

November 19, 2003

Consolidated Financial Report for the Six Months Ended September 30, 2003

For further information contact:

President & CEO Mr. Kyushiro Takagi
 Managing Director Mr. Keiji Tanaka
 Telephone: +81-3-3756-2311

Semiannual Board of Directors Meeting: November 19, 2003

1. Consolidated Operating Performance for the Six Months Ended September 30, 2003

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

(1) Results of consolidated operations

Six-month period ended	(Millions of yen)					
	Net sales	Percentage change	Operating income	Percentage change	Ordinary income	Percentage change
Sept. 30, 2003	83,636	13.9	8,673	166.5	8,117	198.4
Sept. 30, 2002	73,406	6.3	3,255	63.8	2,720	88.7
FYE Mar. 31, 2003	154,777		9,470		8,777	

Six-month period ended	(Millions of yen)			
	Net income	Percentage change	Net income per share (in yen)	Diluted net income per share (in yen)
Sept. 30, 2003	3,730	188.8	67.76	65.38
Sept. 30, 2002	1,291	4.6	23.45	22.85
FYE Mar. 31 2003	4,115		72.35	70.12

Notes:

1. Equity in earnings of affiliates

Six-months period ended September 30, 2003:	¥(13) million
Six-months period ended September 30, 2002:	¥13 million
Fiscal year ended March 31, 2003:	¥18 million

2. Average number of shares outstanding (consolidated)

Six-months period ended September 30, 2003:	55,057,287
Six-months period ended September 30, 2002:	55,087,544
Fiscal year ended March 31, 2003:	55,087,374

3. Changes in accounting policies applied: No

4. Percentages shown for net sales, operating income, ordinary income and net income are comparisons with the previous interim period.

(2) Consolidated financial position

Six-month period ended	(Millions of yen)			
	Total assets	Total shareholders' equity	Equity ratio (%)	Shareholders' equity per share (in yen)
Sept. 30, 2003	146,771	99,069	67.5	1,805.22
Sept. 30, 2002	139,773	94,686	67.7	1,718.84
FYE Mar. 31 2003	143,213	96,647	67.5	1,752.09

Notes:

Number of shares outstanding at year-end (consolidated)

Six-month period ended September 30, 2003:	54,879,621
Six-month period ended September 30, 2002:	55,087,492
Fiscal year ended March 31, 2003:	55,086,939

(3) Consolidated statements of cash flows

Six-month period ended	(Millions of yen)			
	Operating activities	Investing activities	Financing activities	Cash and cash equivalents, end of interim period
Sept. 30, 2003	2,711	(838)	(8,869)	29,011
Sept. 30, 2002	5,553	969	(1,437)	29,723
FYE Mar. 31 2003	15,890	(913)	(3,501)	36,078

(4) Application of consolidation and equity method

Number of consolidated subsidiaries:	23
Number of non-consolidated subsidiaries and applied to equity method:	1
Number of affiliates applied to equity method:	0

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

Consolidation	Increase	0	Decrease	0
Equity method	Increase	0	Decrease	0

2. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2004 (Millions of yen)

	Net sales	Ordinary income	Net income
FYE Mar. 31, 2004	174,600	14,300	6,600

(Reference)

The forecast of net income per share (in yen, from April 1, 2003 to March 31, 2004): 117.89

Note:

The forecast of results of operations made in this document involves risk and uncertainties, since the forecast is based on management's assumptions and beliefs in light of the information currently available to it.

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 a 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 the 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.

Namco places great importance on the satisfaction of shareholders, who share in the Company’s dreams and offer their support. By pursuing value-added management and maximizing earnings across the entire group of companies, management is seeking to achieve a 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%.

For the six month period ended September 30, 2003, the Company will pay a dividend per share of ¥15.

3. Medium- and Long-Term Management Strategies

The Namco Group is currently conducting structural reforms that are guided by the basic concept of allocating resources in the optimal manner (concentrating resources on core growth businesses while realigning and integrating other businesses). Currently, each business is focused on maximizing consolidated operating results in the fiscal year ending in March

2005. By taking the actions needed to fulfill its goal, the Company plans to continue evolving from within to meet the expectations of shareholders.

The primary 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, produce liquid crystal display (LCD) units for pachinko and pachislot machines, and establish growing and self-reliant businesses in the Web & Mobile Content field.
- (4) Establish internal structures and systems that enhance employee motivation in order to implement these business strategies.
- (5) 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 continuously maximizing shareholder value over the long term.

The basis for corporate governance is the clear delineation and rigorous implementation of a “fundamental philosophy” that defines the basic stance and goals of all employees. The objective 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 and 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 properly. 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. 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 information disclosure, 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.

5. Important Issues

In line with the fundamental policy of ongoing structural reform, each business unit within the Group is becoming increasingly self-reliant by taking a variety of actions aimed at improving profitability. Moreover, the Group will establish performance indicators to facilitate an even more objective evaluation of the performance of these businesses.

In the Amusement Facility Operations business, the Company's continuous efforts to improve operations have yielded benefits. This business is making steady progress toward building an earnings base that can achieve a gross profit margin of 15% in the current fiscal year in the domestic market. 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 working aggressively on creating value-added, highly profitable entertainment facilities that can meet new market needs.

In the Coin-Operated Game Machine business, Namco is developing models that meet market demands while continuing to cut new product development costs and staffing to streamline its operations. In the Pachinko and Pachislot business, which develops LCD units for these machines, the Company is making every effort possible 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 Home Videogame Software business, Namco is reinforcing its new product development teams and sales infrastructure from a global perspective. The aim is to increase market share by accelerating the media mix program. Other themes are developing game titles for new market categories, such as networked games, and creating games for more powerful hardware while at the same time lowering development costs. To raise the profile of the Namco brand worldwide, the Company plans to strengthen software development activities and develop products that incorporate fresh ideas and stand out in the gaming market. To develop products more efficiently, the development infrastructure will be upgraded through measures that will include outsourcing.

Finally, from a Group-wide perspective, businesses with poor growth prospects will be shut down or integrated with other businesses by the end of the current fiscal year.

3. Results of Operations and Financial Position

1. Summary of the First Half of Fiscal 2004 (April 1, 2003 ~ September 30, 2003)

Overview of Operating Results

The Japanese economy at the start of the fiscal first half was characterized by weak consumer spending due to the impact of the Severe Acute Respiratory Syndrome (SARS) outbreak, hostilities in Iraq, tension in North Korea and a number of powerful earthquakes that hit Japan. A cool summer further impacted consumer sentiment. In this environment, consumers turned their attention to amusement facilities, which offer a form of entertainment that is cheap, local and accessible. 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 and the lack of a hit software title driving 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 mid- to long-term growth. The Group is organized to encourage each in-house company to become more self-reliant and maximize earnings (Corporate Headquarters, the Corporate Office, five in-house companies and the Incubation Center). 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 reorganize subsidiaries.

In the fiscal year's first half, 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* (for the PlayStation 2, GameCube and Xbox), and Amusement Facility Operations recorded higher sales at existing facilities in Japan. The result was a year-on-year increase of ¥10,229 million, or 14%, in net sales to ¥83,636 million, ordinary income rose ¥5,396 million, or 198%, to ¥8,117 million, and net income was up ¥2,438 million, or 189%, to ¥3,730 million.

Coin-Operated Game Machines

Net sales rose ¥4,564 million, or 54%, to ¥13,025 million.

Operating income increased ¥1,920 million, or 212%, to ¥2,824 million.

AM Company

In Japan, the popularity of the *Taiko no Tatsujin 4* musical game remained high and there were a number of successful new product launches, including *Sweet Land Plus* and *Big Sweet Land*, two new versions of a popular prize-crane pusher game machine. Strong performances were also recorded by the

Ka-Cho-Fu-Getsu photo-seal printing machine and the *Peter the Shepherd* medal-collecting game machine.

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 placement 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 were *Ms. Pac-Man/Galaga* in North America and *Pac-Man Ball* in Europe.

P-7 Company

This company did not make a significant contribution to first-half sales because its major titles will generate most sales in the fiscal year's second half.

Home Videogame Software

Net sales increased ¥4,678 million, or 29%, to ¥20,579 million.
Operating income rose ¥2,122 million, or 106%, to ¥4,132 million.

CT Company

In Japan, strong sales were posted by two titles in the popular *Taiko No Tatsujin* series, *Taiko No Tatsujin Tatakou De Dodon Ga Don* and *Taiko No Tatsujin Doki! Shinkyoku Darake No Haru Matsuri*, and *Necchu! Pro Baseball 2003*, which went on sale in April 2003. All three are for the PlayStation 2. Sales of several other new titles did not meet the Company's goals: *Yumeria* for the PlayStation 2, *Hachiemon* for Gameboy Advance, and *Family Stadium 2003* and *Tales of Symphonia*, both for the GameCube.

In North America, *Soul Calibur II* for the PlayStation 2, GameCube and Xbox made a big contribution to sales growth. Other strong performers were *Xenosaga Episode I*, *Ace Combat 04*, *Pac-Man World 2* and *Tekken Tag Tournament* for the PlayStation 2, and *Namco Museum* (repeat sales) for the PlayStation 2, GameCube and Xbox.

In Europe, strong sales were generated by *MotoGP3* for the PlayStation 2, *Soul Calibur II* for the PlayStation 2, GameCube and Xbox, and by a lower priced version of *Tekken 4* for the PlayStation 2.

WMC Company

In Japan, Namco scored an enormous success with two new game distribution sites for the users of NTT DoCoMo mobile phones. One is *Taiko No Tatsujin*, which was launched in April 2003, and the second is *Baukko DX*, which made its debut the following June. Subscribers to these sites climbed rapidly, rising from about 550,000 at the end of March 2003 to about 659,000 at the end of September 2003.

Outside Japan, Namco is using its overseas subsidiaries to accelerate the expansion of its game software distribution business. During the first half of the current fiscal year, distribution began over the networks of leading mobile carriers in Germany, Spain and the United Kingdom. As a result, the overseas distribution business now covers 16 nations in the four continents of Europe, North America, Africa, and Asia, as well as in the Oceania region. Namco has now entered into agreements with overseas carriers that serve a total of 170 million subscribers.

Amusement Facility Operations

Net sales grew ¥1,189 million, or 3%, to ¥39,754 million.
Operating income rose ¥1,171 million, or 38%, ¥4,280 million.

Namco Group amusement facilities in Japan and overseas totaled 1,983 locations. Of these, 601 are directly managed and 1,381 locations operate under revenue-sharing arrangements with other companies. Namco also operates one theme park.

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.

Notable new arcade openings during the period were *NAMCOLAND Fukuyama* in Fukuyama City, Hiroshima Prefecture, *NAMCOLAND Oyumino* in Chiba City, Chiba Prefecture, and *PLABO Kurume* in Kurume City, Fukuoka Prefecture. Two new amusement facility formats were opened as well. One was *Namco Engimachi-Itchome*, an entertainment court in Nagoya City, Aichi Prefecture, and *Internet Space Chi Ko Raku Sakae Hirokouji*, also in Nagoya City, Aichi Prefecture.

At *Namco Namja Town* in Tokyo's Toshima Ward, a food theme park called *Ikebukuro Gyoza Stadium* continues to perform well. In July 2003, one year after its opening, this facility had attracted 2.18 million visitors. At this park, a promotion called *Pudding Expo* is now taking place from June through December, and a new food theme park called *Ice Cream City* opened in July. All these initiatives have been extremely successful. As a result, in August 2003 *Namco Namja Town* welcomed its 10 millionth visitor since its July 1996 opening.

As of September 30, 2003, Namco was operating amusement facilities at 745 locations. These include 346 directly managed locations and 398 revenue-sharing locations, where the Company divides revenues from arcade machines with a partner. There was also one theme park.

At St. Tropez Ltd., amusement facility operations continue to go well.

Overseas

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

North America

Operating results at XS Entertainment Inc. continue to be disappointing. However, Namco Cyberertainment Inc. is renegotiating lease terms at unprofitable locations and has laid the groundwork for some locations to become profitable. As a result, closings of unprofitable locations during the first half were 14, well below the 23 that had been planned, and sales and earnings continued to climb. As of September 30, 2003, there were 1,176 amusement facilities in North America, including 228 directly managed locations and 948 operated under revenue-sharing agreements.

Europe

Results were generally favorable. As of September 30, 2003, there were 35 amusement facilities in Europe, 10 directly managed locations and 25 operated under revenue-sharing agreements.

Asia

Although results were weak at first due to the suspension of operations at certain locations in Hong Kong because of the SARS outbreak, sales have been recovering since the announcement that SARS had been brought under control. As of September 30, 2003, there were 27 amusement facilities in Asia, 17 directly managed locations and 10 operated under revenue-sharing agreements.

Restaurant Operations

Net sales rose ¥61 million, or 3%, to ¥2,109 million.

Operating income jumped ¥77 million, or 505%, to ¥93 million.

At 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. As of September 30, 2003, there were 249 restaurants in the chain, including 46 directly operated restaurants and 203 franchised restaurants.

Movies and Graphics

Net sales increased ¥49 million, or 1%, to ¥5,234 million.

Operating income was ¥119 million, against a ¥125 million operating loss one year earlier.

Nikkatsu Corporation has improved its earnings base by enacting structural reforms. This helped the company to generate earnings in the first half that were far above projections. In line with its reforms, Nikkatsu embarked on joint businesses with Namco and continued to streamline its operations.

Nikkatsu released two internally produced movies during the period, both with strong regional ties. One was *SHARASOUJU* (directed by Naomi Kawase), a work shown at the Cannes film festival and released in June at theaters throughout Japan, beginning with Nara prefecture, where the story is set. And *Shoronagashi* directed by Mitsutoshi Tanaka, which premiered in

September at several locations in Nagasaki Prefecture, the backdrop for this film. Both films were well received in their home regions, giving them strong momentum for the subsequent nationwide rollout.

Others

Net sales declined ¥312 million, or 10%, to ¥2,932 million

The operating loss improved slightly to ¥448 million, against an operating loss of ¥545 in the previous fiscal year

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. The center also developed and operates *Namco Polo*, a travel-oriented web site. By using the Internet to provide a new means of enjoying travel, the center plans to create a highly profitable business model.

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

Musicplayground Inc. ceased operations on July 31 and became a dormant company.

2. Full-Year Outlook

Coin-Operated Game Machines

In the AM Company, Namco further strengthened the popular *Taiko No Tatsujin* series with the October introduction in Japan of *Taiko No Tatsujin 5*. Sales of this company's hit product, *Dragon Chronicle*, will begin in the second half of the fiscal year. This product has already generated a strong response from operators of amusement facilities. In the prize game category, which has become a major component of amusement facilities, the AM Company will be introducing a series of its *Sweet Land* products. In the medal game category, where prospects are excellent for strong earnings, the company will be extending its coverage to include medal game products that parents can enjoy with their children. In the United States, sales of the popular *Ms. Pac-Man/Galaga* will continue, and *NFL Classic Football* will be introduced in the fiscal year's second half. In Europe, the company will

follow up on the successful *Time Crisis 3* by continuing to introduce highly appealing products.

At the P-7 Company, difficult conditions are expected to continue in the second half of the year as pachinko machine manufacturers face challenges posed by the need to produce a variety of models in small numbers and by lengthening product development cycles caused by demands for higher quality displays. This company will focus on Namco's original *System P6* hardware and the development and sale of visual software. Goals are to utilize content from Japan and overseas to develop visual software and to supply this software to manufacturers. Based on this approach, the P-7 Company will aggressively aim to win new orders and meet its targets for sales and earnings.

Home Videogame Software

The CT Company plans to introduce a number of titles during the fiscal year's second half. Titles for the PlayStation 2 include additions to popular software lines: *Taiko No Tatsujin Appare Sandaime*, *Taiko No Tatsujin Waku-Waku Anime Matsuri*, and *Necchu! Pro Baseball 2003 Fall Night Game Matsuri*. Several major new releases are also planned. One is *R: Racing Evolution* for the PlayStation 2, GameCube and Xbox. Another is *Baten Kaitos Owaranai Tsubasa to Ushinawareta Umi* for the GameCube. Overseas, plans call for the introduction of a new line of titles to sell alongside *Soul Calibur II*, which is popular in both Europe and North America, and repeat and lower priced versions.

The WMC Company is placing priority on overseas expansion. In addition to commencing software distribution to a major U.S. mobile carrier, this company will continue to explore the possibility of launching similar services in China and South America. Looking at i-mode in Europe, the WMC Company plans to begin distribution services in France and Spain. At carriers where Namco is already distributing software, the company is considering the introduction of *Ridge Racer* and other 3D games, which the company is already distributing in Japan, and other rich content in line with advances in mobile phone performance.

Amusement Facility Operations

At the ET Company, the main goals are to continue upgrading operations of facilities in Japan, attract more customers, and cut costs. In addition, this company will continue to aggressively expand the NAMCOLAND network,

opening *NAMCOLAND Mino* in Mino City, Osaka Prefecture. Food theme parks are another key area. There are requests for these facilities from many areas of Japan due to their ability to draw in people and generate interest. In October 2003, a food theme park called *Osaka Noodles City Naniwa Mendarake*, featuring local noodle vendors, opened at Namba Parks in the city of Osaka. This was followed by *Jiyugaoka Sweets Forest* in November in Tokyo's Meguro Ward. Next will be *Akashi Ramen Hatoba* in Akashi City, Hyogo Prefecture in December and, next spring, *Namco City* in the city of Osaka.

At overseas subsidiaries, unprofitable locations will be closed, more revenue-sharing facilities opened and cost cutting measures enacted to return Namco Cyberainment Inc. and XS Entertainment Inc. to profitability.

Restaurants

Italian Tomato Ltd. will focus on opening more *Italian Tomato Café Jr.* restaurants while taking steps to boost profit margins.

Movies and Graphics

Nikkatsu has completed a plan to implement structural reforms that is expected to create a more profitable base of operations.

Others

In response to demands from society linked to the growing use of information technology, in November, the Incubation Center plans to begin selling a new version of its Talking Aid IT unit, a portable communication device that is already widely recognized as an effective means of supporting individuals with special needs.

In accordance with the measures and strategies outlined above, Namco will concentrate on attaining the consolidated forecasts that were announced on October 8, 2003: net sales of ¥174,600 million and ordinary income of ¥14,300 million.

3. Cash Flows and Financial Position

Net cash provided by operating activities: ¥2,711 million (-¥2,841 million)

Net cash used in investing activities: ¥838 million (-¥1,808 million)

Net cash used in financing activities: ¥8,869 million (-¥7,432 million)

Cash flow from operating activities

Income before income taxes increased ¥4,357 million to ¥7,166 million, but there were increases in accounts receivable, inventories and amusement facilities and equipment, and other items, reducing cash flows to ¥2,711 million compared with ¥5,553 million one year earlier.

Cash flow from investing activities

There were proceeds of ¥925 million from the sale of subsidiaries' stock, but compared with one year earlier, there were declines in proceeds from sales of tangible fixed assets and investment securities as well as from the recovery of lease deposits. In addition, funds were used to purchase businesses. The result was cash used of ¥838 million compared with a positive cash flow of ¥969 million one year earlier.

Cash flow from financing activities

Net cash used in financing activities was ¥8,869 million compared with ¥1,437 million one year earlier. The largest component was ¥7,178 million for the redemption of the fourth issue of unsecured convertible bonds, which was issued on July 29, 1994.

As a result of the above, cash and cash equivalents at the end of the period stood at ¥29,011 million, a decline of ¥7,066 million or 20% compared to March 31, 2003.

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

	Fiscal years ended March 31			Interim period ended September 30
	2001	2002	2003	2003
Shareholders' equity ratio (%)	66.0	66.7	67.5	67.5
Shareholders' equity ratio (market capitalization basis) (%)	82.4	107.0	65.5	98.3
Debt retirement period (years)	1.4	1.2	1.0	1.3
Interest coverage ratio	28.2	45.6	62.9	29.8

Shareholders' equity ratio = Total shareholders' equity/Total assets

Shareholders' equity ratio (market capitalization basis) = Market capitalization/Total assets

Debt retirement period = Interest-bearing debt/Operating cash flow

(Interim cash flow is doubled to calculate the multiple for September 2003)

Interest coverage ratio = Operating cash flow/Interest expenses

All figures are calculated using data from the consolidated financial statements.

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.

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.

Consolidated Financial Statements

Consolidated Balance Sheets

Millions of Yen

	September 30,		March 31,
	2002	2003	2003
ASSETS			
Current Assets:			
Cash	29,773	29,136	36,218
Trade receivables	15,314	19,217	14,253
Inventories	13,044	17,501	13,482
Deferred income taxes	1,063	1,167	1,114
Others	2,811	3,619	3,398
Less: Allowance for doubtful accounts	(622)	(397)	(378)
Total current assets	61,384	70,243	68,088
Fixed Assets:			
Tangible fixed assets:			
Buildings and structures	4,657	5,052	4,750
Amusement machines and facilities	22,704	22,429	21,355
Land	6,965	6,848	6,965
Others	2,734	2,545	2,583
Net property and equipment	37,061	36,875	35,654
Intangible fixed assets:			
Goodwill	1,313	3,167	1,027
Consolidation adjustments account	368	263	338
Others	2,269	1,606	1,811
Total intangible fixed assets	3,952	5,038	3,177
Investment and others:			
Investment in securities	1,059	949	798
Long-term prepaid expenses	1,059	931	973
Leasehold deposits	26,853	26,531	26,087
Deferred income taxes	5,532	4,870	4,542
Others	4,414	2,356	5,179
Allowance for doubtful accounts	(1,544)	(1,024)	(1,287)
Total investment and others	37,375	34,614	36,293
Total fixed assets	78,389	76,528	75,124
TOTAL ASSETS	139,773	146,771	143,213

	Millions of Yen		
	September 30,		March 31,
	2002	2003	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current Liabilities:			
Notes and accounts payable-trade	11,756	15,208	11,916
Short-term bank loans	6,452	5,090	5,944
Debentures of redemption within one year	7,178		7,178
Accrued income taxes	538	5,067	1,653
Others	7,800	10,130	9,227
Total current liabilities	<u>33,725</u>	<u>35,497</u>	<u>35,920</u>
Long-Term Liabilities:			
Debentures		1,000	1,000
Long-term borrowings	2,775	1,174	1,059
Allowance for retirement benefits for employees	1,225	1,405	1,218
Reserve for directors' retirement benefit	2,172	2,202	2,224
Others	3,510	3,623	3,390
Total long-term liabilities	<u>9,683</u>	<u>9,406</u>	<u>8,893</u>
TOTAL LIABILITIES	<u>43,409</u>	<u>44,903</u>	<u>44,813</u>
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES			
Minority interests in consolidated subsidiaries	1,677	2,798	1,752
SHAREHOLDERS' EQUITY			
Common stock	27,369	27,369	27,369
Additional paid-in capital	26,399	26,399	26,399
Retained earnings	41,526	46,203	43,428
Other securities valuation difference	(46)	40	(65)
Foreign currency translation adjustments	(561)	(528)	(483)
Treasury stock	0	(414)	(1)
TOTAL SHAREHOLDERS' EQUITY	<u>94,686</u>	<u>99,069</u>	<u>96,647</u>
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	<u>139,773</u>	<u>146,771</u>	<u>143,213</u>

Consolidated Statements of Income

Millions of Yen

	Six months ended September 30		Year ended
	2002	2003	Mar 31, 2003
Net sales	73,406	83,636	154,777
Cost of sales	56,128	59,616	117,247
Gross profit	17,277	24,019	37,529
Selling, general and administrative expenses			
Sales promotion	2,460	2,866	5,562
Salaries	3,841	4,285	7,651
Depreciation and amortization	477	354	875
R&D expenses	2,984	3,346	5,710
Others	4,257	4,493	8,260
	14,022	15,346	28,059
Operating income	3,255	8,673	9,470
Non-operating Income:			
Interest income	71	74	143
Dividend income	3	2	4
Gain on sale of property and equipment	7	1	7
Others	123	125	183
	205	203	337
Non-operating Expenditure:			
Interest	133	90	241
Amortization of goodwill		242	24
Amortization of patent	90	38	178
Loss on disposal of property, plant and equipment	41	93	160
Doubtful debt account	320	83	135
Foreign exchange loss	106	167	99
Other expenses	47	44	189
	739	759	1,030
Ordinary income	2,720	8,117	8,777
Extraordinary Gains:			
Gain on sale of investment securities	227		230
Gain on sale of property, plant and equipment	185		185
Transfer from reserve for possible loan losses	24	8	24
Income from discharge of indebtedness		15	
Gain on change in equity holding		22	
Gain on sale of subsidiaries' shares		71	
Others		25	137
	437	143	578
Extraordinary Loss:			
Revaluation loss on investment securities	204	29	429
Loss on restructuring of overseas business		254	54
Loss on sale of property, plant and equipment		116	
Revaluation loss on property, plant and equipment		667	467
Revaluation loss on inventories			347
Provision for directors' retirement benefit allowances for prior period	142	21	142
Others	2	3	198
	349	1,094	1,639
Income before income taxes	2,808	7,166	7,716
Income taxes: Current	162	3,941	1,430
Income taxes: Deferred	1,304	(462)	2,139
Minority interest in earnings of consolidated subsidiaries	50	(43)	31
Net income	1,291	3,730	4,115

Consolidated Statement of Retained Earnings

Millions of Yen

	Six months ended September 30		Year ended
	2002	2003	Mar 31, 2003
CAPITAL SURPLUS			
Capital surplus, start of year	<u>26,399</u>	<u>26,399</u>	<u>26,399</u>
Capital surplus, end of interim period	<u><u>26,399</u></u>	<u><u>26,399</u></u>	<u><u>26,399</u></u>
RETAINED EARNINGS			
Retained earnings, beginning of year	41,250	43,428	41,250
Increase in retained earnings			
Net income	1,291	3,730	4,115
Decrease in retained earnings			
Cash dividends	936	826	1,762
Directors' bonuses	75	123	75
Statutory auditors' bonuses	4	7	4
Decrease from inclusion of newly consolidated subsidiaries			<u>94</u>
	<u>1,016</u>	<u>956</u>	<u>1,937</u>
Retained earnings, end of interim period	<u><u>41,526</u></u>	<u><u>46,203</u></u>	<u><u>43,428</u></u>

Consolidated Statements of Cash Flows

	Millions of Yen		
	Six months ended September 30		Year ended
	2002	2003	Mar 31, 2003
Cash Flows from Operating Activities:			
Income (Loss) before income taxes	2,808	7,166	7,716
Depreciation and amortization	5,267	5,164	11,226
Amortization of difference between investment costs and equity in net assets acquired	35	36	72
Increase (Decrease) in allowance for doubtful accounts	326	41	(35)
Gain (Loss) on sale of investment securities	(227)	(71)	(226)
Loss on valuation of investment securities	204	29	429
Gain (Loss) on sale of property, plant and equipment	(187)	112	(168)
Loss on valuation of property, plant and equipment		667	467
Loss on disposal of amusement machines and facilities	564	482	1,425
Proceeds from interest and dividends	(74)	(77)	(147)
Payment of interest	133	90	241
Foreign exchange gain (loss)	106	30	(42)
Decrease (Increase) in trade receivables	2,554	(5,130)	3,764
Decrease (Increase) in inventories	(732)	(4,161)	(1,197)
Investment for amusement machines and facilities establishment	(3,754)	(5,993)	(7,783)
Increase (Decrease) in trade payables	460	3,447	692
Increase (Decrease) in accrued payables	(817)	646	94
Accrued expenses	(637)	138	(463)
Loss on restructuring of overseas business		254	54
Other	(131)	272	351
Subtotal	5,898	3,147	16,471
Interest and dividends received	74	74	148
Interest paid	(131)	(90)	(252)
Income taxes paid	(288)	(420)	(477)
Net cash provided by operating activities	5,553	2,711	15,890
Cash Flows from Investing Activities:			
Change in time deposits		(4)	(115)
Revenues from payment received from time deposits	28	21	53
Acquisition of property, plant and equipment	(776)	(968)	(1,753)
Proceeds from sale of property, plant and equipment	885	64	885
Acquisition of investments in securities	(10)	(1)	(11)
Proceeds from sale of investments in securities	295		300
Expenditure for guaranty money deposited	(368)	(527)	(557)
Revenue from the recovery of guaranty money deposit	1,065	484	1,926
Proceeds from sale of subsidiaries' shares		925	
Expenditure for transfer of business		(608)	
Other	(150)	(223)	(1,642)
Net cash used in investment activities	969	(838)	(913)
Cash Flows from Financing Activities:			
Net decrease in short-term debt	2,209	1,296	3,428
Repayment of short-term debt	(2,948)	(2,596)	(4,810)
Proceeds from long-term debt	190	1,250	190
Repayment of long-term debt	(504)	(693)	(2,097)
Payment of debentures on redemption		(7,178)	
Acquisition of treasury stock		(413)	(1)
Payment of cash dividends	(936)	(826)	(1,762)
Payment of cash dividends to minority shareholders		291	
Proceeds from liquidation of claims credit	550		550
Other	0		1,001
Net cash used in financing activities	(1,437)	(8,869)	(3,501)
Effect of exchanges on cash and cash equivalents	(601)	(69)	(636)
Net increase (decrease) in cash and cash equivalents	4,484	(7,066)	10,838
Cash and cash equivalents, beginning of year	25,239	36,078	25,239
Cash and cash equivalents, end of interim period	29,723	29,011	36,078

(1) Business Segment Information

(Millions of yen)

	Six-month Period Ended September 30, 2002								
	Coin-Operated Game Machines	Home Videogame Software	Amusement Facility Operations	Restaurant Operations	Movies and Graphics	Other	Total	Corporate Items	Consolidated
Net sales and operating income (loss)									
Net sales									
(1) Net sales to customers	8,460	15,901	38,564	2,048	5,185	3,245	73,406	-	73,406
(2) Intersegment sales	213	-	128	45	97	175	659	(659)	-
Total	8,674	15,901	38,693	2,093	5,282	3,420	74,065	(659)	73,406
Operating expenditure	7,770	13,892	35,584	2,077	5,407	3,965	68,698	1,452	70,151
Operating income (loss)	904	2,009	3,109	15	(125)	(545)	5,367	(2,112)	3,255

	Fiscal Year Ended March 31, 2003								
	Coin-Operated Game Machines	Home Videogame Software	Amusement Facility Operations	Restaurant Operations	Movies and Graphics	Other	Total	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	-	258	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 expenditure	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

Notes:

1. Methods for classifying business segments

Method used in the previous interim period and fiscal year:

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

Previous interim period and fiscal year:

(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 home videogame software.

(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. Principal unallocated expenses include expenses related to the management division. These amounted to ¥1,957 million in the six-month period ended September 30, 2002, and ¥4,176 million in FYE March 31, 2003.

	Six-month Period Ended September 30, 2003								
	Coin-Operated Game Machines	Home Videogame Software	Amusement Facility Operations	Restaurant Operations	Movies and Graphics	Other	Total	Corporate Items	Consolidated
Net sales and operating income (loss)									
Net sales									
(1) Net sales to customers	13,025	20,579	39,754	2,109	5,234	2,932	83,636	-	83,636
(2) Intersegment sales	413	60	130	52	89	234	982	(982)	-
Total	13,439	20,640	39,884	2,162	5,324	3,167	84,618	(982)	83,636
Operating expenditure	10,614	16,508	35,604	2,068	5,205	3,616	73,616	1,345	74,962
Operating income (loss)	2,824	4,132	4,280	93	119	(448)	11,001	(2,327)	8,673

Notes:

1. Methods for classifying business segments

Business segments are classified by 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.

Accordingly, the Company has classified its businesses into Coin-Operated Game Machines, Home Videogame Software, Amusement Facility Operations, Restaurant Operations, Movies and Graphics, and Other.

2. Principal products and business in each business sector

(1) Coin-Operated Game Machines: Development, production, and sales and approved production and sales of such amusement equipment as commercial videogames, electro-mechanical game machines, medal game machines, and amusement rides.

(2) Home Videogame Software: Development, production, and sales and approved production and sales of home videogame software, development and distribution of game content for mobile phones.

(3) Amusement Facility Operations: Management of amusement centers and theme parks

(4) Restaurant Operations: Operation of Italian restaurants, cafes, cake shops and franchise businesses.

(5) Movies and Graphics: Production, distribution and promotion of movies, operation of satellite broadcasting business, and sales of video software and other media.

(6) Other: 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, and recycling business.

3. Principal unallocated expenses include expenses related to the management division. These amounted to ¥2,242 million in the six-month period ended September 30, 2003.

(2) Geographical Segment Information

(Millions of yen)

	Six-month Period Ended September 30, 2002						
	Japan	North America	Europe	Asia	Total	Corporate Items	Consolidated
Net Sales and operating income (loss)							
Net sales							
(1) Net sales to customers	55,087	15,137	2,852	328	73,406	-	73,406
(2) Intersegment sales	841	2	0	-	844	(844)	-
Total net sales	55,929	15,140	2,853	328	74,250	(844)	73,406
Operating expenditure	50,594	15,018	2,908	354	68,874	1,276	70,151
Operating income (loss)	5,334	122	(55)	(26)	5,375	(2,120)	3,255

	Fiscal Year Ended March 31, 2003						
	Japan	North America	Europe	Asia	Total	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 net sales	117,564	33,468	5,447	634	157,114	(2,337)	154,777
Operating expenditure	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

Notes:

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.
- Principal countries and regions belonging to each geographic segment
 - Japan: Japan
 - North America: United States
 - Europe: United Kingdom, Ireland, Spain, France and others
 - Asia: Hong Kong, Taiwan and others
- Principal unallocated expenses include expenses related to the management division. These amounted to ¥1,957 million in the six-month period ended September 30, 2002, and ¥4,176 million in FYE March 31, 2003.

	Six-month Period Ended September 30, 2003						
	Japan	North America	Europe	Asia	Total	Corporate Items	Consolidated
Net Sales and operating income (loss)							
Net sales							
(1) Net sales to customers	59,278	20,469	3,573	314	83,636	-	83,636
(2) Intersegment sales	2,445	121	1	-	2,568	(2,568)	-
Total net sales	61,723	20,591	3,574	314	86,204	(2,568)	83,636
Operating expenditure	53,946	17,475	3,355	302	75,079	(116)	74,962
Operating income (loss)	7,777	3,115	219	12	11,124	(2,451)	8,673

Notes:

Methods for classifying geographic segments

1. 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. Principal unallocated expenses include expenses related to the management division. These amounted to ¥2,242 million in the six-month period ended September 30, 2003.

(3) Overseas Sales Information

Six-month Period Ended September 30, 2002				
	North America Latin America	Europe	Asia·Oceania	Total
I Overseas sales (Millions of yen)	15,165	8,777	550	24,493
II Net sales (Millions of yen)				73,406
III Percentage of net sales(%)	20.7	12.0	0.7	33.4

Six-month Period Ended September 30, 2003				
	North America Latin America	Europe	Asia·Oceania	Total
I Overseas sales (Millions of yen)	20,483	6,470	912	27,865
II Net sales (Millions of yen)				83,636
III Percentage of net sales(%)	24.5	7.7	1.1	33.3

Fiscal Year Ended March 31, 2003				
	North America Latin America	Europe	Asia·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:

- Overseas sales are sales by the Company and its consolidated subsidiaries derived in countries or regions outside Japan.
- 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, Central and South America, Europe, and Asia and Oceania.
- Principal countries and regions belonging to each geographic segment.
 - North America and Central and South America: United States, Canada, and the countries of Central and South America
 - Europe: European countries, Middle Eastern countries, and African countries
 - Asia and Oceania: Korea, China, Taiwan, Australia, and others