundamental Policy

The NAMCO Group regards the establishment of an effective corporate governance system as an important management issue from the standpoint of providing benefits for all stakeholders who support its corporate activities, and for continuously maximizing shareholder value over the long term. The basis for corporate governance is the clarification and rigorous implementation of a “fundamental philosophy” that defines the basic stance and goals of all employees. The objective of this philosophy is to focus on the constant creation of added value in the domain of “play,” while ensuring that management and employees share the same vision and mission.

Measures and Status

1. Management framework and other systems related to decision-making, executive actions and oversight

The NAMCO Board of Directors comprises 8 members and meets monthly. In addition to making decisions on management issues, the Board of Directors also works to ensure that business operations are carried out in an appropriate manner based on timely reports from representative directors and company presidents responsible for executive actions. Meetings of the Executive Committee are also held on a regular basis with the aim of realizing close communication between directors and company presidents to ensure business operations are effectively implemented. These meetings are used to communicate decisions made by the Board of Directors, raise a range of issues such as the respective operating results of each in-house company and facilitate discussion that includes corporate auditors.

NAMCO has adopted the corporate auditor system. The Board of Corporate Auditors has four members (including two standing auditors), three of whom fulfill the conditions of outside corporate auditors. Based on the allocation of duties determined by the Board of Corporate Auditors, the corporate auditors monitor the operations of the Company while working with the independent auditors as needed. As part of these duties, the two standing corporate auditors always attend meetings of the Board of Directors and Executive Committee, visit domestic and overseas subsidiaries where necessary, work to prevent improper business practices and to ensure appropriate business operations are maintained and secured. Part-time auditors also rigorously monitor the operations of the Company from an objective standpoint through attendance at meetings of the Board of Directors and other actions. More-

over, the Company receives necessary advice from legal counsel, the independent auditors and other third parties when required.

NAMCO's corporate governance framework is shown in the schematic on the following page (p.13).

NAMCO's accounts are audited by Ernst & Young ShinNihon, which was selected as the Company's independent auditor by the Ordinary Annual General Meeting of Shareholders.

The certified public accountants (CPAs) responsible for carrying out the audits are as follows:

Designated partner and managing partner: Kanetada Toyama (22 years of continuous auditing experience)

Designated partner and managing partner: Toru Numata

The team responsible for supporting the audit of the Company's accounts primarily comprises other CPAs and assistant CPAs, and includes individuals with specialist expertise in accounting systems and other fields.

Auditing fees paid to the independent auditor for the year under review were as follows:

Fees for certification of the Company's accounts: ¥27 million

For the year under review, NAMCO paid remuneration to 10 directors (including 2 retired individuals) totaling ¥315 million (excluding ¥4 million paid to directors for their concurrent role as advisors). Remuneration paid to 5 corporate auditors (including 1 retired individual) totaled ¥45 million.

2. Overview of personal, capital, business and other conflicts of interest between the Company and its outside directors and auditors

NAMCO has not appointed any outside directors. No conflicts of interest exist between the Company and its outside auditors, allowing the objective monitoring of executive actions taken by the directors.

Actions taken to enhance corporate governance in the past year (one year prior to the last day of the most recent business year) and current status

As part of reforms to the remuneration system for directors, NAMCO abolished its system of retirement benefits for directors on June 26, 2004. On the same day at the Ordinary Annual General Meeting of Shareholders, a resolution was passed to reduce the term of office for directors from two years to one year to clarify management responsibility. Based on these moves, NAMCO is

working intensively to speed up management processes. Against this backdrop, the Board of Directors met 21 times and the Executive Committee met 12 times during the year under review.

As part of its policy of placing importance on communication with shareholders, the Company has, since the 1998 fiscal year, avoided conducting its annual shareholders' meeting on the same day as most other Japanese companies. Instead, the meeting has been held on a Saturday each year at premises that allow parents to bring their children. An event held in parallel with the meeting gives shareholders and their families the opportunity to try some of NAMCO's games as well as services offered by the Group. In addition, the Company holds meetings for investors and analysts at which operating results are released, meets with institutional investors on an individual basis, discloses information via its website and takes other actions as part of an active investor relations program in Japan and overseas.

Underpinned by the following measures, the Company implemented its new compliance system on November 1, 2004:

1. NAMCO Code of Corporate Behavior

Based on the premise that NAMCO has responsibilities to society, the code consists of 13 articles that guide the Company in its day-to-day operations in areas such as the pursuit of profit through

fair competition and contributing extensively to society through business activities.

2. Compliance Committee Established

As the organization responsible for overseeing the Company's compliance system and chaired by the President, the compliance committee responds to violations of laws and regulations and carries out planning related to compliance issues. Standing corporate auditors and corporate attorneys also sit on the committee.

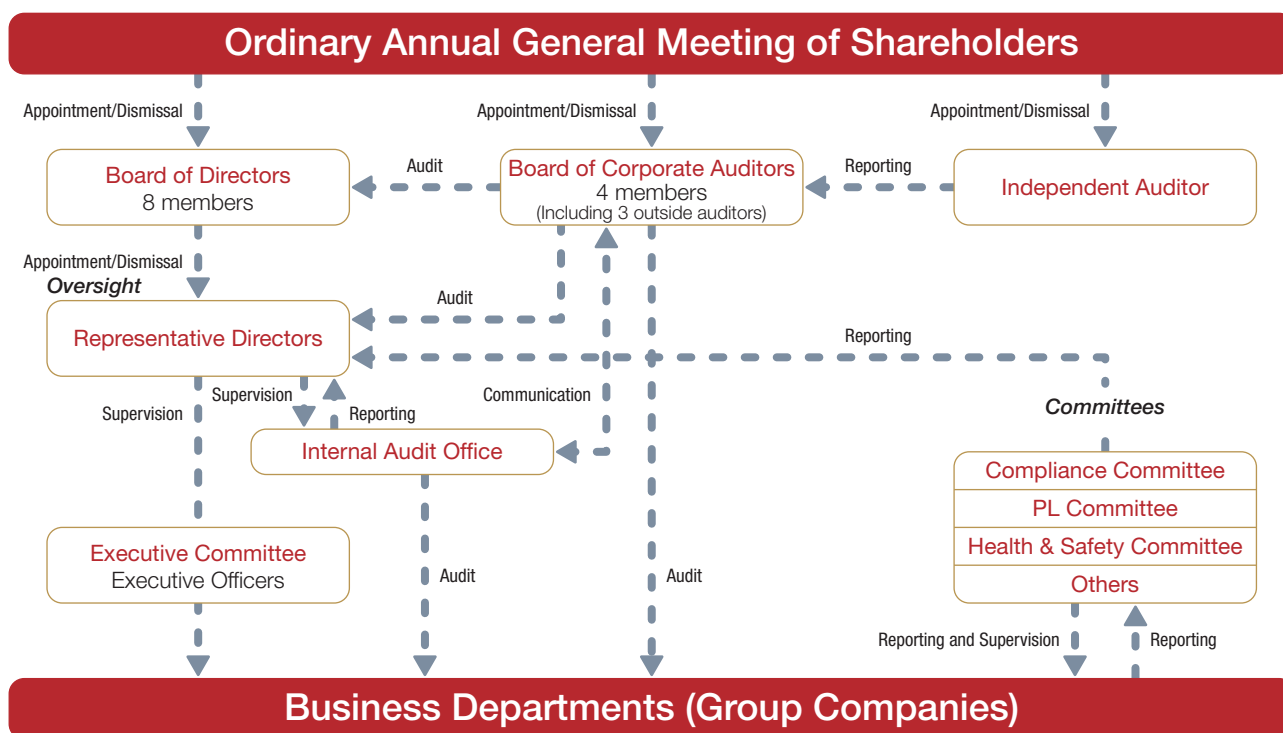
3. Internal Reporting System

NAMCO has set up an internal Compliance Box to gather information regarding any possible violations of laws, regulations or corporate rules so as to prevent any such violations.

Underpinned by the following measures, the Company implemented a system to protect personal information on April 1, 2005, in response to new laws regarding this information:

1. Upgrade of Internal Systems

As part of steps to maintain and improve compliance systems related to the protection of personal information, the Company has built an internal management system overseen by the President, who has companywide authority and responsibility. The system is designed to prevent incidents or accidents related to personal information, and to ensure an appropriate response in the event that they occur.



2. Formulation of Fundamental Regulations on the Protection of Personal Information

Reflecting the increasing use of personal information related to the development of society based on advanced information and communication technologies (ICT), the Company has formulated fundamental regulations regarding the handling of personal information and implemented a set of internal guidelines in order to protect individual rights and interests, as well as ensure the Company's operations are carried out in an appropriate manner.

3. Implementation of Internal Training Programs

Aware of the need to reinforce the internal management system, the Company is implementing a range of companywide initiatives including training programs for employees based on internal guidelines.

Remuneration Paid to Directors and Corporate Auditors

Executive salaries paid to directors and corporate auditors (excluding remuneration paid to directors for their concurrent role as advisors), and audit fees paid to the independent auditor for the year under review, were as follows:

1. Executive Salaries

Remuneration paid to directors:	¥315 million
Remuneration paid to corporate auditors:	¥45 million
Total remuneration paid:	¥361 million

2. Audit Fees

Fees paid for services stipulated in Article 2-1 of the Certified Public Accountants Law (No. 103, 1948): ¥27 million

Directors and Corporate Auditors

Chairman & Chief Visionary Officer



Masaya Nakamura*

Vice Chairman



Kyushiro Takagi*



Akiyoshi Sarukawa*

President & Chief Executive Officer



Shigeichi Ishimura*

Executive Vice Presidents



Shukuo Ishikawa*



Jun Higashi*

Senior Managing Director

Masahiro Tachibana

Managing Director

Keiji Tanaka

Director

Keiji Azuma

* Representative Directors

Standing Auditors

Shigeru Yamada

Koichiro Homma

Auditors

Mitsuo Ichikawa

Osamu Sudo

(As of June 25, 2005)

Financial Section

Contents

Six-year Summary	16
Management's Discussion and Analysis	17
Consolidated Balance Sheets	26
Consolidated Statements of Income	28
Consolidated Statements of Shareholders' Equity	29
Consolidated Statements of Cash Flows	30
Notes to Consolidated Financial Statements	31
Report of Independent Auditors	41

Six-year Summary

NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31

	Millions of yen						Thousands of U.S. dollars	
	2000	2001	2002	2003	2004	2005	2005	
For the year:								
Net sales	¥148,066	¥146,554	¥152,136	¥154,777	¥172,594	¥178,552	\$1,678,909	
Cost of sales	113,132	120,738	117,283	117,248	123,506	130,997	1,231,753	
Selling, general and administrative expenses	28,214	28,682	28,720	28,059	33,658	32,469	305,304	
Operating income (loss)	6,720	(2,866)	6,133	9,470	15,430	15,086	141,852	
Income (loss) before income taxes	12,671	(9,196)	2,952	7,686	13,250	15,450	145,285	
Income tax	6,383	(3,196)	917	3,570	5,704	5,986	56,286	
Net income (loss)	6,288	(6,000)	2,035	4,116	7,546	9,465	88,999	
At year-end:								
Total assets	168,567	138,962	144,140	143,214	148,117	154,474	1,452,506	
Current assets	73,266	51,261	61,346	68,089	73,614	82,666	777,301	
Fixed assets	95,301	87,701	82,794	75,125	74,503	71,808	675,205	
Current liabilities	38,761	30,275	29,659	35,920	33,860	33,219	312,355	
Long-term liabilities	12,365	9,383	16,734	8,894	9,638	10,321	97,048	
Shareholders' equity	99,774	91,646	96,133	96,647	101,811	107,773	1,013,380	
Common stock	27,369	27,369	27,369	27,369	27,369	27,369	257,348	
Retained earnings	46,383	39,279	41,251	43,429	49,195	55,956	526,150	
Per share of common stock:								
Net income (loss):								
Primary	¥ 115.00	¥(109.09)	¥ 36.95	¥ 72.35	¥ 133.00	¥ 83.63	\$ 0.79	
Fully diluted	109.06	–	35.97	70.12	130.61	–	–	
Cash dividends applicable to the year	30.00	15.00	17.00	30.00	40.00	40.00	0.38	
Number of shares outstanding (thousands)	55,068	55,087	55,087	55,087	55,087	55,087		

Note: U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥106.35=U.S.\$1

Management's Discussion and Analysis

Overview

Scope of Consolidation

Based on the principle of "leading the industry by providing superior entertainment," the NAMCO Group is active in the amusement field on a global scale and comprises 23 companies: the parent company, NAMCO LIMITED, 21 subsidiaries and one affiliate.

The NAMCO Group classifies its activities into six business segments: Coin-Operated Game Machines, Home Videogame Software, Amusement Facility Operations, Restaurant Operations, Movies and Graphics, and Other.

Coin-Operated Game Machines

This business segment develops, produces and sells a wide range of amusement machines, from large and medium-size simulation games, small videogames and electro-mechanical games, to prize-crane pusher games, medal-collecting games and rides. This segment also includes a business that develops and sells software and system boards for liquid crystal displays (LCDs) used in pachinko and pachislot machines. The parent company and four subsidiaries are responsible for business activities in this segment.

NAMCO develops, manufactures and sells coin-operated amusement machines in Japan, the rest of Asia and Oceania. The Company also licenses out the development, production and commercialization of the same machines to other companies. NAMCO Holding Corp. (North America), under license from NAMCO, produces, sells and commercializes these machines, while NAMCO America Inc. (North America) develops, manufactures, and sells the same machines in the U.S., Canada and Central and South America. NAMCO Europe Ltd. (Europe)

manufactures and sells coin-operated amusement machines in Europe, the Middle East and Africa, and Chinese equity-method affiliate Shanghai NAMCO Ltd. (Asia) manufactures and sells these machines and their components. NAMCO purchases some coin-operated amusement machines, components and other products manufactured by Shanghai NAMCO, and sells PCB kits, the key component of these machines, to NAMCO America and NAMCO Europe.

Home Videogame Software

This business segment makes and provides high-quality software products on a worldwide basis, including software for videogame consoles, software for the growing PC market and content for mobile phones. The segment also includes businesses that work with partners from the planning stage in the development of peripheral devices, game strategy guides, comics and movies. The parent company and six subsidiaries are responsible for business activities in this segment.

NAMCO develops, produces and sells home videogame software and related products in Japan, the rest of Asia and Europe, and licenses out the production, sale and commercialization of the same products to other companies. NAMCO Holding, under license from NAMCO, licenses out the production, sale and commercialization of software to consolidated U.S. subsidiary NAMCO Hometek Inc. This company, as a game software publisher, develops, produces and sells products under license from NAMCO and NAMCO Holding, as well as its own home videogame software titles in the U.S., Canada and Central and South America. In addition to NAMCO, Monolith Software Inc. and NAMCO Tales Studio Ltd. develop home

Net sales

(Millions of yen)



Cost of sales

(Millions of yen)



videogame software. Finally, NAMCO, NAMCO America and NAMCO Europe develop and sell content for mobile phones.

Amusement Facility Operations

This segment manages amusement facilities, operates coin-operated game machine businesses under revenue-sharing agreements, manages urban and food theme parks, and operates amusement arcades. The parent company and seven subsidiaries are responsible for business activities in this segment.

NAMCO operates amusement facilities, a revenue-sharing business, and urban and food theme parks. NAMCO Cybertainment Inc. (North America) operates amusement facilities and a revenue-sharing business, while XS Entertainment Inc. (North America) runs directly managed hybrid amusement facilities that include restaurants. NAMCO Operations Europe Ltd. and NAMCO Operations Spain S.L. run amusement facilities in the U.K. and Spain, respectively. NAMCO Enterprises Asia Ltd. (Asia) and Shanghai NAMCO Ltd., respectively, operate directly managed amusement facilities in Hong Kong and China. The former company also has facilities run under revenue-sharing agreements. Amusement arcades are managed by St. Tropez Ltd. (Japan), while NAMCO Operations Europe oversees the operation of amusement facilities in the European market.

Restaurant Operations

Domestic consolidated subsidiary Italian Tomato Ltd. manages restaurants and related franchise operations.

Movies and Graphics

Domestic consolidated subsidiary Nikkatsu Corp. is responsible for the Group's activities in this area, which include movie production, distribution and presentation, the production and sale of packaged software, and a satellite broadcasting business.

Other

NAMCO Group companies are involved in a diverse range of businesses in this segment. NAMCO: human services and nursing care for the elderly based on the idea of barrier-free entertainment; NAMCO Trading Ltd.: installation and operation of vending machines and mobile phone content distribution; Nikkatsu subsidiary Yunokawa Kanko Hotel Co., Ltd.; tourist hotel management; St. Tropez: real estate leasing; NAMCO Ecolotech Ltd.: development and sale of environmental equipment and the sale of related products; and, Mil Ltd. (renamed NAMCO Supporters Ltd. on June 1, 2005): comprehensive service provision including real estate management, insurance agency services and backoffice support for the NAMCO Group.

Notes:

1. Effective September 30, 2004, former equity-method affiliate GAGA Communications Inc. was excluded from the scope of consolidation after NAMCO withdrew its involvement in this company.
2. Dormant company NAMCO Operations Israel (Holdings) Ltd. was dissolved on April 5, 2004.
3. Subsidiaries Brent Leisure Ltd., NAMCO Ireland Ltd. and equity-method affiliate Rhythm & Hues Communications LLC were not operational during the fiscal year under review. Consequently, these companies were not included in the above business segment explanations.

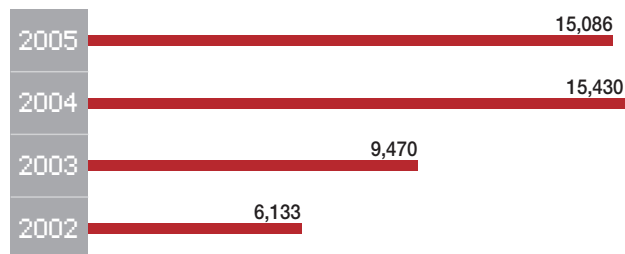
Selling, general and administrative expenses

(Millions of yen)



Operating income

(Millions of yen)



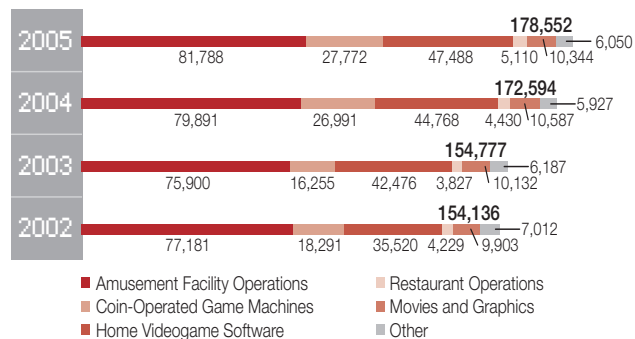
Operating Results

In fiscal 2005, following on from the previous year, the Company again reported operating income that was evenly balanced across its three core business segments: Coin-Operated Game Machines, Home Videogame Software, and Amusement Facility Operations. In Coin-Operated Game Machines, a range of ongoing measures to strengthen earnings bore fruit with robust sales of mainstay products in Japan such as *Tekken 5* and the *Pachi-slot Tekken* LCD display unit. The Home Videogame Software business posted firm sales on the back of new game launches, including *Tales of Rebirth* and *Tekken 5*, new titles for the latest handheld platforms and repeat titles overseas. The mobile content distribution business also grew both in Japan and overseas. In Amusement Facility Operations, existing amusement facility locations in Japan struggled due to the impact of bad weather and the waning popularity of prize-crane pusher games, which had accounted for the largest portion of sales at arcades.

The combined result of these factors was a year-on-year increase in consolidated net sales of ¥5,958 million, or 3.5%, to ¥178,552 million. The cost of sales increased ¥130,997 million, or 6.1%, compared to a year earlier, leading to a decline in gross profit of ¥1,533 million, or 3.1%, to ¥47,555 million. Extraordinary items booked in fiscal 2005 included a gain on sales of investment securities of ¥320 million and a gain on sales of property and equipment of ¥520 million from the sale of buildings and leaseholds. No significant extraordinary losses were recorded. As a result, net income increased ¥1,919 million, or 25.4%, to ¥9,465 million.

Net sales by segment

(Millions of yen)



Segment Information

Coin-Operated Game Machines

In the AM Company, domestic sales of *Tekken 5*, driving game *Wangan Midnight MAXIMUM TUNE*, the multi-player battle game *Dragon Chronicle ONLINE*, and the photo-seal printing machine *Setsu-Getsu-Ka* were all strong. Repeat sales of popular prize-crane pusher games such as the *Sweet Land* series also remained robust. Standout performers in North America were *Tekken 5*, *Wangan Midnight MAXIMUM TUNE* and *Ms. Pac-Man/Galaga*, while *Tekken 5* and *Pac-Man Ball* did well in Europe. The CX Company, which manufactures LCD display units for pachinko and pachi-slot machines, posted strong sales of the *Pachi-slot Tekken* LCD display unit for machines manufactured by YAMASA CO., LTD., making a significant contribution to results.

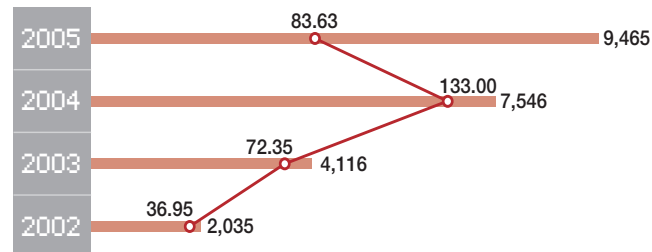
Coin-Operated Game Machines posted net sales of ¥27,772 million, ¥781 million or 2.9% higher year on year. Operating income was the same as the previous year at ¥6,692 million.

Home Videogame Software

In Japan, the CT Company posted higher sales and earnings year on year. Supporting this performance were strong sales of *Tales of Rebirth*, *Ace Combat 5: The Unsung War*, and *Tekken 5*, all for the PlayStation 2 (PS2), *Ridge Racers* for the PlayStation Portable (PSP), *Pac-Pix* for the Nintendo Double Screen (DS), and a number of titles launched in the year under review for new mobile phone handsets. In North America, strong sales were recorded for *Street Racing Syndicate (SRS)*, a multi-platform title for the PS2, GameCube and Xbox, *Ace Combat 5: The Unsung War* and *Tekken 5* for the PS2, as well as RPG

Net income and Earnings per share

(Millions of yen/Yen)



games such as *Xenosaga Episode II* for the PS2, and *Tales of Symphonia* for the GameCube (GC). Sales of these RPG titles have mainly been centered on the Japanese market until recently. However, despite healthy sales of repeat and lower-priced titles, including *NAMCO Museum* for the PS2, GC, and Xbox, sales and earnings in North America overall were down compared to a year earlier when *Soul Calibur II* proved hugely popular. In Europe, the company posted buoyant sales of *Ace Combat 5: The Unsung War* and *Smash Court Tennis Pro Tournament 2*, both for the PS2, as well as repeat and lower-priced titles. In Asia, sales and earnings were both higher, thanks to sales of *Tekken 5*, *Death by Degrees Tekken: Nina Williams*, *Katamari Damacy*, *Ace Combat 5: The Unsung War*, and *Time Crisis: Crisis Zone*, all for the PS2, and other titles. Turning to the CX Company, in Japan, the *Taiko no Tatsujin* site for mobile phone users remained popular with customers, while the *Appli-Carrot* site for NTT DoCoMo, Inc., created through the integration of *LV Lovers!* and *LV Lovers! HI LIMIT*, recorded a steady increase in new subscribers. In addition to starting the *TEKKEN-NET* and *Dragon Chronicle* mobile phone sites, the former linking in with the launch of the *Tekken 5* coin-operated game machine, the company also began offering *Tales of Breaker*, the new title in the “*Tales of*” series of RPG home videogames, via the *Tales of Mobile* site. This site provides content for NTT DoCoMo’s FOMA 900i and 901i mobile phone handsets compatible with the company’s i-mode service. These and other developments drove an increase in subscribers to NAMCO mobile phone sites and helped to boost the value of the content provided. Overseas, NAMCO subsidiaries are accelerating

expansion of the game content distribution business for mobile phones. In particular, *Pac-Man* and *Ms. Pac-Man* were popular in North America, while sales to Vodafone and Orange subscribers in Europe were also healthy.

Home Videogame Software posted net sales of ¥47,488 million, ¥2,720 million or 6.1%, higher than a year earlier. Operating income increased ¥863 million or 12.3%, to ¥7,888 million.

Amusement Facility Operations

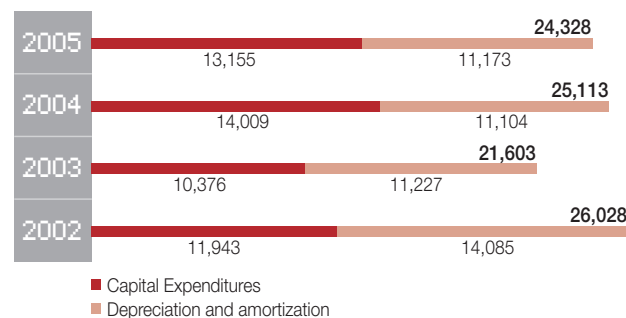
In Japan, the ET Company worked to efficiently launch new machines, strengthen facility management and boost customer footfall. Cost-cutting and other measures were also rolled out. Nonetheless, the company posted a decline of 3.4% in sales at existing locations due to the negative impact of a record hot summer, a succession of typhoons and other factors. The popularity of prize-crane pusher games, which have typically generated the largest proportion of facility sales, also appears to have run its course.

In the U.S., although NAMCO continued to take steps to expand its network of facilities operated under revenue-sharing arrangements, close unprofitable sites and reduce costs, sales at existing directly managed locations fell 9.2% year on year, while sales and earnings were also down from a year earlier. In Europe, operations were generally favorable with sales and earnings both higher than the previous year. In Asia, the operating environment remained difficult due to new store opening regulations and restrictions on imports of game machines.

Food theme parks, pioneered by NAMCO, are now an established form of accessible entertainment in Japan. NAMCO

Capital expenditures and Depreciation and amortization

(Millions of yen)



food theme parks are also performing well, including *NAMCO Namja Town*, incorporating *Ikebukuro Gyoza Stadium*, *Ice Cream City*, and *Tokyo Chou-Cream Batake*, in Toshima Ward, Tokyo. In addition to the opening of *Tokyo Chou-Cream Batake*, other new developments during the year included *Sapporo Ramen Kyowakoku* in Sapporo, Hokkaido, *Kuwana Ramen Kaido*, in Kuwana, Mie Prefecture, *Kobe Sweets Harbor* in Kobe, Hyogo Prefecture, *Tokyo Panya Street* in Funabashi, Chiba Prefecture, and *Nagoya Menya Yokochō* in Nagoya, Aichi Prefecture. All proved popular and posted strong customer footfall. Meanwhile, St. Tropez Ltd. posted higher sales and earnings on the back of steady growth in its amusement arcade operations.

Amusement Facility Operations posted net sales of ¥81,788 million, ¥1,897 million or 2.4% higher year on year. Operating income dropped ¥810 million or 11.7%, to ¥6,087 million.

Restaurant Operations

In fiscal 2005, Italian Tomato Ltd. opened three new format stores including *Café & Grill Italian Tomato*, a new restaurant specifically designed for top-floor eating areas in retail facilities, in the Shibuya Tokyu Plaza, and focused on opening new *Italian Tomato Café Jr.* restaurants. However, due to the negative impact of a record hot summer, a succession of typhoons and other factors, sales at existing stores were weak. NAMCO also booked higher-than-expected costs related to the opening of a new facility, the *Atsugi Sweet Factory*. As a result, earnings in Restaurant Operations were down year on year. NAMCO opened 46 new stores during the year (comprising 8 directly managed and 38 franchised loca-

tions) and closed 21 stores (comprising 4 directly managed and 17 franchised locations). As of March 31, 2005, there were a total of 290 restaurants in the chain (comprising 56 directly managed and 234 franchised restaurants).

Restaurant Operations posted net sales of ¥5,110 million, ¥680 million or 15.3% more than a year earlier. Operating income declined ¥76 million or 75.2%, to ¥25 million.

Movies and Graphics

During the year under review, Nikkatsu Corp. produced the movie *Lady Joker* to mark the 50th anniversary of its movie studios, although box office takings were sluggish. On a more positive note, the packaged media business reported robust results thanks primarily to the start of exclusive sales of DVDs and VHS videos of the Athens Olympics in November 2004.

Movies and Graphics recorded net sales of ¥10,344 million, ¥243 million or 2.3% down on fiscal 2004. Operating income was approximately on a par with the previous year at ¥192 million.

Other

During fiscal 2005, the Incubation Center moved into the nursing care market through its human services business. Key developments included the opening of *Manyuan*, a facility providing in-home care support services, in July 2004, and *Kaikaya*, a day-care facility, the following October in Yokohama, Kanagawa Prefecture. In other new business fields, NAMCO's 3D image playback system (*Enzan 3D Imaging*), developed in house, attracted attention for its wide range of applications. During the year, it was adopted by Fukui Computer, Inc. for its 3D home planning pro-

gram *ARCHITREND 21 Enzan 3D Pictures*, and in an Enzan ultra 3D photo book titled *Touch it!* published by Shogakukan Inc.

The Other segment posted net sales of ¥6,050 million, ¥123 million or 2.1% more than the previous fiscal year. The segment recorded an operating loss of ¥561 million, an improvement of ¥59 million year on year.

Capital Expenditures and Depreciation and Amortization

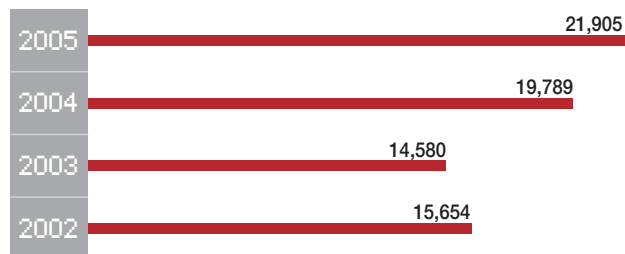
Capital expenditures in the NAMCO Group primarily consists of investment in Amusement Facility Operations. In the year under review, capital expenditure totaled ¥13,155 million, including investments of ¥9,782 million for new directly managed facilities and sites operated under revenue-sharing agreements. There were no disposals or sales of important facilities during fiscal 2005. Depreciation is mainly related to amusement facilities and is apportioned evenly in each fiscal year. NAMCO booked depreciation and amortization expenses of ¥11,173 million in the year under review.

Research and Development

NAMCO actively carries out research and development activities in order to create and offer profitable and attractive products and services that satisfy customer needs. During the year under review, total expenses related to Group-wide research and development were ¥21,905 million. This consisted of research and development expenses included in general administrative costs of ¥6,781 million, and content development costs, part of product manufacturing costs, totaling ¥15,124 million.

Research and development expenses

(Millions of yen)



Financial Position

Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2005 stood at ¥154,474 million, an increase of ¥6,357 million or 4.3%, from the previous fiscal year-end. This chiefly reflected a rise in current assets of ¥9,052 million or 12.3%, to ¥82,666 million. The increase in current assets was mainly attributable to rises in trade receivables of ¥3,536 million and inventories of ¥4,304 million. Property and equipment, net stood at ¥35,798 million, almost the same as at the end of the previous fiscal year. Other assets decreased ¥2,734 million or 7.1%, to ¥36,010 million.

Total liabilities were almost level with the amount at the end of the previous fiscal year, at ¥43,540 million. Total shareholders' equity increased ¥5,962 million or 5.9%, to ¥107,773 million, mainly reflecting higher retained earnings. The shareholders' equity ratio improved 1.1 percentage points from 68.7% to 69.8%.

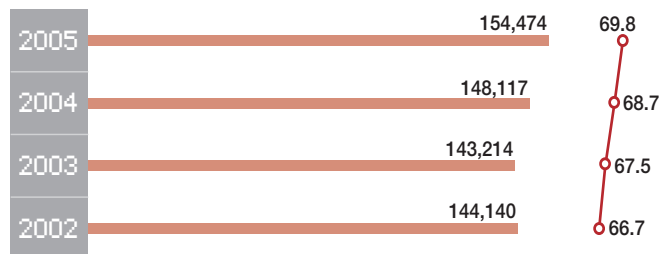
Cash Flows

Cash Flows From Operating Activities

Although income before income taxes and minority interests increased ¥2,318 million to ¥15,540 million, trade receivables increased ¥3,287 million year on year, and income taxes paid rose ¥5,256 million, to ¥6,623 million. As a result, net cash provided by operating activities totaled ¥3,172 million.

Total assets and Shareholders' equity ratio

(Millions of yen/%)



Cash Flows From Investing Activities

Despite capital expenditures of ¥2,276 million, net cash used in investing activities totaled just ¥188 million, as proceeds were booked from sales of property and equipment and leaseholds.

Free cash flow, or operating cash flow after the deduction of investing cash flow, totaled ¥2,984 million in the year under review.

Cash Flows From Financing Activities

Net cash used in financing activities totaled ¥1,767 million, primarily due to cash dividends paid of ¥2,470 million.

As a result of the above, cash and cash equivalents as of March 31, 2005 stood at ¥36,407 million, an increase of ¥859 million, or 2.4%, compared to March 31, 2004.

Risk Factors

Risk factors in the NAMCO Group's operating environment that could impact on operating results, share price, financial position and other areas include changes in the geopolitical situation, economic environment and market trends. Other potential risks and uncertainties include, but are not limited to, those listed below.

Statements on risk related to the next fiscal year as well as further into the future are based on information available to the Company as of June 27, 2005, the date of submission of the NAMCO Group's Annual Securities Report.

(1) Product and service competitiveness

The NAMCO Group carries out its core business in domestic and global markets characterized by rapid technological change and changeable consumer preferences. In these markets, there is no guarantee that NAMCO products and services can be provided as planned or that they can maintain a high level of competitiveness in relation to those supplied by rival companies. Failure or success in this respect could have a significant impact on the NAMCO Group's operating results.

(2) New product development

New product development is positioned as a vital element in driving the development and growth of the NAMCO Group. Consequently, NAMCO channels considerable resources into this area. Although the Group is committed to consistently developing appealing new products, there is no guarantee that the necessary funds can be secured or allocated to new product development, or that investments in development will lead to the creation of competitive new products. There is also no guarantee that the Group will recover the production costs necessary for the development of every new product. Moreover, NAMCO may not be able to recover the production costs of new products recorded as inventories and scheduled for launch in the following fiscal year.

Due to these factors, failure to develop new products without sufficient appeal may have a significant impact on the operating results and financial position of the NAMCO Group.

(3) Exchange rate fluctuations

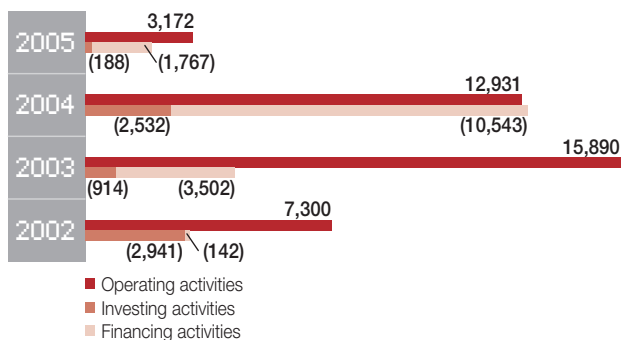
The NAMCO Group's overseas sales have reached ¥31,975 million in the Americas, ¥11,619 million in Europe, and ¥2,106 million in Asia and Oceania. In addition, NAMCO and nine consolidated subsidiaries carry out business activities in overseas markets. Consequently, fluctuations in exchange rates may have an impact on the operating results of the NAMCO Group.

(4) Future M&A activity and alliances

The NAMCO Group may carry out M&As or enter into alliances with domestic and international partners in order to drive growth, enhance competitiveness or achieve other objectives. The operating results of the NAMCO Group may be significantly affected by the outcome of these M&As and alliances.

Cash flows

(Millions of yen)



(5) Game platform and platform manufacturer trends

The NAMCO Group's Home Videogame Software business may be particularly affected by trends in videogame consoles, also called game platforms, and at manufacturers of these platforms. These trends relate to the capabilities of the product itself, price, promotional strategy and other factors, and may have a significant impact on the operating results of the NAMCO Group.

(6) Changes in laws and regulations

The NAMCO Group is subject to a range of domestic and international laws and regulations related to the entertainment industry, product liability, patents, consumer protection, taxation, personal information, and the environment and recycling, as well as voluntary industry regulations regarding the suitability of entertainment content. Revisions to any of these laws and regulations may have a significant impact on the operating results of the NAMCO Group.

(7) Possible defects in products and services

The NAMCO Group manufactures and supplies its products and services based on internal quality control standards. However, there is no guarantee that all of these products or services do not contain defects or that they will not develop flaws in the future. In the event of a major defect in NAMCO products or services, the operating results of the NAMCO Group may be significantly affected by substantial costs arising from product recalls, product liability damages or other actions. Although the NAMCO Group is covered by insurance for product liability damages, there is no guarantee that this insurance will fully compensate for the entire amount of damages required.

(8) Difficulties in retaining and fostering key personnel

The growth and success of the NAMCO Group is largely dependent on key personnel such as skilled game designers and producers. Consequently, retaining and fostering these kinds of highly trained individuals has a significant bearing on the success of the Group. Failing to retain or foster these human resources may have a significant impact on the operating results of the NAMCO Group.

(9) Protection and management of intellectual property

The NAMCO Group has built up a portfolio of technologies and expertise that set it apart from rivals in the marketplace. However, it may not be possible to prevent third parties from imitating patents or trade secrets belonging to NAMCO or its Group companies or from carrying out analytical studies of these assets. Moreover, although the NAMCO Group carries out research and development based on sufficient studies of intellectual property rights, new products and services created by NAMCO may infringe third-party intellectual property rights, resulting in lawsuits and other actions. The actions of third parties and the results of lawsuits may have a significant impact on the operating results of the NAMCO Group.

(10) Unauthorized disclosure of personal information

In managing the personal information of users accessing services on Group company websites or receiving NAMCO's distributed game content via their mobile phones, the NAMCO Group is working to protect personal information by controlling access to its customer database and strengthening security systems. NAMCO is also giving due attention to the creation and reinforcement of an internal management framework related to the handling of customer information, under the direct control of the president. This is supported by a raft of initiatives, including the formulation of internal guidelines such as NAMCO Regulations for the Protection of Personal Information, training for employees and other Groupwide measures. However, in the event of an unauthorized disclosure of customer information in spite of these measures, the reputation of the NAMCO Group may be harmed, affecting the Group's operating results and share price.

(11) Risks related to the ability to recover leasehold deposits

When opening new facilities or stores in its Amusement Facility Operations and Restaurant Operations, the NAMCO Group pays large leasehold deposits to the lessor. The operating results of the NAMCO Group may be significantly affected in the event that such deposits become unrecoverable due to difficulties such as the bankruptcy of the recipient of the deposit.

Issues to Be Addressed

The NAMCO Group is steadily introducing a range of measures designed to reinforce the Company's profit structure by making each business unit within the Group more independent. As part of these efforts, the Company implemented a number of organizational reforms on April 1, 2005.

NAMCO has established the post of Group Executive Contents Business to enable integrated product and hardware strategies in the CT, AM and CX companies and to facilitate better sharing of expertise and technology. Moreover, integrated planning and other innovative approaches will emerge as the result of more flexible allocation of creator resources, allowing the Company to further promote its content multi-use strategy. In this way, each in-house company will be able to combine their respective strengths, supporting NAMCO in its efforts to become the world's leading comprehensive games maker.

More specifically, in the Coin-Operated Game Machine business (AM Company), NAMCO will intensively work to develop highly profitable top-class products and build a product portfolio comprising both leading brands and new products. In the Pachinko and Pachi-slot LCD business (CX Company), NAMCO will strive to offer high-value-added products and build a business capable of generating greater profits by improving the quality of its imaging software and enhancing the capabilities of hardware created in-house. In the Home Videogame Software business (CT Company), the goals will be threefold: continue responding to the development of next-generation game consoles and network gaming, develop new content and related businesses, and build a high cost performance product development and retailing framework that can respond to changes in the market environment. Finally, in the Mobile Phone Content Distribution business (CX Company), NAMCO will cultivate mobile phone sites capable of forming an earnings base for the business, maintain and expand the number of subscribers, reinforce the product development system to create original content, and boost revenues generated overseas.

In the Amusement Facility Operations business (ET Company), the Company has established the post of Group Executive Location Business to enhance operations by supporting

concrete moves into new amusement facility location businesses. More specifically, against the backdrop of slowing growth in the market, NAMCO will focus on securing revenues, ensuring it can compete against rivals for new amusement facility locations. NAMCO will also strive to generate new revenue streams outside the amusement facility field, while active steps will also be taken to boost profitability in overseas markets.

Finally, in order to allow for a more objective and rapid assessment of the results of these measures, the NAMCO Group is currently upgrading its management performance indicators. At a meeting of the Ordinary Annual General Meeting of Shareholders on June 25, 2005, a resolution proposing a management integration with the Bandai Group was approved. NAMCO will work intensively and quickly to generate synergies from this move. For further details on this integration, please refer to note 16 (a) in Notes to Consolidated Financial Statements.

Outlook for Fiscal 2006

NAMCO has implemented a number of structural reforms since fiscal 2001 designed to fundamentally reconfigure the Group. As the next step in this process, NAMCO began promoting an aggressive growth strategy. With some benefits beginning to emerge from these moves, NAMCO has decided that now is the ideal time to further strengthen its management framework. Consequently, a new management team was installed on April 1, 2005, centered round the appointment of Shigeichi Ishimura as President, and Shukuo Ishikawa and Jun Higashi as Executive Vice Presidents.

On April 15, 2005, NAMCO transferred some of its shares in Italian Tomato Ltd. to Key Coffee Inc. This move was taken as part of NAMCO's current business restructuring, which is focused on entertainment businesses. NAMCO plans to further reinforce its core businesses going forward.

NAMCO celebrated its 50th anniversary on June 1, 2005, providing added motivation for boldly taking on new challenges in the next stage of NAMCO's corporate history.

For the fiscal year ending March 31, 2006, NAMCO is projecting operating income of ¥14.7 billion and net income of ¥8.9 billion, on net sales of ¥190.0 billion.

Consolidated Balance Sheets

NAMCO LIMITED AND SUBSIDIARIES
March 31, 2004 and 2005

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
Current assets:			
Cash (Note 3)	¥ 35,672	¥ 36,494	\$ 343,150
Receivables:			
Trade receivables	14,410	17,946	168,745
Allowance for doubtful accounts	(552)	(281)	(2,643)
Net receivables	13,858	17,665	166,102
Inventories (Note 5)	19,944	24,248	228,002
Deferred income taxes—current (Note 9)	1,228	1,593	14,979
Other current assets	2,912	2,666	25,068
Total current assets	73,614	82,666	777,301
Property and equipment:			
Amusement machines and facilities	83,317	84,789	797,264
Buildings and structures	11,732	11,067	104,062
Machinery and equipment	10,200	10,773	101,298
Land	6,856	6,614	62,191
Construction in progress	85	276	2,595
Accumulated depreciation	(76,431)	(77,721)	(730,804)
Property and equipment, net	35,759	35,798	336,606
Other assets:			
Investment securities, including those of non-consolidated subsidiaries and affiliates (Note 4)	1,582	1,231	11,575
Leasehold deposits (Note 6)	25,963	25,263	237,546
Goodwill	2,900	2,351	22,106
Long-term prepaid expenses	1,059	1,110	10,437
Deferred income taxes—non-current (Note 9)	3,778	3,084	28,999
Other non-current assets	4,299	3,496	32,873
Allowance for doubtful accounts	(837)	(525)	(4,937)
Total other assets	38,744	36,010	338,599
Total assets	¥148,117	¥154,474	\$1,452,506

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
Current liabilities:			
Short-term bank loans	¥ 2,719	¥ 1,072	\$ 10,080
Current portion of long-term debt (Note 7)	1,313	2,894	27,212
Trade payables	13,006	13,651	128,359
Other payables	5,165	5,881	55,299
Accrued income taxes (Note 9)	4,775	3,944	37,085
Accrued expenses	3,540	3,672	34,528
Other current liabilities (Note 9)	3,342	2,105	19,792
Total current liabilities	33,860	33,219	312,355
Long-term debt (Note 7)	2,795	3,236	30,428
Allowance for employees' retirement benefits (Note 8)	1,573	1,750	16,455
Other long-term liabilities (Note 9)	5,270	5,335	50,165
Total liabilities	43,498	43,540	409,403
Minority interests in consolidated subsidiaries	2,808	3,161	29,723
Shareholders' equity (Note 10)			
Common stock (Note 14):			
Authorized—219,000,000 shares			
Issued—110,175,236 shares (2004—55,087,618 shares)	27,369	27,369	257,348
Additional paid-in capital	26,399	26,399	248,228
Retained earnings	49,195	55,956	526,150
Valuation differences on other securities	230	97	912
Foreign currency translation adjustments	(967)	(1,631)	(15,337)
	102,226	108,190	1,017,301
Treasury stock	(415)	(417)	(3,921)
Total shareholders' equity	101,811	107,773	1,013,380
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	¥148,117	¥154,474	\$1,452,506

Consolidated Statements of Income

NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
Net sales	¥172,594	¥178,552	\$1,678,909
Cost of sales	123,506	130,997	1,231,753
Gross profit	49,088	47,555	447,156
Selling, general and administrative expenses (Note 11):	33,658	32,469	305,304
Operating income	15,430	15,086	141,852
Other income:			
Interest and dividends	130	155	1,457
Gain on sales of property and equipment	12	520	4,890
Gain on sales of investment securities	82	320	3,009
Other	295	399	3,752
Total other income	519	1,394	13,108
Other expenses:			
Interest	131	69	649
Other (Note 12)	2,596	871	8,190
Total other expenses	2,727	940	8,839
Income before income taxes and minority interests	13,222	15,540	146,121
Income taxes (Note 9):			
Current	5,385	5,596	52,619
Deferred	319	390	3,667
Minority interests	(28)	89	836
Net income	¥ 7,546	¥ 9,465	\$ 88,999

	Yen		U.S. dollars (Note 2)
Per share of common stock (Note 14):			
Net income:			
Primary	¥133.00	¥83.63	\$0.79
Fully diluted	130.61	—	—
Cash dividends applicable to the year	40.00	40.00	0.38

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
Common stock:			
Balance at beginning of year	¥ 27,369	¥ 27,369	\$ 257,348
Balance at end of year	27,369	27,369	257,348
Additional paid-in capital:			
Balance at beginning of year	26,399	26,399	248,228
Balance at end of year	26,399	26,399	248,228
Retained earnings:			
Balance at beginning of year	43,429	49,195	462,576
Net income	7,546	9,465	88,999
Cash dividends	(1,650)	(2,470)	(23,225)
Bonuses to directors and corporate auditors	(130)	(234)	(2,200)
Balance at end of year	49,195	55,956	526,150
Valuation differences on other securities:			
Balance at beginning of year	(65)	230	2,163
Net change during the year	295	(133)	(1,251)
Balance at end of year	230	97	912
Foreign currency translation adjustments:			
Balance at beginning of year	(484)	(967)	(9,093)
Net change during the year	(483)	(664)	(6,244)
Balance at end of year	(967)	(1,631)	(15,337)
Treasury stock:			
Balance at beginning of year	(1)	(415)	(3,902)
Increase during the year	(414)	(2)	(19)
Balance at end of year	(415)	(417)	(3,921)
Total shareholders' equity	¥101,811	¥107,773	\$1,013,380

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 13,222	¥15,540	\$146,121
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,104	11,173	105,059
Loss (gain) on sales of property, plant and equipment	137	(451)	(4,241)
Loss on disposal of property, plant and equipment	1,241	934	8,782
Revaluation loss on property, plant and equipment	748	-	-
Impairment loss of property and equipment	-	5	47
Gain on sales of securities	(35)	(319)	(3,000)
Acquisition of amusement machines and facilities	(10,304)	(9,783)	(91,989)
Other non-cash items	369	(88)	(827)
Changes in operating assets and liabilities:			
Trade receivables	(486)	(3,773)	(35,477)
Inventories	(6,136)	(4,413)	(41,495)
Trade payables	1,120	717	6,742
Accounts payable	1,470	755	7,099
Advance receipts	1,015	(1,214)	(11,415)
Interest and dividends received	130	155	1,457
Interest paid	(132)	(56)	(527)
Income taxes paid	(1,367)	(6,623)	(62,276)
Other, net	835	613	5,766
Net cash flows provided by operating activities	12,931	3,172	29,826
Cash flows from investing activities:			
Capital expenditures	(1,944)	(2,276)	(21,401)
Payment of leasehold deposits	(1,261)	(541)	(5,087)
Repayment of leasehold deposits	1,510	1,462	13,747
Proceeds from sale of property, plant and equipment	74	781	7,344
Acquisition of investment securities	(302)	(116)	(1,091)
Proceeds from sales of investment securities	1,013	505	4,748
Expenditure of long-term prepaid expenses	(294)	(282)	(2,652)
Payment for business transfer	(609)	-	-
Other, net	(719)	279	2,624
Net cash flows used in investing activities	(2,532)	(188)	(1,768)
Cash flows from financing activities:			
Short-term bank loans, net	(1,702)	(1,662)	(15,628)
Proceeds from long-term bank loans	1,750	4,000	37,612
Repayments of long-term bank loans	(1,641)	(1,937)	(18,213)
Redemption of convertible bonds	(7,178)	-	-
Cash dividends paid	(1,649)	(2,470)	(23,225)
Other, net	(123)	302	2,839
Net cash flows used in financing activities	(10,543)	(1,767)	(16,615)
Effect of exchange rate changes on cash and cash equivalents	(386)	(358)	(3,366)
Net increase (decrease) in cash and cash equivalents	(530)	859	8,077
Cash and cash equivalents at beginning of year	36,078	35,548	334,255
Cash and cash equivalents at end of year (Note 3)	¥ 35,548	¥36,407	\$342,332

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NAMCO LIMITED AND SUBSIDIARIES
March 31, 2004 and 2005

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

The accompanying consolidated financial statements of NAMCO LIMITED (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 overseas subsidiaries in conformity with those of the United States and with other generally accepted accounting principles based on where the subsidiaries are incorporated. However, it is the opinion of the management of the Company that the accounting principles followed by the overseas subsidiaries do not substantially differ from those followed by the Company, except for methods of depreciation of property and equipment and the amortization of goodwill.

Significant accounting policies are summarized 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. The significant affiliates over which the Company exercises significant influence in terms of their operating and financial policies as well as one 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, the subsidiaries have principally adopted an annual fiscal period ending on the last day of February.

(b) Foreign Currency Translation

All receivables and payables denominated in foreign currencies are translated at the exchange rates in effect as of the balance sheet date, and the unrealized gain or loss is reflected in other income (expenses).

The balance sheet accounts of overseas 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."

Revenue and expense accounts of the consolidated overseas subsidiaries are translated into yen at the average annual exchange rate.

(c) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers cash, bank deposits withdrawable on demand and all highly liquid investments with maturities of three months or less, easily convertible cash without any reduction in principal, to be cash and cash equivalents.

(d) Investment Securities

The Company classifies 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 determinable market value are carried principally at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized in "Valuation differences on other securities" in "Shareholders' equity." Other securities without a determinable market value are carried principally at cost. The cost of other securities sold is principally computed by the moving average-method.

(e) Inventories

Game software of the Company and both domestic and overseas subsidiaries are stated by the specific cost method. Inventories other than game software of the Company and its domestic subsidiaries are stated at cost determined by the moving-average method, as adjusted for any substantial and permanent decline in value. Inventories other than game software of the overseas subsidiaries are stated at the lower of cost (principally by the first-in, first-out method) or market (at net realizable value).

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed principally by the declining-balance method for assets held by the Company and its domestic subsidiaries at rates based on following estimated useful lives:

Amusement machines and facilities	3-15 years
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Depreciation is computed by the straight-line method for assets held by the overseas subsidiaries at rates based on following estimated useful lives:

Amusement machines and facilities	2-7 years
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(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 domestic subsidiaries is amortized over 5 years using the straight-line method in conformity with rules of practice set by the Commercial Code in Japan.

Goodwill incurred by foreign subsidiaries is amortized in conformity with accounting principles and practices generally accepted in the country of incorporation.

(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 management of the Company indicates its intention to produce and market a product, the related research and development expenses are accounted for as production costs.

(i) Retirement Benefits

The Company and its domestic subsidiaries have adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council. Under this standard, an allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and the pension plan assets.

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

Prior service cost is amortized as incurred by the straight-line method over a period (10 years) which falls within the estimated average remaining years of service of the participating employees.

While the Company has no legal obligation to do so, it is customary practice in Japan to make lump-sum payments to directors or corporate auditors upon retirement, with the approval of the shareholders at the annual shareholders' meeting. In accordance with the Company's established guidelines, the amount of this allowance is computed based upon payment factors determined by the position and length of service as director or corporate auditor.

Until the year ended March 31, 2004 the Company adopted retirement benefits for directors and auditors, however, they were abolished during the year ended March 31, 2005. As a result, the allowance for retirement benefits for directors and corporate auditors as required under the plan has declined drastically. The estimated amounts are ¥2,258 million and ¥295 million (U.S.\$2,774 thousand) at March 31, 2004 and 2005, respectively, and are 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 March 31, 2004 and 2005 with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and are 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 the statutory tax rate is recognized in income in the period which includes the enactment date.

(k) Net Income and Cash Dividends per Share

In computing primary net income per share, the weighted-average number of shares of common stock outstanding during each year has been used. The Company implemented the 2 for 1 stock splits at November 19, 2004. In computing the primary net income per share for the year ended March 31, 2005, the stock split is treated as if it had been implemented at the beginning of the year ended March 31, 2005.

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 expense, less the related income tax effect, applicable to the convertible bonds. There are no beginning and ending balance of convertible bonds in the year ended March 31, 2005. Therefore no calculation is made to compute the fully diluted per share.

Cash dividends per share represent dividends declared as applicable to each respective year.

(l) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform them to the presentation for the year ended March 31, 2005.

(m) Impairment

"Accounting Standard for Impairment of Property and Equipment" issued by the Business Accounting Deliberation Council permits companies incorporated in Japan to apply this standard beginning the year ended March 31, 2005. The Company decided to apply it beginning the year ended March 31, 2005 and the effect of this application amounted to ¥5 million (U.S.\$47 thousand).

2. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥106.35=U.S.\$1.00, the approximate exchange rate in effect on April 30, 2005.

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

3. Cash and Cash Equivalents

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

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Cash	¥35,672	¥36,494	\$343,150
Time deposits with maturities greater than three months	(124)	(87)	(818)
Cash and cash equivalents	¥35,548	¥36,407	\$342,332

4. Investment Securities

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

	Millions of yen			Carrying amount (Market value)
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	
2004:				
Other securities:				
Equity securities	¥200	¥261	¥5	¥456
Other	286	69	-	355
	¥486	¥330	¥5	¥811

	Millions of yen			Carrying amount (Market value)
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	
2005:				
Other securities:				
Equity securities	¥654	¥234	¥134	¥754
Other	150	1	-	151
	¥804	¥235	¥134	¥905

	Thousands of U.S. dollars			Carrying amount (Market value)
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	
2005:				
Other securities:				
Equity securities	\$6,150	\$2,200	\$1,260	\$7,090
Other	1,410	10	-	1,420
	\$7,560	\$2,210	\$1,260	\$8,510

The following is a summary of non-marketable securities:

	Carrying amount		Thousands of U.S. dollars
	Millions of yen	2005	2005
Other securities:			
Equity securities	¥207	¥220	\$2,068

Investments in non-consolidated subsidiaries and affiliates, which are included in "Investment securities, were ¥564 million and ¥106 million (U.S.\$997 thousand) at March 31, 2004 and 2005, respectively.

Proceeds, gross realized gains and losses on the sales of other securities for the years ended March 31, 2004 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Proceeds	¥31	¥505	\$4,748
Gross realized gains	1	320	3,009
Gross realized losses	48	1	9

5. Inventories

Inventories at March 31, 2004 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Merchandise and products	¥ 3,216	¥ 4,093	\$ 38,486
Raw materials	2,013	1,961	18,439
Work in process	13,656	17,053	160,348
Supplies	1,059	1,141	10,729
	¥19,944	¥24,248	\$228,002

6. Leasehold Deposits

Leasehold deposits at March 31, 2004 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deposits for amusement facility and restaurant operations	¥20,053	¥19,233	\$180,846
Deposits for office space	1,570	1,540	14,480
Other deposits	4,340	4,490	42,220
	¥25,963	¥25,263	\$237,546

Leasehold deposits do not bear interest and are generally refundable when the respective lease is terminated.

The Company operates its amusement facilities and restaurants on properties leased from lessors under long-term lease contracts. Lease expenses for amusement facility and restaurant operations for the years ended March 31, 2004 and 2005 amounted to ¥17,752 million and ¥17,445 million (U.S.\$164,034 thousand), respectively.

7. Long-term Debt

Long-term debt at March 31, 2004 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
0.4% unsecured straight bonds	¥ 1,000	¥ 1,000	\$ 9,403
Bank loans	2,558	4,580	43,065
Other	550	550	5,172
	4,108	6,130	57,640
Current portion	(1,313)	(2,894)	(27,212)
	¥ 2,795	¥ 3,236	\$ 30,428

The aggregate annual maturities of long-term debts outstanding subsequent to March 31, 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2008
2006	¥2,894		\$27,212
2007		2,258	21,232
2008		851	8,002
Later years		127	1,194
	¥6,130		\$57,640

8. Employees' Retirement Benefits

The plan's funded status and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2004 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Projected benefit obligation	¥ 6,425	¥ 7,226	\$ 67,945
Plan assets at fair value	(3,529)	(3,989)	(37,508)
Projected benefit obligation in excess of plan assets	2,896	3,237	30,437
Unrecognized actuarial loss	(1,162)	(1,345)	(12,647)
Unrecognized prior service cost	(160)	(142)	(1,335)
Allowance for employees' retirement benefits	¥ 1,573	¥ 1,750	\$ 16,455

Net periodic benefit cost for the years ended March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Service cost	¥549	¥588	\$5,529
Interest cost on retirement benefit obligation	105	114	1,072
Estimated return on plan assets	(61)	(81)	(762)
Amortization of unrecognized prior service cost	16	18	169
Amortization of unrecognized actuarial loss	112	93	875
Net periodic benefit cost	¥721	¥732	\$6,883

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

	2004	2005
Method of benefit attribution	"benefit/year-of-service"	approach
Discount rate	2.0%	2.0%
Estimated rates of return on plan assets	2.2%	2.3%
Period of amortization of unrecognized actuarial gain or loss	Actuarial gain or loss is amortized by the straight-line method in the year following the year in which the gain or loss is recognized, over the estimated average remaining years of service of the participating employees.	
Prior service cost	Prior service cost is amortized as incurred by the straight-line method over a period (10 years) which falls within the estimated average remaining years of service of the participating employees.	

9. Income Taxes

The Company is subject to Japanese corporate, inhabitants' and enterprise taxes based on income, which, in the aggregate, resulted in a statutory tax rate of approximately 42.0% and 40.6% for the years ended March 31, 2004 and 2005, respectively.

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

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2004 and 2005 differ from the Japanese statutory tax rate primarily because of the effects of permanently non-deductible expenses.

A reconciliation of the Japanese statutory tax rate and the effective tax rates as a percentage of income before income taxes for the years ended March 31, 2004 and 2005 is as follows:

	2004	2005
Japanese normal income tax rate	42.0%	40.6%
Increase (reduction) in income taxes resulting from:		
Valuation allowance	4.2	2.0
Inhabitants' per capita taxes	1.6	1.5
R&D, IT investment credits	(5.5)	(4.9)
Other	0.8	(0.7)
Effective income tax rate	43.1%	38.5%

The tax effect of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2004 and 2005 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets:			
Depreciation and amortization	¥ 1,223	¥ 1,345	\$ 12,647
Tax loss carryforwards	1,390	946	8,895
Allowance for retirement benefits for directors and corporate auditors	915	121	1,138
Loss on devaluation of inventories	445	938	8,820
Allowance for employees' retirement benefits	609	701	6,591
Loss on devaluation of securities	164	-	-
Accounts payable and accrued expenses	370	729	6,855
Expense for retirement benefits	-	803	7,551
Reserve for possible loan losses	329	-	-
Other	1,192	913	8,584
Total gross deferred tax assets	6,637	6,496	61,081
Valuation allowance	(1,176)	(1,080)	(10,155)
Total net deferred tax assets	5,461	5,416	50,926
Deferred tax liabilities:			
Revaluation of property and equipment	(57)	(57)	(536)
Inventory revaluation	(324)	(674)	(6,338)
Other	(188)	(150)	(1,410)
Total gross deferred tax liabilities	(569)	(881)	(8,284)
Net deferred tax assets	¥ 4,892	¥ 4,535	\$ 42,642

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets—current	¥1,228	¥1,593	\$14,979
Deferred tax assets—non current	3,778	3,084	28,999
Deferred tax liabilities—current (included in other current liabilities)	(55)	(82)	(772)
Deferred tax liabilities—non current (included in other long-term liabilities)	(59)	(60)	(564)
	¥4,892	¥4,535	\$42,642

10. Shareholders' Equity

The Commercial Code provides that an amount equal to at least 10% of appropriations paid in cash be appropriated to the legal reserve until the aggregate amount of additional paid-in capital and the legal reserve equals 25% of common stock. The legal reserve of the Company was ¥1,435 million (U.S.\$13,493 thousand) at March 31, 2004 and 2005, and is included in retained earnings.

Of the total amount of additional paid-in capital and legal reserve, ¥6,842 million (U.S.\$64,335 thousand) representing 25% of common stock at March 31, 2005 is not available for dividends but may be used to reduce a deficit or may be transferred to common stock.

Cash dividends and directors' and corporate auditors' bonuses charged to retained earnings during the years ended March 31, 2004 and 2005 represent dividends and bonuses paid out during each period.

The accompanying consolidated financial statements do not include any provision for the dividend of ¥20 per share aggregating ¥2,195 million (U.S.\$20,639 thousand) or for the bonuses to directors and corporate auditors aggregating ¥250 million (U.S.\$2,351 thousand) which were declared in June 2005.

11. Selling, General and Administrative Expenses

The composition of selling, general and administrative expenses for the years ended March 31, 2004 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Advertisement	¥ 6,797	¥ 5,760	\$ 54,161
Payroll	8,847	8,790	82,652
Depreciation	730	790	7,428
Research and Development	7,588	6,781	63,761
Other	9,696	10,348	97,302
	¥33,658	¥32,469	\$305,304

The total amount of expenses of the Research and Development Department for the years ended March 31, 2004 and 2005 amounted to ¥19,790 million and ¥21,906 million (U.S.\$205,980 thousand), respectively.

Size-based corporate enterprise tax system was introduced beginning the year ended March 31, 2005 and it is required to be included in the "Selling, General and Administrative Expenses" by the accounting principles generally accepted in Japan. Size-based corporate enterprise tax amounted to ¥357 million (U.S.\$3,357 thousand) and is included in "Other".

12. Other Expenses

The composition of other expenses—other for the years ended March 31, 2004 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Foreign exchange loss	¥ 239	¥ -	\$ -
Amortization of goodwill	485	485	4,560
Loss on restructuring of overseas business	243	-	-
Loss on disposal of property and equipment	233	79	743
Loss on sale of property and equipment	149	69	649
Provision for doubtful accounts in connection with other assets	75	110	1,034
Loss on devaluation of property and equipment	748	-	-
Impairment loss of property and equipment	-	5	47
Loss on devaluation of inventories	-	10	94
Other	424	113	1,063
	¥2,596	¥871	\$8,190

13. Contingent Liabilities

At March 31, 2004 and 2005, contingent liabilities for loans guaranteed by the Company amounted to ¥2 million and ¥77 million (U.S.\$724 thousand), respectively.

At March 31, 2005, ¥76 million (U.S.\$715 thousand) is the guarantee for the office lease contract of a business alliance partner of a U.S. subsidiary. The business partner is mainly engaged in PC-based home video game software development.

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

14. Stock Splits

At August 24, 2004, the Company announced the 2 for 1 stock split and implemented at November 19, 2004. As a result, the number of shares issued increased from 55,087,618 to 110,175,236. Concurrently with this stock split, the Company amended its charter of corporation and the number of shares authorized increased to 219,000,000 from 109,685,421.

15. 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 the segments due to the nature of the expense.

	Millions of yen						Elimination or Corporate Items	Consolidated
	Business segments							
	Amusement Facility Operations	Coin-operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other		
2004:								
Net sales to customers	¥79,891	¥26,991	¥44,768	¥4,430	¥10,587	¥5,927	¥ -	¥172,594
Intersegment sales	253	484	181	105	182	606	(1,812)*	-
Total	80,144	27,475	44,949	4,535	10,769	6,533	(1,812)	172,594
Operating expenses	73,247	20,783	37,924	4,434	10,578	7,153	3,043	157,164
Operating income (loss)	¥ 6,897	¥ 6,692	¥ 7,025	¥ 101	¥ 191	¥ (620)	¥ (4,855)**	¥ 15,430
Identifiable assets	¥52,996	¥15,555	¥28,477	¥3,466	¥9,356	¥9,257	¥29,010 ***	¥148,117
Depreciation and amortization	8,652	220	1,465	130	276	246	116	11,104
Capital expenditures	10,489	231	1,487	281	93	743	684	14,009

2005:

Net sales to customers	¥81,788	¥27,772	¥47,488	¥5,110	¥10,344	¥6,050	¥ -	¥178,552
Intersegment sales	253	250	1	62	189	736	(1,491)*	-
Total	82,041	28,022	47,489	5,172	10,533	6,786	(1,491)	178,552
Operating expenses	75,954	21,330	39,601	5,147	10,341	7,347	3,746	163,466
Operating income (loss)	¥ 6,087	¥ 6,692	¥ 7,888	¥ 25	¥ 192	¥ (561)	¥ (5,237)**	¥ 15,086
Identifiable assets	¥53,327	¥15,915	¥32,176	¥3,472	¥9,612	¥9,478	¥30,494 ***	¥154,474
Depreciation and amortization	8,677	329	1,368	166	237	249	147	11,173
Capital expenditures	10,052	424	1,229	255	92	395	708	13,155

	Thousands of U.S. dollars						Elimination or Corporate Items	Consolidated
	Business segments							
	Amusement Facility Operations	Coin-operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other		
2005:								
Net sales to customers	\$769,046	\$261,138	\$446,526	\$48,049	\$97,264	\$56,886	\$ -	\$1,678,909
Intersegment sales	2,379	2,350	9	583	1,777	6,922	(14,020)	-
Total	771,425	263,488	446,535	48,632	99,041	63,808	(14,020)	1,678,909
Operating expenses	714,189	200,564	372,365	48,397	97,236	69,083	35,223	1,537,057
Operating income (loss)	\$ 57,236	\$ 62,924	\$ 74,170	\$ 235	\$ 1,805	\$ (5,275)	\$ (49,243)	\$ 141,852
Identifiable assets	\$501,429	\$149,647	\$302,548	\$32,647	\$90,381	\$89,122	\$286,732	\$1,452,506
Depreciation and amortization	81,589	3,094	12,863	1,561	2,228	2,342	1,382	105,059
Capital expenditures	94,518	3,987	11,556	2,398	865	3,714	6,657	123,695

* Elimination of intersegment sales.

** Includes unallocated administrative expenses of ¥4,746 million in 2004 and ¥5,258 million (U.S.\$49,441 thousand) in 2005.

*** Assets included in Elimination or Corporate Items consisted primarily of surplus money (cash and deposits) of the Company, long-term investment funds (investment securities) and other assets in the Administration Department which amounted to ¥34,406 million in 2004 and ¥35,151 million (U.S.\$330,522 thousand) in 2005.

(b) Geographical Segment Information

Geographical segment information for the Companies' operations (sales within Japan and outside Japan) is summarized as follows:

Millions of yen

	Japan	North America	Europe	Asia	Elimination or Corporate Items	Consolidated
2004:						
Net sales to customers	¥128,178	¥37,842	¥6,019	¥555	¥ -	¥172,594
Intersegment sales	3,507	238	2	-	(3,747)*	-
Total	131,685	38,080	6,021	555	(3,747)	172,594
Operating expenses	115,021	34,419	5,910	542	1,271	157,164
Operating income (loss)	¥ 16,664	¥ 3,661	¥ 111	¥ 13	¥ (5,018)**	¥ 15,430
Identifiable assets	¥ 94,011	¥17,880	¥6,574	¥151	¥29,500***	¥148,117

2005:

Net sales to customers	¥140,607	¥31,344	¥6,081	¥520	¥ -	¥178,552
Intersegment sales	4,580	69	1	-	(4,650)*	-
Total	145,187	31,413	6,082	520	(4,650)	178,552
Operating expenses	127,050	29,259	6,005	472	680	163,466
Operating income (loss)	¥ 18,137	¥ 2,154	¥ 77	¥ 48	¥ (5,330)**	¥ 15,086
Identifiable assets	¥ 98,529	¥19,006	¥6,500	¥202	¥30,237***	¥154,474

Thousands of U.S. dollars

	Japan	North America	Europe	Asia	Elimination or Corporate Items	Consolidated
2005:						
Net sales to customers	\$1,322,115	\$294,725	\$57,179	\$4,890	\$ -	\$1,678,909
Intersegment sales	43,066	649	9	-	(43,724)	-
Total	1,365,181	295,374	57,188	4,890	(43,724)	1,678,909
Operating expenses	1,194,640	275,120	56,464	4,439	6,394	1,537,057
Operating income (loss)	\$ 170,541	\$ 20,254	\$ 724	\$ 451	\$ (50,118)	\$ 141,852
Identifiable assets	\$ 926,460	\$178,712	\$61,119	\$1,899	\$284,316	\$1,452,506

* Elimination of intersegment sales

** Includes unallocated administrative expenses of ¥4,746 million in 2004 and ¥5,258 million (U.S.\$49,441 thousand) in 2005.

*** Assets included in Elimination or Corporate Items consisted primarily of surplus money (cash and deposits) of the Company, long-term investment funds (investment securities) and other assets in the Administration Department which amounted to ¥34,406 million in 2004 and ¥35,151 million (U.S.\$330,522 thousand) in 2005.

(c) Overseas Sales Information

Overseas sales of the Company and its subsidiaries for the years ended March 31, 2004 and 2005 amounted to ¥52,898 million (30.6% of consolidated net sales) and ¥45,700 million (U.S.\$429,713 thousand, or 25.6% of consolidated net sales), respectively.

16. Subsequent Events

(a) Establishment of a 100% holding parent company

The Company and Bandai Co., Ltd. (hereinafter "Bandai") have resolved to establish NAMCO BANDAI Holdings Inc. (hereinafter the "New Integrated Company") as a 100% holding parent company through a share-for-share exchange, at respective general meetings of shareholders held on June 23, 2005 and June 25, 2005.

(1) Background and purpose

In the entertainment industry worldwide, global competition has intensified as technological innovations spur the expansion and widespread penetration of information technology networks. In addition, in the domestic Japanese market, the number of children has been decreasing due to declining birthrates and people's hobbies and interests have diversified. In order to continue to secure sustained profits, we believe we must win customers by aggressively promoting research and development and creating and providing attractive products and services. To succeed in this changing and intensely competitive market, further expand and develop our businesses and increase our enterprise values, we have determined it best for the Company and Bandai to integrate our management and selectively focus and concentrate our management resources under common philosophies and strategies.

The New Integrated Company will integrate and mutually complement Bandai's strengths in character merchandising and strengths of the Company in game contents, its game development capabilities and its wide network of amusement facilities, in order to develop synergies in the entertainment industry. In the medium and long-term, we aim to establish a new business model to enable us to succeed amidst global competition.

(2) Terms, etc., of the share-for-share exchange

—Outline of the schedule:

- June 23, 2005: General meeting of shareholders to approve of the share-for-share exchange (Bandai)
- June 25, 2005: General meeting of shareholders to approve of the share-for-share exchange (the Company)
- September 22, 2005 (expected): Tokyo Stock Exchange delisting date (the Company and Bandai)
- September 29, 2005 (expected): Date of execution of the share-for-share exchange (listing date for the shares of the New Integrated Company on the Tokyo Stock Exchange)
- September 29, 2005 (expected): Effective date of the share-for-share exchange (date of registration of establishment of the New Integrated Company on the commercial register)

However, should any adverse circumstances arise in the course of the procedures described below, the Company and Bandai may change the above schedule upon mutual consultation.

—Share-for-share exchange ratios

Upon the share-for-share exchange, the shares of the New Integrated Company will be respectively allotted in exchange for shares of the Company and Bandai at the following ratios:

- 1 share of common stock of the New Integrated Company for one share of common stock of the Company.
 - 1.5 shares of common stock of the New Integrated Company for one share of common stock of Bandai.
- Accordingly, the number of shares to be issued by the New Integrated Company will be 258,296,882 shares.

—Cash payments upon the share-for-share exchange

The New Integrated Company will pay 12 yen per share of the Company and 18 yen per Bandai share to the respective final shareholders of the Company and Bandai as of the day immediately preceding the date for executing the share-for-share exchange, as cash payments upon the share-for-share exchange, in lieu of interim dividends of the Company and Bandai for the year ended March 31, 2006.

However, the amounts of such cash payments may be changed upon consultation among the Company, Bandai and the New Integrated Company in light of the circumstances, including the condition of assets and liabilities of the Company and Bandai and changes in economic conditions.

—Outline of the New Integrated Company

Trade name:	NAMCO BANDAI Holdings Inc.
Nature of business:	Management and support of the operating activities of its subsidiaries through the holding of their shares
Location of head office:	Minato-ku, Tokyo
Capital:	¥10,000 million
Additional paid-in capital:	The shareholders' equity of the Company and Bandai net of the total of capital and cash payments upon the share-for-share exchange above mentioned at the date of share-for-share exchange (plan)

—Outline of Bandai (as of March 31, 2005)

Trade name:	Bandai Co., Ltd.
Nature of business:	Manufacture and sale of toys, games, apparel, candy toys, models, toys for vending machines, household goods, etc.
Establishment:	July 1950
Location of head office:	4-8, Komagata 1-chome, Taito-ku, Tokyo
Representative:	Takeo Takasu, President and Representative Director
Capital:	¥24,466 million
Number of employees:	973
Total assets:	¥148,417 million
Total liabilities:	¥54,114 million
Shareholders' equity:	¥94,302 million
Net sales:	¥132,530 million (year ended March 31, 2005)
Net income:	¥6,696 million (year ended March 31, 2005)

(b) Transfer of shares of Italian Tomato

The Company transferred a portion of shares of consolidated subsidiary Italian Tomato Ltd. to Key Coffee Inc. on April 15, 2005. Italian Tomato will be considered an equity-method affiliate instead of a consolidated subsidiary from the next fiscal year.

This transfer of shares is a part of current business restructuring of the Company, which is focused on entertainment businesses. This transfer will result in the discontinuation of Restaurant Operations as one of the business segments of the Company.

Report of Independent Auditors



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Independent Auditors' Report

The Board of Directors
Namco Limited

We have audited the accompanying consolidated balance sheets of Namco Limited and consolidated subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Namco Limited and consolidated subsidiaries at March 31, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 16, Namco Limited resolved to establish NAMCO BANDAI Holdings Inc. with Bandai Co., Ltd. as a 100% holding parent company through a share-for-share exchange, at the general meeting of shareholders held on June 25, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

June 27, 2005

A MEMBER OF ERNST & YOUNG GLOBAL

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Yokohama Mirai-Kenkyusho

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XS Entertainment Inc.

c/o Namco Cybertainment Inc.
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NAMCO Tales Studio Ltd.

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NAMCO Ecolotech Ltd.

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NAMCO Trading Ltd.

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Mil Ltd.*

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* Renamed **NAMCO Supporters Ltd.**
on June 1, 2005

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Italian Tomato Ltd.

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Phone: 81-3-3404-2681

(As of March 31, 2005)

Corporate Data

Corporate Name

NAMCO LIMITED

Date of Establishment

June 1, 1955

Capital

¥27,369 million

Stock Code

9752

Number of Employees

2,407

Independent Certified Public Accountants

Ernst & Young ShinNihon & Co.

Stock Information

Common Stock

Authorized—219,000,000 shares

Issued—110,175,236 shares

Number of Shareholders

24,653

Listing of the Company's Shares

First Section of the Tokyo Stock Exchange

Composition of Shareholders

	Shares	(%)
Individuals/Other	35,269,478	32.01
Financial Institutions	31,467,800	28.56
Foreign Investors	27,833,826	25.26
Other Corporations	14,295,174	12.98
Securities Companies	891,503	0.81
Treasury Stock	417,455	0.38

Major Shareholders

Shareholder's Name	Shares	Voting rights (%)
Masaya Nakamura	18,360,000	16.66
MAL Ltd.	13,510,200	12.26
Japan Trustee Services Bank, Ltd. (Trust Account)	8,433,500	7.65
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,944,100	5.40
The Sumitomo Trust & Banking Co., Ltd. (Trust Account B)	3,203,500	2.91
Japan Trustee Services Bank, Ltd. (Trust Account 4)	2,220,500	2.02
Mitsui Asset Trust and Banking Company, Limited (Individually Operated Designated Money Trusts)	1,509,000	1.37
The Chase Manhattan Bank NA London SL (Omnibus Account)	1,436,410	1.30
State Street Bank and Trust Company 505103	1,260,225	1.14
Yasuhiro Fukushima	1,101,800	1.00

(As of March 31, 2005)

namco®

NAMCO LIMITED

CORPORATE HEADQUARTERS

2-1-21, YAGUCHI, OTA-KU, TOKYO 146-8655, JAPAN

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