

May 20, 2004

Consolidated Financial Report for the Year ended March 31, 2004

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Annual Board of Directors Meeting: May 20, 2004

1. Consolidated Operating Performance for the Current Fiscal Year

This consolidated financial report has been prepared in accordance with Japanese accounting standards and Japanese law. Figures have been rounded off to eliminate amounts less than one million yen.

(1) Results of consolidated operations

Years ended March 31, 2004 and 2003						(Millions of yen)
	Net sales	Percentage change	Operating income	Percentage change	Ordinary income	Percentage change
2004	172,594	11.5	15,430	62.9	14,428	64.4
2003	154,777	1.7	9,470	54.4	8,777	88.2

Years ended March 31, 2004 and 2003						(Millions of yen)	
	Net income	Percentage change	Net income per share (in yen)	Diluted net income per share (in yen)	Return on equity (%)	Ordinary income to total assets (%)	Ordinary income to net sales (%)
2004	7,545	83.3	133.00	130.61	7.6	9.9	8.4
2003	4,115	102.2	72.35	70.12	4.3	6.1	5.7

Notes:

1. Equity in earnings of affiliates

Fiscal year ended March 31, 2004:	¥ (28) million
Fiscal year ended March 31, 2003:	¥ 18 million
2. Average number of shares outstanding (in shares)

Fiscal year ended March 31, 2004:	54,975,188
Fiscal year ended March 31, 2003:	55,087,374
3. Changes in accounting policies applied: No
4. The percentage figures accompanying net sales, operating income, ordinary income and net income are the rate of increase or decrease from the previous fiscal year

(2) Consolidated financial position

Years ended March 31, 2004 and 2003		(Millions of yen)		
	Total assets	Total shareholders' equity	Equity ratio (%)	Shareholders' equity per share(in yen)
2004	148,116	101,810	68.7	1,850.91
2003	143,213	96,647	67.5	1,752.09

Notes:

Number of shares outstanding at year-end (in shares)

Fiscal year ended March 31, 2004: 54,879,375

Fiscal year ended March 31, 2003: 55,086,939

(3) Consolidated statements of cash flows

Years ended March 31, 2004 and 2003		(Millions of yen)		
	Operating activities	Investing activities	Financing activities	Cash and cash equivalents
2004	12,931	(2,532)	(10,543)	35,548
2003	15,890	(913)	(3,501)	36,078

(4) Application of consolidation and equity method

Number of consolidated subsidiaries: 21

Number of non-consolidated subsidiaries accounted for by the equity method: 1

Number of affiliates accounted for by the equity method: 0

(5) Changes in scope of consolidation or application of the equity method

Consolidation	Increase	0	Decrease	2
Equity method	Increase	0	Decrease	0

2. Forecast of Consolidated Operating Performance for the Fiscal Year ending March 31, 2005

(April 1, 2004 to March 31, 2005)		(Millions of yen)		
		Net sales	Ordinary income	Net income
Six-month period ending Sept. 30, 2004				
Year ending March 31, 2005				

(Reference)

The forecast of "Net income per share" (in yen, from April 1, 2004 to March 31, 2005): 102.93

Note:

The above forecasts are based on information available to the Company when this report was compiled and due to a range of factors may differ materially from actual results.

2. Management Policies

1. Fundamental Management Policy

The Namco Group believes that an enriching and sound lifestyle imbued with “play” represents the highest level of happiness for people. The Group, as a “highly creative organization,” therefore views contributing to the realization of such lifestyles as its greatest corporate mission.

As the new century begins, positioned by many as an “Era of Spirituality,” Namco is basing its operations on its view that “to play is human.” The expanding tertiary industry sector is spawning sectors of a higher order—the fourth appealing to intellect and the fifth to emotions. Namco’s goal is to create the sixth stage, which stimulates greater consciousness and spiritual awareness. This will be accomplished by creating “play” industries (ways to play, places to play and tools for playing) in line with the concept of injecting more value as industries advance to higher stages.

The Namco Group places great importance on ensuring the satisfaction of shareholders, who share in the Company’s dreams and provide their support. By pursuing value-added management and maximizing earnings across the entire Group, management is seeking to achieve consolidated ROE of 15%.

2. Fundamental Policy on Profit Sharing

The Namco Group positions the return of profits to shareholders as one of its highest management priorities. The fundamental policy is to maintain a stable dividend and increase corporate value while becoming even more competitive and preserving a sound financial position. In concrete terms, the Company has decided to maintain the dividend payout ratio at a level of at least 30%.

During the year under review, benefits of the Company’s second stage of structural reform drove a steady improvement in operating results. Consequently the Company plans to pay a full-year dividend of ¥40.0 per-share, includes memorial dividend of ¥10.0, equivalent to a payout ratio of 36%.

3. Medium- and Long-Term Management Strategies

Namco’s current goal is maximizing consolidated operating results in all businesses in the fiscal year ending in March 2005. By implementing the measures needed to fulfill its goal, the Company plans to continue evolving from within to meet the expectations of shareholders.

The six key measures are as follows:

- (1) Concentrate on value-added business activities to increase the share price and maximize Group-wide earnings, with the ultimate goal of raising the consolidated ROE to 15%.
- (2) Conduct structural reforms in the three core businesses (sales of coin-operated game machines, sales of home videogame software, operation of amusement facilities) so that each becomes highly profitable in its own right.
- (3) Increase efforts to identify and develop new businesses.
- (4) Strengthen and develop the multi-use content strategy.
- (5) Establish and operationally strengthen internal structures and systems that enhance employee motivation in order to implement these business strategies.
- (6) Strengthen the strategy for subsidiaries for the purposes of clarifying management accountability and reviewing the allocation of resources.

4. Fundamental Policy and Measures Regarding Corporate Governance

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. Consequently, as part of reforms to the remuneration system for directors, the Company plans to abolish retirement bonuses for directors from the year ending March 2005. In parallel with this reform, the Company aims to clarify management responsibility by reducing the tenure of directors from two years to one with appointment approved at the annual general meeting of shareholders. Other steps will be taken to realize a more responsive management approach.

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.

The Namco Board of Directors meets monthly to make decisions on management issues, supervise the execution of business activities by directors and promote the rapid execution of business activities. In addition, an Executive Committee, made up of corporate executive officers, higher ranking directors and the standing corporate auditor, meets monthly to increase awareness of items to be submitted to the Board of Directors, examine operating results of each internal company and discuss future initiatives. This committee thus facilitates the exchange of information among directors and corporate executive officers.

Namco has adopted the corporate auditor system. The standing corporate auditor attends all meetings of the Board of Directors and Executive Committee to provide a constant means of ensuring that business activities are being conducted in an appropriate manner. The standing corporate auditor is responsible for preventing inappropriate acts and maintaining suitable business activities. In addition, three external corporate auditors conduct audits from an objective standpoint, providing a highly rigorous auditing system. Moreover, the independent accountant conducts financial audits and the Company receives advice from a consulting attorney as required.

As part of its policy of placing importance on communication with shareholders, the Company has, since the 1998 fiscal year, ceased conducting its annual shareholder meeting on the same day as most other Japanese companies. Instead, the meeting has been held on a Saturday each year so that parents can bring their children to the meeting. In addition, the Company holds meetings each year for investors and analysts at which operating results are released, meets with institutional investors on an individual basis and takes many other actions to conduct an active investor relations program in Japan and overseas.

For the year under review, Namco's nine directors (including one individual standing down) received remuneration totaling ¥323 million (including payments to support staff for directors with these employees), while Namco's five corporate auditors received remuneration totaling ¥37 million.

5. Important Issues

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. Moreover, the Group is establishing performance indicators to facilitate an even more rapid and objective evaluation of the performance of these businesses.

In the Coin-Operated Game Machine business, Namco is developing business models that meet market demands while continuing to raise quality and enhance the efficiency of product development. In the Pachinko and Pachislot business, which develops LCD units for these machines, the Company is making every possible effort to establish a solid base for growth. Measures include bolstering the workforce assigned to LCD software development, making extensive use of domestic and overseas content, and conducting more powerful sales activities.

In the Amusement Facility Operations business, the Company's continuous efforts to improve the

operating structure have yielded benefits. During the year under review, the operating margin reached 8.6%, compared to 6.3% in the previous period. Another theme is to enhance services and create highly profitable, low-cost facilities in order to withstand any further deterioration in Japan's economy, a consumption tax hike or other challenges. The Company is also aggressively working to create value-added, highly profitable entertainment facilities that can meet new market needs.

In the Home Videogame Software business, Namco is aiming to win greater market share by reinforcing its new product development teams and sales infrastructure from a global perspective. Other themes include moving into new market sectors such as networked gaming and creating games for more powerful hardware, while at the same time lowering development costs and building a game development structure that makes use of outsourcing. Finally, from a Group-wide management perspective, Namco will withdraw from or integrate businesses with poor growth prospects.

3. Business Results and Financial Position

1. Summary of Fiscal 2004 (April 1, 2003 ~ March 31, 2004)

Overview of Operating Results

During the year under review, the Japanese economy was characterized by weak consumer spending at the start of the year due to the cumulative impact of the Severe Acute Respiratory Syndrome (SARS) outbreak, hostilities in Iraq, and tension in North Korea. This environment, however, encouraged customers to turn their attention to amusement facilities, which offer a form of entertainment that is cheap, local and fun. The result was an increase in customer footfall and generally strong demand. The Home Videogame Software business, however, was faced with the slowing penetration of the PlayStation 2 (PS2) console and the lack of hit software titles to drive market growth in Japan. Although domestic sales volume growth decelerated as a result, this decline was more than offset by strong performances in overseas markets.

In this environment, the Namco Group placed priority on three themes: the optimal allocation of resources to business fields with good growth prospects (home videogame software sales, web & mobile content, and LCD units for pachinko and pachislot machines); improving the profitability of core businesses (coin-operated game machine sales and amusement facility operations); and up-front investments to develop new businesses in support of Namco's medium- to long-term growth. The Group also took steps to build a structure that encourages each in-house company to become more independent and maximize earnings. Regarding subsidiaries, guidance provided by head office has been increased and a management system has been adopted for each business field to encourage subsidiaries to make a greater contribution to consolidated results. Other steps have been taken to clarify management responsibility and reorganize subsidiaries.

During fiscal 2004, the Coin-Operated Game Machine business turned in a strong performance both in Japan and overseas, the Home Videogame Software business posted sales growth in North America due to the popularity of *Soul Calibur II* (PS2, GameCube, Xbox), and Amusement Facility Operations recorded higher sales at existing facilities in Japan.

The combined result of these factors was a year-on-year increase of ¥17,816 million, or 12%, in net sales to ¥172,594 million, ordinary income rose ¥5,651 million, or 64%, to ¥14,428 million, and net income was up ¥3,430 million, or 83%, to ¥7,545 million.

Coin-Operated Game Machines

Net sales rose ¥10,736 million, or 66%, to ¥26,990 million.

Operating income jumped ¥5,511 million, or 467%, to ¥6,691 million.

AM Company

In Japan, the popularity of a number of products was high, including the new *Taiko No Tatsujin 5* musical game, the multi-player *Dragon Chronicle*, two versions of a popular prize crane pusher game machine—*Sweet Land Plus* and *Big Sweet Land*, and the *Peter the Shepherd* medal-collecting game machine. In a standout success, *Ka-Cho-Fu-Getsu* became the best-selling photo-seal printing machine on the market based on extensive user research employing female senior high-school students.

In a new venture in August 2003, the Company began to distribute its original *Pac-Man no Kotoba de Puzzle* game to *PLUS e* entertainment terminals (16,000 units located in 1,000 family restaurants throughout Japan) operated by JCM Inc. These terminals are designed for installation at the tables of family restaurants.

Overseas, the shooting game *Time Crisis 3* sold well in Europe and North America. Also contributing to sales growth in North America were *Ms. Pac-Man/Galaga* and *Flaming Finger*, licensed from a partner company, and *Pac-Man Ball* in Europe.

P-7 Company

Due to upcoming changes in regulations related to the approval of new machines and other areas in the industry in July 2004, the Pachinko and Pachislot business is being forced to alter the way some products are made, leading to launch delays for certain products. As result, the *Tekken* LCD display unit was the only product generating sales during the year under review.

Home Videogame Software

Net sales rose ¥2,292 million, or 5%, to ¥44,768 million.

Operating income increased ¥2,171 million, or 24%, to ¥7,025 million.

CT Company

In Japan, the popular *Taiko No Tatsujin* series (PS2) performed well, supported by two new title launches during the year: *Taiko No Tatsujin Appare San Daimo* and *Taiko No Tatsujin Waku-Waku Anime Matsuri*. As result, combined full-year sales of all four titles in the series reached 2 million units. Other strong performers were *Necchu! Pro Baseball 2003* (PS2) launched in April 2003, and *Donkey Konga*, released by Nintendo for its GameCube console. However sales of other titles failed to meet the CT Company's goals: *R: RACING EVOLUTION* (PS2, GameCube, Xbox), and *Family Stadium 2003*, *Tales of Symphonia* and *Baten Kaitos Owaranai Tsubasa to Ushinawareta Umi*, all for the Nintendo GameCube.

In North America, *Soul Calibur II* (PS2, GameCube, Xbox) made a significant contribution to sales growth, supported by strong performances by *Kill Switch* (PS2, Xbox), *Pac-Man World 2* (PS2 lower priced version, GameCube, Xbox), *Namco Museum* (PS2, GameCube, Xbox), and *Ace Combat 04* (lower priced version for the PS2).

In Europe, Namco posted strong sales centered on *MotoGP3* (PS2), *Soul Calibur II* (PS2, GameCube, Xbox), *Time Crisis 3* (PS2), and a lower priced version of *Tekken 4* (PS2).

WMC Company

A new *Taiko No Tatsujin* game download site for NTT DoCoMo mobile phone users launched in April 2003 posted strong sales. The service was later extended to KDDI mobile phone users in November of the same year, and to Vodafone subscribers in February 2004. Fueled by the introduction of other products and services such as *Baukko DX* in June 2003 and amusement facility product *Dragon Chronicle* in the following December, as well as the launch of new NTT DoCoMo sites, the WMC Company steadily increased the number of new subscribers. As of March 31, 2004, fee-paying subscribers totaled approximately 836,000, an increase of around 550,000 year on year.

Overseas, Namco used its subsidiaries to actively push its mobile game content to leading mobile phone operators. In the U.S. the company signed new deals with the country's largest operator, Verizon Communications, to start distribution services for *Pac-Man* game content in December 2003, and a ringtone download site called *Pac Tones* in March 2004. Similar services were started to leading operators in Germany, Spain, the UK, France and the Netherlands. As a result, Namco now offers its content distribution services to around 220 million mobile phone subscribers in 18 countries.

Amusement Facility Operations

Net sales grew ¥3,990 million, or 5%, to ¥79,890 million.

Operating income rose ¥2,123 million, or 44%, ¥6,896 million.

As of March 31, 2004, Namco Group amusement facilities in Japan and overseas totaled 1,845 locations. Of these, 563 are directly managed and 1,280 locations operate under revenue-sharing arrangements. Namco also operates two theme parks.

Japan

ET Company

There was a large year-on-year increase in sales at existing locations due to the introduction of more efficient coin-operated game machines, steps to bolster facility management and draw in more customers, and a cost reduction program. Prize games, medal games and photo-seal printing machines were the main drivers of sales growth.

Notable new arcade openings during the year were *NAMCOLAND Oyumino* in Chiba Prefecture, *PLABO Kurume* in Fukuoka Prefecture, *NAMCOLAND Minoh* in Osaka, *NAMCOLAND Goshogawara Elm* in Aomori Prefecture, and *Wonder Park Atsuta* in Aichi Prefecture. A range of new amusement facility formats were also opened during fiscal 2004 including: an urban multi-format entertainment facility called *NAMCO City* in Osaka, *Internet Space Chi Ko Raku Sakae Hirokouji* in Aichi Prefecture, *Internet Space Chi Ko Raku Yokohama Nishiguchi* in Kanagawa Prefecture, and two *Shimashima Town* sites in Hiroshima Prefecture and Osaka.

Food theme parks, pioneered by Namco, are attracting attention for their ability to draw in customers and revitalize local economies. To underline this point, Namco's food theme parks performed well during the year, with *Namco Namja Town* in Tokyo's Toshima Ward delivering strong results on the back of popular attractions *Ikebukuro Gyoza Stadium* and *Ice Cream City*. Recent openings along a similar food theme included *Naniwa Men Darake* in Osaka (October 2003), *Jiyugaoka Sweets Forest* in Tokyo (November 2003), *Akashi Ramen Hatoba* in Hyogo Prefecture (December 2003), and *TUGARU RAMEN KAIDO* in Aomori Prefecture (February 2004). All these new facilities opened strongly in terms of both customer footfall and operating results.

As of March 31, 2004, Namco was operating amusement facilities at 637 locations. These include 332 directly managed locations, 303 revenue-sharing locations, and two theme parks. Net sales rose ¥6,167 million, or 11%, to ¥61,238 million.

Overseas

Although results were partly affected by hostilities in Iraq and the SARS outbreak, performance was generally strong as the effects were not widespread.

North America

Namco Cyberentertainment Inc., an operator of amusement facilities in North America, posted full-year operating results ahead of initial forecasts, primarily on the back of expansion of revenue-sharing, the closure of unprofitable locations, and other cost reduction measures. Meanwhile, XS Entertainment Inc., an operator of directly managed amusement facilities (restaurant hybrid locations) in Orlando, Florida, also worked to reduce costs, but failed to achieve its initial full-year targets. The company also booked an extraordinary loss of ¥748 million, arising from a revaluation loss on property, plant and equipment. Despite this, Namco's North American operations as a whole achieved their initial ordinary income target.

As of March 31, 2004, after the closure of 36 unprofitable locations, there were 1,172 amusement facilities in North America, including 206 directly managed locations and 966 operating under revenue-sharing agreements.

Europe

Effective October 2003, the Company sold Namco Operations France S.A. and withdrew from amusement facility management in the country. As of March 31, 2004, there were 12 amusement facilities in Europe, 10 directly managed locations and 2 operating under revenue-sharing agreements.

Asia

Although there was a tough start to the year due to the impact of SARS in Hong Kong, where some locations were temporarily closed in April and May 2003, sales recovered after the announcement that the outbreak had been brought under control. As of March 31, 2004, there were 24 amusement facilities in Asia, 15 directly managed locations and 9 operating under revenue-sharing agreements.

Restaurant Operations

Net sales rose ¥603 million, or 16%, to ¥4,430 million.

Operating income increased ¥66 million, or 195%, to ¥100 million.

Italian Tomato Ltd.

Emphasis was placed on opening *Italian Tomato Café Jr.* restaurants during the first half. These restaurants offer reasonably priced coffee and pasta dishes based on a self-service format. Meanwhile, 27 underperforming locations were closed. As of March 31, 2004, there were 265 restaurants in the chain, including 52 directly managed restaurants and 213 franchised restaurants.

Movies and Graphics

Net sales grew ¥455 million, or 4%, to ¥10,587 million.

Operating income was ¥191 million, compared to an operating loss of ¥411 million in the previous fiscal year.

Nikkatsu Corporation

Nikkatsu continues to reinforce its earnings base through structural reforms.

During the year under review, the company launched two internally produced movies: *SHARASOUJU* (directed by Naomi Kawase), released in June 2003 in Nara Prefecture where the film is set, and then at theaters nationwide; and *Shoronagashi*, directed by Mitsutoshi Tanaka, which premiered in September 2003 at several locations in Nagasaki Prefecture, the backdrop for the film. Both productions were well received in their home regions, giving them strong momentum for subsequent nationwide rollout. Two movies Nikkatsu has the rights to distribute in Japan, *Ten Minutes Older, The Trumpet* and *Ten Minutes Older, the Cello*, were both given special screenings at The 16th Tokyo International Film Festival (November 1~9, 2003), to popular acclaim.

In packaged software, Nikkatsu released 84 titles in the rental market during the year, including two topical movies, *Double Agent* and *Talk to Her*. In the retail market (general retail stores), 72 titles were released, driving sales higher year on year. Sales of *Complete of David Beckham* published by the football and generally sports-oriented DVD video label Fantasia, were particularly strong.

Others

Net sales declined ¥261 million, or 4%, to ¥5,926 million.

Operating loss was ¥620 million, compared to an operating loss of ¥1,022 million in the previous year.

Incubation Center

During fiscal 2004, the Incubation Center opened a *Led Zone* store, a new format centered on network gaming, in Tokyo's Ota Ward in June. The center is now concentrating on establishing this format and attracting customers. In other new businesses, the center launched *Namco Polo*, a travel-oriented website, and *Cooking Island*, an entertainment community website themed around food. In another innovation, the center launched a new travel entertainment business, starting with an eight-day tour on antique books to Eastern England with Professor Toshiyuki Takamiya, an expert in British studies. By offering new ways to enjoy travel over the Internet, the center is aiming to build a highly profitable business model going forward. In the welfare business, in response to the growing importance of IT in society and emerging user needs, the center launched *Talking Aid IT*, a mobile welfare and communications device that incorporates phone and e-mail functions, in November 2003. In welfare-related game machines, Namco also introduced *Wani Wani Panic RT*, its first machine exclusively designed for the elderly, in October 2003. A basic agreement was signed with a specialist welfare and medical device retailer to expand sales of both these products using its nationwide sales network, beginning in January 2004.

Other Subsidiaries

Namco Trading Ltd. is primarily involved in the installation and management of vending machines, and the distribution of content for mobile phones. In the vending machine installation business, sales were strong on the back of active efforts to install machines at new locations, while in the content business, the company moved away from a one-size-fits-all strategy for mobile phone operators, to one that places more emphasis on investment efficiency.

Yunokawa Kanko Hotel Co., Ltd. completely renovated its main building during the year to attract more to customers, and in July 2003 reopened under the name *Yu No Yado Shouen*.

Namco Ecolotech Ltd. develops and sells environmental equipment, and operates a business selling related products. Although sales of raw waste disposal equipment were below expectations, overall sales were supported by efforts to sell automatic hand-towel dispensers.

Musicplayground Inc. ceased operations on July 31 and was dissolved on February 27, 2004.

2. Cash Flows and Financial Position

Net cash provided by operating activities:	¥12,931 million (¥2,958 million less YoY)
Net cash used in investing activities:	¥2,532 million (¥1,618 million more YoY)
Net cash used in financing activities:	¥10,543 million (¥7,041 million more YoY)

Cash flow from operating activities

Although income before income taxes increased ¥5,504 million to ¥13,221 million, there were increases in inventories, amusement facilities and equipment, and other items, reducing positive cash flow to ¥12,931million, compared with ¥15,890 million one year earlier.

Cash flow from investing activities

Despite proceeds of ¥982 million from the sale of subsidiary stock, there were increases in outflows for the payment of leasehold deposits and the acquisition of investment securities, as well as declines in proceeds from sale of tangible fixed assets and the repayment of leasehold deposits. In addition, funds were used for payment in connection with business transfers. The result was cash used of ¥2,532 million, compared with cash used of ¥913 million in the previous year.

Cash flow from financing activities

Net cash used in financing activities totaled ¥10,543 million, compared with ¥3,501 million one year earlier. The largest components were ¥7,178 million for the redemption of the Company's fourth issue of unsecured convertible bonds, issued on July 29, 1994, and cash dividends paid.

As a result of the above, cash and cash equivalents as of March 31, 2004 stood at ¥35,548 million, a decline of ¥530 million or 1% compared to March 31, 2003.

Cash flow indices for the Namco Group (four-year summary)

	Fiscal years ended March 31			
	2001	2002	2003	2004
Shareholders' equity ratio (%)	66.0	66.7	67.5	68.7
Shareholders' equity ratio (market capitalization basis) (%)	82.4	107.0	65.5	116.7
Debt retirement period (years)	1.4	1.2	1.0	0.5
Interest coverage ratio	28.2	45.6	62.9	98.0

Notes

- (1) Shareholders' equity ratio = Total shareholders' equity/Total assets
- (2) Shareholders' equity ratio (market capitalization basis) = Market capitalization/Total assets
Debt retirement period = Interest-bearing debt/Operating cash flow
- (3) Interest coverage ratio = Operating cash flow/Interest expenses

(Reference)

1. All figures are calculated using data from the consolidated financial statements.
2. Market capitalization is calculated by multiplying the share price at the end of each period by the number of shares outstanding (net of treasury stock) at the end of the period.
3. Operating cash flow is the figure shown in the consolidated statements of cash flows. Interest-bearing debt is the sum of all debt upon which interest must be paid as shown in the consolidated balance sheets. Interest expenses are interest payments as shown in the consolidated statements of cash flows.

3. Full-Year Outlook

Effective April 1, 2004, Namco implemented a range of organizational and personnel changes. With the ultimate goal of achieving continuous growth as an entertainment company through optimal resource allocation, improvements in profitability at core businesses, and up-front investments in new businesses that will support the medium-term growth of the Company, these changes are designed to reinforce the operating structure of each Group company so that they can maximize profits, while further enhancing customer satisfaction and increasing operational independence. Concrete steps included the following:

In order to maximize profits, Namco has integrated the WMC Company and the P-7 Company to establish the CX (Content Expansion) Company. This new organization will encourage content multi-use and give content designers more opportunities to exercise their creative abilities. Using the CX Company, Namco will move into new market areas that offer the chance for the secondary application of existing content.

Steps have been taken to create an organizational structure for the CT Company, AM Company, ET Company and the Incubation Center designed to make them more responsive to changes in their markets and enhance customer satisfaction.

At head office, the role of individual organizations has been reviewed, resulting in the establishment of two new organizations: the Management Strategy Department, responsible for strengthening management strategy capabilities through the integration of strategy formulation and execution; and the Corporate Department, mandated to enhance management functions. More specifically, this latter department will be work to increase the enterprise value of the Namco Group through duties related to overall administration and compliance, and communication activities that ensure the appropriate disclosure of information related to corporate management. Both departments will simultaneously play a role in driving forward operational streamlining.

On June 1, 2005, Namco will celebrate its 50th anniversary. We believe this new framework will provide the ideal base to take on future challenges on the road to the next stage of growth.

For the fiscal year ending March 31, 2005, Namco is projecting ordinary income of ¥15.2 billion, net income of ¥8.5 billion, on net sales of ¥188.0 billion.

4. Risk Factors and Cautionary Statements

Statements made in this financial report with respect to the Group's future performance are forward-looking statements based on the Namco Group's assumptions and beliefs in light of information currently available, and consequently include a number of risks and uncertainties. Accordingly, actual results could differ materially from those contained in any forward-looking statements.

Factors in the Group's operating environment that could impact on results include changes in the geopolitical situation, economic environment, market trends and exchange rates. Other potential risks and uncertainties include, but are not limited to, the following:

- (1) Namco product and service competitiveness
- (2) Future M&As and alliances
- (3) Trends in game platforms and at console makers
- (4) Changes in laws and regulations
- (5) Possible defects in products and services
- (6) Difficulties in securing and fostering key personnel
- (7) Protection and management of intellectual property
- (8) Unauthorized disclosure of personal information
- (9) Risks related to the ability to recover leasehold deposits

Consolidated Financial Statements

Consolidated Balance Sheets

	Millions of Yen	
	March 31, 2003	March 31, 2004
ASSETS		
Current Assets:		
Cash	36,218	35,672
Trade receivables	14,253	14,409
Inventories	13,482	19,944
Deferred income taxes	1,114	1,227
Others	3,398	2,911
Allowance for doubtful accounts	(378)	(551)
Total current assets	68,088	73,613
Fixed Assets:		
Tangible fixed assets:		
Buildings and structures	4,750	5,082
Machinery and equipment	1,387	1,196
Amusement machines and facilities	21,355	21,510
Land	6,965	6,855
Construction in progress	62	85
Others	1,134	1,028
Net property and equipment	35,654	35,758
Intangible fixed assets:		
Goodwill	1,027	2,900
Consolidation adjustments account	338	208
Patents	278	-
Leasehold rights	562	562
Software	635	638
Others	335	817
Total intangible fixed assets	3,177	5,126
Investment and others:		
Investment securities	798	1,422
Long-term loan receivables	231	240
Long-term prepaid expenses	973	1,059
Leasehold deposits	26,087	25,963
Deferred income taxes	4,542	3,778
Others	4,947	1,990
Allowance for doubtful accounts	(1,287)	(836)
Total investment and others	36,293	33,617
Total fixed assets	75,124	74,502
TOTAL ASSETS	143,213	148,116

	Millions of Yen	
	March 31, 2003	March 31, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes and accounts Trade payables	11,916	13,006
Short-term bank loans	5,944	4,031
Current portion of debentures	7,178	-
Other payables	3,327	5,165
Accrued expenses	3,346	3,539
Accrued income taxes	1,653	4,774
Accrued consumption taxes	580	-
Others	1,972	3,342
Total current liabilities	<u>35,920</u>	<u>33,860</u>
Long-Term Liabilities:		
Debentures	1,000	1,000
Long-term borrowings	1,059	1,243
Allowance for employees' retirement benefits	1,218	1,573
Allowance for directors' retirement benefit	2,224	2,257
Others	3,390	3,562
Total long-term liabilities	<u>8,893</u>	<u>9,637</u>
TOTAL LIABILITIES	<u>44,813</u>	<u>43,497</u>
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES		
Minority interests in consolidated subsidiaries	1,752	2,808
SHAREHOLDERS' EQUITY		
Common stock	27,369	27,369
Additional paid-in capital	26,399	26,399
Retained earnings	43,428	49,195
Other securities valuation difference	(65)	229
Foreign currency translation adjustments	(483)	(967)
Treasury stock	(1)	(415)
TOTAL SHAREHOLDERS' EQUITY	<u>96,647</u>	<u>101,810</u>
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	<u>143,213</u>	<u>148,116</u>

Consolidated Statements of Income

	Millions of Yen	
	March 31, 2003	March 31, 2004
Net sales	154,777	172,594
Cost of sales	117,247	123,505
Gross profit	37,529	49,088
Selling, general and administrative expenses		
Advertising & Marketing	5,562	6,797
Salaries	7,651	8,846
Depreciation and amortization	875	730
R&D expenses	5,710	7,588
Others	8,260	9,695
Operating income	9,470	15,430
Non-operating Income:		
Interest income	143	126
Dividends income	4	3
Gain on sale of property and equipment	-	43
Others	190	174
	337	348
Non-operating Expenses:		
Interest expenses	241	131
Amortization of goodwill	24	485
Amortization of patents	178	-
Loss on disposal of property, plant and equipment	160	191
Doubtful debt account	135	-
Foreign exchange loss	99	239
Other expenses	189	302
	1,030	1,349
Ordinary income	8,777	14,428
Extraordinary Gains:		
Gains on sale of investment securities	230	-
Gains on sale of fixed assets	185	-
Transfer from reserve for possible loan losses	24	-
Store closure compensation	135	-
Income from discharge of indebtedness	-	15
Gain on change in equity holding	-	22
Gain on sale of subsidiaries' shares	-	81
Others	2	52
	578	170
Extraordinary Loss:		
Revaluation loss on investment securities	429	98
Revaluation loss on fixed assets	467	747
Loss on sale of fixed assets	-	116
Revaluation loss on goodwill	17	-
Revaluation loss on inventories	347	-
Provision for prior-year directors' retirement benefits	142	21
Special provision for retirement	162	-
Loss on restructuring of overseas business	-	243
Others	73	149
	1,639	1,377
Income before income taxes	7,716	13,221
Income taxes: Current	1,430	5,384
Income taxes: Deferred	2,139	318
Minority interest in earnings of consolidated subsidiaries	31	(27)
Net income	4,115	7,545

Consolidated Statement of Retained Earnings

	Millions of Yen	
	March 31, 2003	March 31, 2004
CAPITAL SURPLUS		
Capital surplus, beginning of year	26,399	26,399
Capital surplus, end of year	<u>26,399</u>	<u>26,399</u>
RETAINED EARNINGS		
Retained earnings, beginning of year	41,250	43,428
Increase in retained earnings		
Net income (loss)	4,115	7,545
Decrease in retained earnings		
Cash dividends	1,762	1,649
Directors' bonuses	75	123
Statutory auditors' bonuses	4	7
Decrease due to merger of consolidated subsidiaries	94	-
	<u>1,937</u>	<u>1,779</u>
Retained earnings, end of year	<u>43,428</u>	<u>49,195</u>

Consolidated Statements of Cash Flows

	Millions of Yen	
	March 31, 2003	March 31, 2004
Cash Flows from Operating Activities:		
Income before income taxes	7,716	13,221
Depreciation and amortization	11,226	11,104
Amortization of Goodwill	72	67
Increase (Decrease) in allowance for doubtful accounts	(35)	301
Gain (Loss) on sale of investment securities	(226)	-
Revaluation loss of investment securities	429	98
Gain (Loss) on sale of property, plant and equipment	(168)	136
Loss on disposal of fixed assets	160	206
Loss on restructuring of overseas business	-	243
Revaluation of fixed assets	467	747
Loss on disposal of amusement machines and facilities	1,425	1,034
Interest and dividends income	(147)	(130)
Interest Expenses	241	131
Foreign exchange gain (loss)	(42)	(23)
Increase (Decrease) in trade receivables	3,764	(485)
Increase (Decrease) in inventories	(1,197)	(6,135)
Investment for amusement machines and facilities establishment	(7,783)	(10,303)
Increase (Decrease) in trade payables	692	1,120
Increase (Decrease) in accrued expenses	(463)	-
Increase (Decrease) in accrued payables	-	1,470
Increase (Decrease) in advance received	-	1,015
Other	340	478
<u>Subtotal</u>	<u>16,471</u>	<u>14,300</u>
Interest and dividends received	148	129
Interest paid	(252)	(131)
Income taxes paid	(477)	(1,367)
<u>Net cash provided by operating activities</u>	<u>15,890</u>	<u>12,931</u>
Cash Flows from Investing Activities:		
Payments for time deposits	(115)	(4)
Proceeds from time deposits	53	21
Acquisition of property, plant and equipment	(1,753)	(1,943)
Proceeds from sale of property, plant and equipment	885	74
Payments for acquisition of software	(424)	(369)
Acquisition of investments in securities	(11)	(302)
Proceeds from sale of investments in securities	300	30
Payment on loans	(279)	(33)
Proceeds from the recovery of loans	90	62
Payments for the transfer of business operations	-	(608)
Payments relating to a memorandum of agreement for the transfer of business operations	(700)	-
Expenditure for guaranty money deposited	(557)	(1,261)
Proceeds from the recovery of guaranty money deposit	1,926	1,509
Payments for long-term advance expenses	-	(293)
Proceeds from sale of subsidiaries' shares	-	982
Other	(329)	(395)
<u>Net cash used in investment activities</u>	<u>(913)</u>	<u>(2,532)</u>
Cash Flows from Financing Activities:		
Proceeds from short-term debt	3,428	3,110
Repayment of short-term debt	(4,810)	(4,812)
Proceeds from long-term debt	190	1,750
Repayment of long-term debt	(2,097)	(1,641)
Proceeds from the issue of debentures	1,000	-
Payment of debentures on redemption	-	(7,148)
Acquisition of treasury stock	-	(414)
Payment of cash dividends	(1,762)	(1,649)
Proceeds from liquidation of receivables	550	-
Proceeds of capital injection from minority shareholders	-	291
Other	(0)	-
<u>Net cash used in financing activities</u>	<u>(3,501)</u>	<u>(10,543)</u>
<u>Effect of exchanges on cash and cash equivalents</u>	<u>(636)</u>	<u>(385)</u>
<u>Net increase (decrease) in cash and cash equivalents</u>	<u>10,838</u>	<u>(530)</u>
<u>Cash and cash equivalents, beginning of year</u>	<u>25,239</u>	<u>36,078</u>
<u>Cash and cash equivalents, end of year</u>	<u>36,078</u>	<u>35,548</u>

4. Segment Information

(1) Business Segment Information

(Millions of yen)

	Fiscal Year Ended March 31, 2003 (From April 1, 2002 to March 31, 2003)								
	Coin-Operated Game Machines	Home Videogame Software	Amusement Facility Operations	Restaurant Operations	Movies and Graphics	Other	Total	Elimination or Corporate Items	Consolidated
I Net sales and operating income (loss)									
Net sales									
(1) Net sales to customers	16,254	42,475	75,900	3,826	10,131	6,188	154,777	-	154,777
(2) Intersegment sales	353	-	285	167	211	380	1,371	(1,371)	-
Total	16,607	42,475	76,158	3,994	10,343	6,568	156,149	(1,371)	154,777
Operating expenses	15,427	33,279	71,385	3,960	10,754	7,591	142,397	2,909	145,306
Operating income (loss)	1,180	9,196	4,773	34	(411)	(1,022)	13,751	(4,281)	9,470
II Identifiable assets, depreciation and amortization, and capital expenditure									
Identifiable assets	12,187	25,350	52,691	3,135	9,876	10,699	113,940	29,272	143,213
Depreciation and amortization	215	947	8,865	132	335	621	11,118	108	11,226
Capital expenditure	130	1,082	7,999	334	246	201	9,994	381	10,375

Notes:

1. Methods for classifying business segments

In the past, Namco has classified business segments using a number of criteria, including the type and nature of products, product manufacturing methods and market similarities. However, following changes to the Group's management organization in May 2002, Namco introduced additional criteria such as management conditions and the functional role of each business within the Group in order to present a more accurate picture of the increasingly diverse operations of the Namco Group. As a result, Namco's new businesses, which had been included under one of three business segments—Coin-Operated Game Machines, Home Videogame Software, and Amusement Facility Operations—were reclassified as a separate business segment, Others.

2. Principal products and business in each business sector

- (1) Coin-Operated Game Machines: Development, production and sales, and approved production and sales of amusement equipment such as coin-operated video games, electro-mechanical game machines, medal game machines, and amusement rides.
- (2) Home Videogame Software: Development, production and sales, and approved production and sales of such home-use products as home game software; development and distribution of game content for mobile phone.
- (3) Amusement Facility Operations: Management of amusement centers.
- (4) Restaurant Operations: Operation of Italian restaurants, cafés, cake shops, franchise businesses and other food retail facilities.
- (5) Movies and Graphics: Production, distribution and promotion of movies, operation of satellite broadcasting business, and sales of video software and other media.
- (6) Others: Development, production and sales, and approved production and sales of welfare-related equipment and simulators, operation of vending machine-related business, insurance agency business, real estate management business, real estate leasing business, resort hotel management, recycling business, and interactive music distribution business using the Internet.

3. Operating expenses of corporate items include expenses related to the management division, including the Corporate Office. On a consolidated basis, these amounted to ¥4,176 million.

4. Asset of corporate items are surplus funds under management (cash and cash equivalents), long-term investment assets (investment securities) and assets related to the management division, including the Corporate Office. On a consolidated basis, these amounted to ¥35,109 million in the year under review.

5. Depreciation and amortization, and capital expenditure include long-term up prepaid expenses and related amortization.

6. Effective from the fiscal year ended March 31, 2003, the Company changed the accounting treatment of expenses related to the creation of game software by overseas subsidiaries. This change had the effect of increasing operating income by ¥489 million and identifiable assets by ¥471 million in the Home Videogame Software segment, compared with the previous accounting treatment. In addition, effective from the fiscal year ended March 31, 2003, the method for converting income and expenses of overseas subsidiaries was changed. However, this change had an immaterial effect on segment information.

(Millions of yen)

	Fiscal Year Ended March 31, 2004 (From April 1, 2003 to March 31, 2004)								
	Coin-Operated Game Machines	Home Videogame Software	Amusement Facility Operations	Restaurant Operations	Movies and Graphics	Other	Total	Elimination or Corporate Items	Consolidated
I Net sales and operating income (loss)									
Net sales									
(1) Net sales to customers	26,990	44,768	79,890	4,430	10,587	5,926	172,594	-	172,594
(2) Intersegment sales	484	180	253	104	182	606	1,812	(1,812)	-
Total	27,475	44,949	80,144	4,535	10,769	6,532	174,406	(1,812)	172,594
Operating expenses	20,783	37,923	73,247	4,434	10,578	7,152	154,121	3,042	157,163
Operating income (loss)	6,691	7,025	6,896	100	191	(620)	20,285	(4,855)	15,430
II Identifiable assets, depreciation and amortisation, and capital expenditure									
Identifiable assets	15,554	28,477	52,996	3,465	9,355	9,256	119,106	29,010	148,116
Depreciation and amortisation	220	1,465	8,651	130	275	245	10,988	115	11,104
Capital expenditure	231	1,486	10,489	281	93	743	13,324	683	14,008

Notes:

1. Methods for classifying business segments

The Company's business segments are classified into Coin-Operated Game Machines, Home Videogame Software, Amusement Facility Operations, Restaurant Operations, Movies and Graphics, and Other, based on the type and nature of products they encompass, manufacturing methods, market similarities, industry, and management conditions, as well as by the functional role of each business within the Group and other factors.

2. Principal products and business in each business sector

- (1) Coin-Operated Game Machines: Development, production and sales, and approved production and sales of amusement equipment such as coin-operated video games, electro-mechanical game machines, medal game machines, and amusement rides.
- (2) Home Videogame Software: Development, production and sales, and approved production and sales of such home-use products as home game software; development and distribution of game content for mobile phone.
- (3) Amusement Facility Operations: Management of amusement centers.
- (4) Restaurant Operations: Operation of Italian restaurants, cafés, cake shops, franchise businesses and other food retail facilities.
- (5) Movies and Graphics: Production, distribution and promotion of movies, operation of satellite broadcasting business, and sales of video software and other media.
- (6) Others: Development, production and sales, and approved production and sales of welfare-related equipment and simulators, operation of vending machine-related business, insurance agency business, real estate management business, real estate leasing business, resort hotel management, recycling business.

3. Operating expenses of corporate items include expenses related to the management division, including the Corporate Office. On a consolidated basis, these amounted to ¥4,176 million.

4. Asset of corporate items are surplus funds under management (cash and cash equivalents), long-term investment assets (investment securities) and assets related to the management division, including the Corporate Office. On a consolidated basis, these amounted to ¥34,406 million in the year under review.

5. Depreciation and amortization, and capital expenditure include long-term up prepaid expenses and related amortization.

(2) Geographical Segment Information

(Millions of yen)

	Fiscal Year Ended March 31, 2003 (From April 1, 2002 to March 31, 2003)						
	Japan	North America	Europe	Asia	Total	Elimination or Corporate Items	Consolidated
Net sales and operating income (loss)							
Net sales							
(1) Net sales to customers	115,343	33,364	5,441	627	154,777	-	154,777
(2) Intersegment sales	2,220	103	6	6	2,337	(2,337)	-
Total	117,564	33,468	5,447	634	157,114	(2,337)	154,777
Operating expenses	105,566	31,531	5,463	667	143,229	2,077	145,306
Operating income (loss)	11,998	1,936	(16)	(33)	13,885	(4,414)	9,470
Identifiable assets	87,127	20,395	5,965	176	113,665	29,548	143,213

Notes:

1. Methods for classifying geographic segments

The Company classifies geographic segments by such factors as degree of geographic closeness, similarities in economic activities, and mutual relationship of business activities. Accordingly, the Company classifies its geographic segments as Japan, North America, Europe, and Asia.

2. Principal countries and regions belonging to each geographic segment.

- (1) Japan.....Japan
- (2) North America.....United States
- (3) Europe.....United Kingdom, Ireland, Spain, France, and others
- (4) Asia.....Hong Kong, Taiwan, and others

3. Operating expenses of corporate items include expenses related to the management division, including the Corporate Office. On a consolidated basis, these amounted to ¥4,176 million in the year ended March 31, 2003.

4. Assets of corporate items are surplus funds under management (cash and cash equivalents), long-term investment assets (investment securities) and assets related to the management division, including the Corporate Office. On a consolidated basis, these amounted to ¥35,109 million in the year under review.

5. Effective from the fiscal year ended March 31, 2003, the Company changed the accounting treatment of expenses related to the creation of game software by overseas subsidiaries. This change had the effect of increasing operating income by ¥489 million and identifiable assets by ¥471 million in the North America segment, compared with the previous accounting treatment. In addition, effective from the fiscal year ended March 31, 2003, the method for converting income and expenses of overseas subsidiaries was changed. However, this change had an immaterial effect on segment information.

(Millions of yen)

	Fiscal Year Ended March 31, 2004 (From April 1, 2003 to March 31, 2004)						
	Japan	North America	Europe	Asia	Total	Elimination or Corporate Items	Consolidated
Net sales and operating income (loss)							
Net sales							
(1) Net sales to customers	128,177	37,842	6,019	555	172,594	-	172,594
(2) Intersegment sales	3,507	237	1	-	3,746	(3,746)	-
Total	131,684	38,079	6,021	555	176,340	(3,746)	172,594
Operating expenses	115,020	34,419	5,910	542	155,892	1,271	157,163
Operating income (loss)	16,664	3,660	111	12	20,448	(5,018)	15,430
Identifiable assets	94,010	17,880	6,574	151	118,616	29,500	148,116

Notes:

1. Methods for classifying geographic segments

The Company classifies geographic segments by such factors as degree of geographic closeness, similarities in economic activities, and mutual relationship of business activities. Accordingly, the Company classifies its geographic segments as Japan, North America, Europe, and Asia.

2. Principal countries and regions belonging to each geographic segment.

- (1) Japan.....Japan
(2) North America.....United States
(3) Europe.....United Kingdom, Ireland, Spain, France, and others
(4) Asia.....Hong Kong and others

3. Operating expenses of corporate items include expenses related to the management division, including the Corporate Office. On a consolidated basis, these amounted to ¥4,746 million in the year ended March 31, 2003.

4. Assets of corporate items are surplus funds under management (cash and cash equivalents), long-term investment assets (investment securities) and assets related to the management division, including the Corporate Office. On a consolidated basis, these amounted to ¥34,406 million in the year under review.

(3) Overseas Sales Information

	Fiscal Year Ended March 31, 2003 (April 1, 2002 to March 31, 2003)			
	North America and Latin America	Europe	Asia and Oceania	Total
I Overseas sales (Millions of yen)	33,726	13,884	1,368	48,979
II Net sales (Millions of yen)				154,777
III Percentage of net sales (%)	21.8	9.0	0.9	31.6

Notes:

1. Method for classifying countries and geographic regions

The Company classifies geographic segments by such factors as degree of geographic closeness, similarities in economic activities, and mutual relationship of business activities. Accordingly, the Company classifies its geographic segments as North America and Latin America, Europe, and Asia and Oceania.

2. Principal countries and regions belonging to each segment.

- (1) North America and Latin AmericaUnited States, Canada, and the countries of Central and South America
(2) EuropeEuropean countries, Middle Eastern countries, and African countries
(3) Asia and OceaniaKorea, China, Taiwan, Australia, and others

3. Overseas sales are sales by the Company and its consolidated subsidiaries derived in countries or regions outside Japan.

4. Effective from the fiscal year ended March 31, 2003, the method for converting income and expenses of overseas subsidiaries was changed. However, this change had an immaterial effect on segment information.

	Fiscal Year Ended March 31, 2004 (April 1, 2003 to March 31, 2004)			
	North America and Latin America	Europe	Asia and Oceania	Total
I Overseas sales (Millions of yen)	37,879	13,620	1,397	52,897
II Net sales (Millions of yen)				172,594
III Percentage of net sales (%)	21.9	7.9	0.8	30.6

Notes:

1. Method for classifying countries and geographic regions

The Company classifies geographic segments by such factors as degree of geographic closeness, similarities in economic activities, and mutual relationship of business activities. Accordingly, the Company classifies its geographic segments as North America and Latin America, Europe, and Asia and Oceania.

2. Principal countries and regions belonging to each segment.

- (1) North America and Latin AmericaUnited States, Canada, and the countries of Central and South America
- (2) EuropeEuropean countries, Middle Eastern countries, and African countries
- (3) Asia and OceaniaKorea, China, Taiwan, Australia, and others

3. Overseas sales are sales by the Company and its consolidated subsidiaries derived in countries or regions outside Japan.