



ANNUAL REPORT 1999

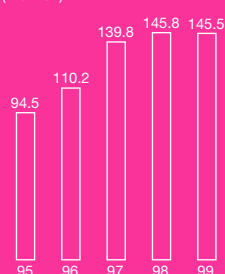
Six-Year Summary

NAMCO LIMITED AND SUBSIDIARIES
YEARS ENDED 31ST MARCH

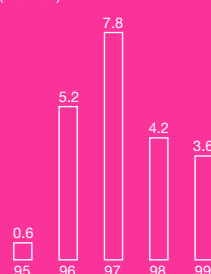
	Millions of yen						Thousands of U.S. dollars
	1994	1995	1996	1997	1998	1999	1999
For the year:							
Total net sales	¥ 87,642	¥ 94,475	¥110,188	¥139,808	¥145,761	¥145,517	\$1,193,251
Product and merchandise sales	37,761	39,764	48,401	64,390	62,176		
Revenues from amusement facility operations	47,244	50,850	57,463	71,286	78,361		
Restaurant sales	2,491	2,986	3,195	3,470	4,102		
Royalties	146	875	1,129	662	1,122		
Operating income	5,697	4,011	11,217	14,902	11,772	8,271	67,823
Income before income taxes	5,365	2,668	10,565	15,824	9,337	7,914	64,895
Net income	2,196	574	5,245	7,787	4,164	3,566	29,241
Per share of common stock (in yen and U.S. dollars):							
Net income	50.95	13.16	120.10	163.94	78.60	65.82	0.54
Cash dividends applicable to the year	16.00	16.00	25.00	30.00	30.00	30.00	0.25
At year-end:							
Shareholders' equity	41,585	41,238	45,882	76,110	84,355	89,566	734,449
Total assets	100,572	125,932	139,181	141,492	142,992	144,120	1,181,796
Number of shares outstanding (thousands):							
	43,644	43,660	43,716	51,544	53,625	54,828	

Note: U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥121.95=U.S.\$1.

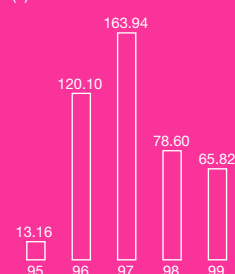
Total Net Sales
(¥ billion)



Net Income
(¥ billion)



Net Income per Share
(¥)





Namco Limited has been engaged in the amusement business for more than 40 years and is a world leader in the R&D, production and sales of coin-operated game machines and home videogame software, as well as in amusement facility operations. > Namco believes that the 21st century will be an “Era of Spirituality,” where human factors rise in importance as a counterbalancing force to technological progress. In response, we have set the year 2001 as the starting point for a renewed Namco—one that will focus on creating services that fuse digital media with a spirit of adventure and combine high-tech with a human touch.

We call this “High Touch Digital Entertainment.”

> Since its establishment, Namco has worked to raise the level of amusement to fulfill spiritual needs with the belief that play is an important aspect of culture. We intend to continue to push the envelope of entertainment in a world where amusement knows no borders.

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Performance

Namco's consolidated net sales for the fiscal year ended March 31, 1999, were nearly unchanged at ¥145,517 million, with net income of ¥3,566 million, a year-on-year decline of 14.4%.

Amid a harsh operating environment, Namco maintained sales near the previous fiscal year's level, rationalized its amusement facility operations and raised the efficiency of its management structure.

The fiscal year was marked by the most severe economic conditions seen in Japan in the post-war era. Private-sector capital investment contracted amid a worsening domestic credit crunch, and consumer spending was depressed by increasing job insecurity caused by corporate bankruptcies and restructuring programs. Robust growth continued in the United States as strong labor and equity markets supported an increase in consumer spending. European economies were characterized by moderate growth, and Asian economies emerged from the worst effects of the economic crisis but continued to face lingering difficulties.

The domestic recession had a substantial impact on the operating environment of Japan's amusement industry, as consumers became more selective in their discretionary purchases. In the arcade market, conditions deteriorated further and

operators held back on capital investment plans. In home videogame software, popularity was limited to selected titles, despite the release of a new hardware platform.

Namco Group continued its strategy of achieving a transition from "amusement" to "entertainment" and reinforced its position in world markets founded on integrated competencies in R&D, production, marketing and operations of amusement facilities. In home videogame software, favorable performance of such blockbuster titles as *Tekken 3* and *Ridge Racer Type 4 (R4)* for Sony's PlayStation, especially in Japan and Europe, and the long-running success of *World Stadium 2* supported record-high sales and strong profit growth. However, weakness in the

domestic arcade market led to falling sales in coin-operated game machines and amusement facility operations, with both segments recording operating losses.

Strategy

The world's industrial structure is evolving rapidly to reflect the growing importance of software and other knowledge-based industries, and we expect this trend to gain further momentum in the next millennium. Namco Group is in the process of developing its business model to prosper amid the transition from amusement to entertainment by fusing spiritual pursuits with digital media, raising the level of "play" to a more sophisticated level.

To realize our full potential, we established a new medium-term strategy for our home videogame software and arcade machine operations, raised the responsiveness and accountability of our organization, and aggressively responded to a range of



We have revitalized our R&D organization to take full advantage of next-generation platforms and realized synergies between home videogame and commercial game development.

issues to support sustainable growth and profitability.

The rapid rise in hardware capabilities is creating new opportunities for Namco to use its exclusive computer graphics technologies to create titles that amuse and delight people throughout the world. To take full advantage of the new platforms and address the substantial rise in development costs, we reorganized our R&D structure to achieve greater synergies between the development of arcade game machines and home videogame titles. We will also continue to pursue cooperative development with other amusement companies and to raise the effectiveness of product development.

The home videogame market is characterized by a transition to next-generation hardware and a range of different machines. In this environment, game developers must carefully select the most appropriate platforms for title development. We will both strengthen our relationship with the Sony Group and expand our presence as an independent content creator.

In coin-operated game machines and amusement facility operations, we recognize that the downturn in profitability reflects a structural change in the marketplace. In amusement facility operations, while providing customers with diversified entertainment opportunities, we will raise the profitability of our network with a selective investment

strategy that allocates resources into high-margin facilities. For coin-operated game machines, we will focus on creative ideas that lead market trends and product development that achieves strong synergies with the home videogame segment worldwide. Further, we will develop new game genres to attract a wider range of customers.

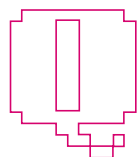
To accelerate decision making, clarify accountability and separate responsibilities for the formulation and execution of business strategies, we have reformed and revitalized the role of the Board of Directors and implemented an executive officer system. These measures have enhanced corporate governance and strengthened control.

With our strategies and systems in place, we will redouble our efforts to create shareholder value by providing consumers throughout the world with new and fulfilling entertainment opportunities.

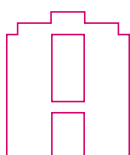


Masaya Nakamura
Chairman and Chief Executive Officer





How do you intend to raise the profitability of amusement facility operations?



We have implemented a rationalization program for our domestic operations that reflects the prolonged downturn in the operating environment. With the goal of strengthening the financial structure of operations as an autonomous business segment, important measures included the centralization of new facility development, which had previously been dispersed throughout the country, at the Head Office, streamlining administrative functions, strengthening individual facility management and developing new business categories.

We created a position of Group Executive, Amusement Business, to unify the

To raise profitability of amusement facility operations, Namco has unified the management of domestic facilities, restructured its U.S. subsidiary and opened three large-scale amusement complexes in Europe.

management of amusement facilities, theme parks and arcade game sales. This new organization will result in more horizontal cooperation, and through the resulting synergies we expect to increase profitability and boost our return on investment in each business. Management will focus on creating a flexible, on-site operating system, develop plans for facilities with high returns and achieve an optimal allocation of arcade game equipment. We expect substantially improved profitability in the current fiscal year.



Namco Cyberertainment Inc., the largest arcade operator in North America, emerged from reorganization under Chapter 11 of the Federal Bankruptcy Code in August 1998 to realize substantially improved profitability. For future growth, the company is developing integrated restaurant and amusement facilities to attract a wider customer base.

In Europe, we opened three new Namco Stations, which are large-scale amusement facilities, in Manchester (September 1998) and Luton (November 1998) in the United Kingdom and Majadahonda, Spain (January 1999). Revenue at all three facilities is growing at a strong pace.

In Asia, we are strengthening operations in the two strategically important areas of Shanghai and Hong Kong, and increasing regional diversification in China with new Namco Entertainment World arcades in the southern city of Guilin, and in the north-eastern city of Dalian.

We will continue to meet the challenge of creating new forms of entertainment that spark the imagination and appeal to the playful spirit of our customers.

What is Namco's software strategy for such next-generation hardware as Sony's PlayStation 2?

Namco has long supported multiple platforms, including game consoles and PCs. As a premier software publisher, we are well positioned to develop software that makes full use of the specifications of next-generation hardware. This is a critical element in the successful launch and rapid diffusion of new platforms.

Namco is maintaining its close cooperative relationship with Sony Computer Entertainment Inc. during the transition to the PlayStation 2. We have already



Namco will use its superior computer graphics technologies to meet demand for titles compatible with such next-generation platforms as PlayStation 2 and Dreamcast.

developed and released demonstration screens for *Tekken* and *Ridge Racer Type 4* for PlayStation 2. In particular, *Tekken* has advanced from the graphics demonstration stage to a playable prototype. With more than three development teams in place, we are aiming to release one or both of these titles to correspond with the launch of the new platform.

For Sega's Dreamcast, we unveiled *Soul Calibur* in Japan on August 5, 1999. More than 200,000 units have already sold, and we are aiming to break through the half million mark. Created with advanced computer graphics technology, *Soul Calibur* is a showcase product that employs Namco's specialized capabilities in real-time action games.

In addition, as specifications become clearer we are considering the development of software suitable for the forthcoming Nintendo Dolphin platform.

With online distribution of game software becoming a promising growth market, we established the Merchandising Business Department in the Consumer Business Division in June 1999, and began licensing to service providers.

Namco will continue to support multiple platforms for each market, adapting titles to the cultural differences of Japan, the United States and European countries.

How do you intend to ensure an adequate return on research and development?

The amusement business is being transformed by the emergence of next-generation home videogame hardware and severe market conditions for arcade operations. To build an R&D organization able to flexibly create attractive and profitable products in this environment, we established a position of Group Executive of Research, Development & Production. Through integrated management from research to production, we expect to raise quality and reduce R&D expenses. The new system will also more effectively utilize human resources and increase the value added by each R&D staff member.

We are shifting our resource allocation from 70% arcade/30% home



Our restructured R&D organization will raise the proportion of resources devoted to home videogame development and enhance returns through greater synergies between home and arcade game development.

videogames to an even 50%. This is expected to strengthen home videogame software development and create flexible capabilities for developing diverse titles.

In addition to market-driven planning and development, the new system will stress cooperative development of arcade games and home videogame software that combine cutting-edge graphics technologies with sound profitability.

For stronger development in the United States, Namco Hometek Inc. carries out software development with special emphasis on the North American market. To commemorate Pac-Man's 20th birthday, the new Pac-Man World is set for worldwide release in fall 1999, an event aimed at revitalizing Pac-Man's popularity. We expect to sell more than one million units in North America alone.

The overall goal of this expanded R&D organization is the steady release of new and exciting titles for world markets.



Entry into movies and graphics will expand Namco Group's entertainment portfolio and provide value-added content for other business areas.

What are your future plans for the movies and graphics business?

Our subsidiary Nikkatsu Corporation is working aggressively to expand operations with the aim of providing a steady supply of highly profitable films. In addition, that company is generating steady earnings from its satellite media business.

We aim to continuously strengthen our computer graphics technologies, and realize substantial synergies through efficient development of game software and films, as well as amusement facilities and movie operations. From movie production to the use of the resulting content in various business segments, we aim to build the movie business into a core source of earnings.



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Namco's solid position in the sports simulation arcade game segment is founded on real-time, three-dimensional



graphics capabilities provided by its next-generation System 23. For example, the excitement of 500GP, a motor-



cycle racing game, is enhanced by clear, undistorted background visuals. Players can choose among actual



international circuits and motorcycle manufacturers.



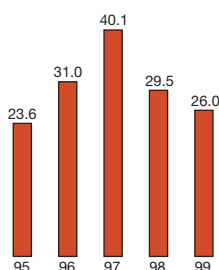
Coin-Operated Game Machines

In coin-operated game machines, Namco targets opportunities in the world marketplace for arcade machines with vertically integrated activities from development to manufacturing and marketing. The parent company markets products in Japan, other Asian markets and Oceania. Namco America Inc. of the United States is responsible for the Americas, and Namco Holding Corp. manages licensing and merchandise spin-offs in the region. In Europe, Namco Europe Ltd., based in the United Kingdom, manufactures and markets Namco's arcade machines throughout Europe, Africa and the Middle East. Namco Ireland Ltd., which also manufactured machines for the region and marketed equipment of other manufacturers, ceased its activities in June 1999.

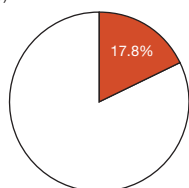
During the fiscal year under review, Namco released the shooting simulation game *Time Crisis 2* in April 1998 to become a blockbuster hit in world markets. As of fiscal-year end, a total of 8,300 units had been shipped, including those to arcades managed by Namco Group. The July 1998 launch of the new combat game *Soul Calibur* was also well received, and the game achieved top-level sales in both domestic and overseas markets. Namco further diversified its lineup and developed new genres. Notable new arcade games included *Race On!*, a motor racing game that displays a digital image of the face of each player; *500GP*, a motorbike simulation game where players compete against real grand prix racers; *Gunbarl*, a comical shooting game; *Gunmen Wars*, another game that displays the players' faces, *Techno Drive*, which measures driving skills; *Mekata-de-Donpisha*, where players try to select weights that meet their own targets; *Sweet Land III*; and *Fami-sta Grand Slam*.

Results for the fiscal year demonstrate Namco's integrated strengths in creating new and exciting products. However, arcade operators in major world markets continued to scale back their capital investment programs, and net sales for the segment declined 12.0% to ¥25,968 million. The segment accounted for 17.8% of the Company's net sales, compared with 20.3% in the previous term.

Net Sales
(¥ billion)



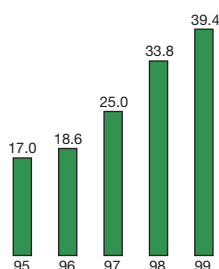
Share of Total Net Sales
(%)



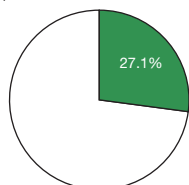
(From left to right)
Lucky Garapon,
Mekata-de-Donpisha,
Time Crisis II, *Race On!*
and *Cool Gunman*



Net Sales
(¥ billion)



Share of Total Net Sales
(%)



Home Videogame Software

Development efforts for home videogame software, centered on titles for Sony's PlayStation, the dominant platform in world markets, are engaged in both the adaptation of popular arcade games for home use and the creation of original titles. Business is organized to fully consider the cultural, geographic and timing differences of world markets. The parent company produces and markets software for the Japanese, European and other Asian markets, and Namco Hometek Inc. produces and markets titles for the North American market under license from the parent company.

During the fiscal year under review, Namco followed up on the successful domestic launch of the hand-to-hand combat game *Tekken 3* in the previous term, releasing the title in the North America in April 1998, where sales exceeded 1.3 million units during the term. Accumulated unit sales in world markets of *Tekken 3* broke the four million mark during the term, bringing the total accumulated sales for the *Tekken* series to 10 million units.

December 1998 marked the Japanese release of *Ridge Racer Type 4*, the latest version of Namco's popular driving game, which recorded sales of 900,000 units in the first three months. *Tales of Phantasia*, a title originally developed for an earlier platform, was re-released for Sony's PlayStation in the same month and also made a strong contribution to sales at more than 600,000 units. Further, the long-selling baseball game *World Stadium 2* sold approximately 500,000 units during the term.



Balanced Development

Namco aims to use its leading-edge computer graphics to take full advantage of the specifications of next-generation platforms. Soul Calibur is Namco's first release for Sega's Dreamcast platform. This title illustrates comprehensive strength in action game development, from concept to execution.





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(From left to right)
Namco History, *Liberio Grande*, *Tekken 3*, *Tales of Phantasia* and *Ridge Racer Type 4*

In the United States, the popularly priced *Greatest Hits* series made substantial contributions. In Europe, along with the release of *Tekken 3*, sales were supported by *Point Blank*, a variety shooting game, and popularly priced versions of past hits, such as *Tekken 2 Platinum* and *Time Crisis Platinum*.

As a result of the above performance, net sales for the segment reached ¥39,434 million, a year-on-year increase of 16.8% and a new all-time high. The segment accounted for 27.1% of the Company's net sales, an increase of 3.9 percentage points.

Amusement Facility Operations

In Japan, Namco had 1,556 facilities at fiscal year-end comprising 463 directly managed arcades, two theme parks and 1,091 facilities where the Company's amusement machines were operated under revenue sharing arrangements.

During the fiscal year under review, Namco continued the nationwide development of Namco Wonder City, a multifunctional entertainment format that includes family restaurants and karaoke facilities; and Namco Wonder Park, an indoor amusement park format designed to be a key tenant of shopping centers. Amusement facility operations work closely with Group company Italian Tomato Ltd. to provide visitors to large-scale facilities and urban theme parks with cafes and other dining options.

Major facilities established during the term included four Namco Wonder City complexes, comprising three in the Tokyo metropolitan area—Namco Wonder City Iwatsuki, Namco Wonder City Chofu and Namco Wonder City Yono—and the Namco Wonder City Sapporo, the first complex in Hokkaido. The Company also opened four Namco Wonder Park facilities, which are designed as key tenants for shopping centers, comprising Namco Wonder Park Kohoku Pac-Man Studio in Kanagawa Prefecture, Namco Wonder Park Tukushino in Fukuoka Prefecture, Namco Wonder Park Toyama in Toyama Prefecture and Namco Wonder Park Ube in Yamaguchi Prefecture. This brought the number of Namco Wonder City and Namco Wonder Park facilities in Japan to eight each at the end of the fiscal year.

Performance at the urban theme park Namco Wonder Eggs 2 continued to benefit from special events. In April 1999, the park was reopened as Namco Wonder Eggs 3, with operations extended to the end of 2000. The other domestic theme park operating during the fiscal year, Namco NamjaTown, introduced a new attraction and marked its three millionth visitor in October 1998 since opening in July 1996.

In the United States, Namco Cybertainment Inc., the largest arcade operator in the country, emerged from Chapter 11 reorganization under the federal bankruptcy code with a substantially strengthened profit and financial structure. While aggressively closing unprofitable outlets, the company aims to expand revenue sharing operations and develop amusement complexes with integrated restaurants.

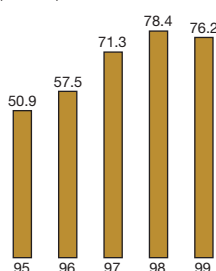
At fiscal year-end, Namco had 542 facilities in North America, of which 316 were directly managed arcades and 226 were amusement facilities where Namco's amusement machines were operated under revenue sharing arrangements.

In Europe, Namco Group expanded its network of Namco Stations, which are large-scale amusement facilities, with openings in Manchester and Luton in the United Kingdom in September and November 1998, respectively, and in Majadahonda, Spain, in January 1999. To raise capital efficiency, the Company closed the Wonder Park on Great Windmill Street in London. The land and building were sold after the close of the fiscal year in July 1999.

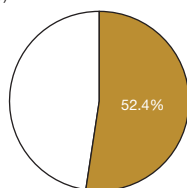
At fiscal year-end, Namco had 23 facilities in Europe, including Israel, of which 13 were directly managed arcades and 10 were amusement facilities where Namco's amusement machines were operated under revenue sharing arrangements.

In Asia, Namco is active in Hong Kong, Taiwan and Singapore through consolidated subsidiaries. Namco is building an amusement facility network in China (excluding Hong Kong) through Shanghai Namco Ltd., which is accounted for using the equity method. Geographic

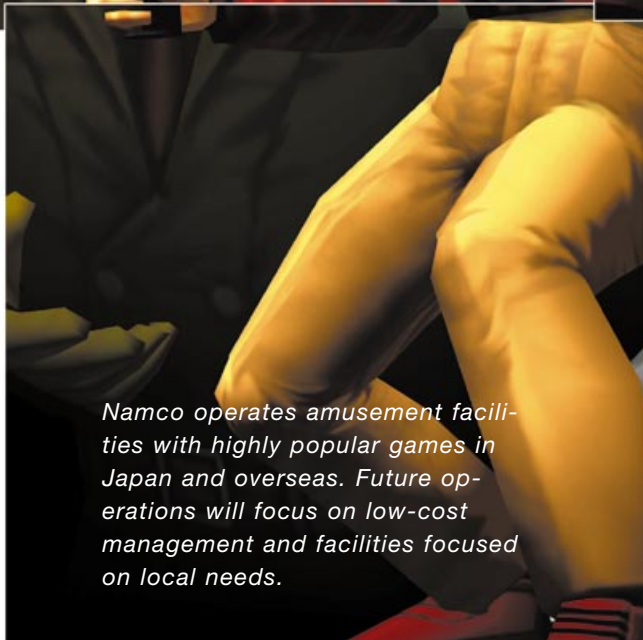
Net Sales
 (¥ billion)



Share of Total Net Sales
 (%)



Total Entertainment



Namco operates amusement facilities with highly popular games in Japan and overseas. Future operations will focus on low-cost management and facilities focused on local needs.



(From left to right)
Namco Wonder City
Chofu (Tokyo), Plabo
Yono (Saitama Prefec-
ture) and Namco
Station (Luton, U.K.)

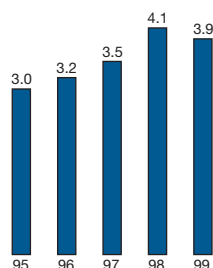


penetration has been extended beyond the Shanghai area to include Guilin, a representative tourist destination in southern China, and Dalian, where one facility was opened during the fiscal year under review. At fiscal year-end, amusement facilities in Asia totaled 40, comprising 18 directly managed arcades and 22 facilities where Namco's amusement machines were operated under revenue sharing arrangements.

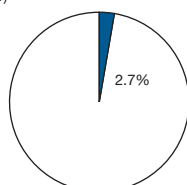
Namco Group's amusement facilities at fiscal year-end totaled 2,161 worldwide, consisting of 810 directly managed arcades, 1,349 facilities where Namco's amusement machines were operated under revenue sharing arrangements, and two theme parks.

Net sales for the segment declined 2.7% to ¥76,229 million, or 52.4% of the Company's net sales.

Net Sales
(¥ billion)



Share of Total Net Sales
(%)



Restaurant Operations

Restaurant operations are conducted by Italian Tomato Ltd., a chain of Italian restaurants and cake shops, I&K Co., Ltd., a joint venture with KEY COFFEE Inc. that operates Italian Tomato Cafe Jr. self-service restaurants, and T&E Co., Ltd., which supplies boxed lunches primarily to corporate clients.

Business conditions for restaurant operations entered a period of unprecedented severity during the fiscal year amid depressed consumer spending. Namco responded by closing unprofitable restaurants and focusing expansion on Italian Tomato Cafe Jr. outlets, which require relatively small levels of initial investment.

Outlets at fiscal year-end totaled 255, comprising 44 directly managed outlets and 211 franchise outlets.

Restaurant operations recorded net sales of ¥3,886 million, a decline of 5.3%.

Movies and Graphics

Namco added a new segment beginning in the fiscal year under review to reflect the strategic importance of motion pictures and video development to consolidated operations. The segment includes the operations of newly consolidated Dream Pictures Studio and Dream Pictures Studio U.S.A. Two subsidiaries, Nikkatsu Corporation and its principal subsidiary, are not currently included in consolidation because they are undergoing reorganization under the Company Reorganization Law of Japan.

Namco's computer graphics are earning a reputation for excellence in Japan and overseas. In July 1998, the Company submitted entries to the SIGGRAPH 98 Computer Animation Festival, the second consecutive year that Namco was represented at SIGGRAPH with more than one feature. Namco Group is committed to making full use of its technological and creative capabilities to create high-value-added operations.

Efforts are underway to utilize a rich store of intellectual property accumulated over many years of computer game operations by developing computer animation with low development costs. The first work of the series, "Xevious," is currently in production.

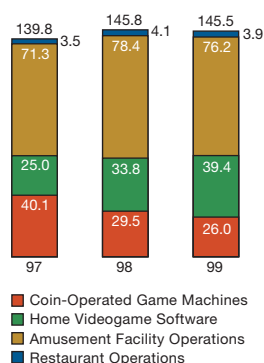
The segment did not contribute net sales to consolidated results during the fiscal year under review.

(From left to right)
Interior of an Italian To-
mato restaurant, a des-
sert offering and scene
from the Nikkatsu film
DORA-HEITA

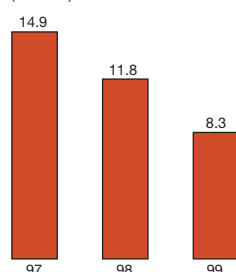


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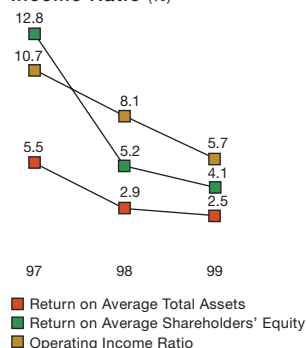
Net Sales by Segment
(¥ billion)



Operating Income
(¥ billion)



ROA, ROE and Operating Income Ratio (%)



Scope of Consolidation

In accordance with generally accepted accounting principles in Japan, the consolidated financial statements include the accounts of Namco Limited and 22 major subsidiaries. Two companies, Dream Pictures Studio Inc. and Dream Pictures Studio U.S.A. Inc., which had been accounted for by the equity method, were included in the consolidated accounts for the first time as a result of an increase in ownership following a free share transfer from Sony Computer Entertainment Inc. In addition, two subsidiaries and two affiliated companies are accounted for using the equity method.

Analysis of Sales

Consolidated net sales edged down 0.2% to ¥145,517 million, as strong performance in the home videogame software segment was offset by weakness in the other three segments, especially the coin-operated game machines segment as a result of restrained capital investment by arcade operators in Japan and overseas.

Overseas net sales advanced 3.2% to ¥52,151 million, accounting for 35.8% of total net sales, compared with 34.7% during the previous term. By region, the Americas accounted for 55.1% of overseas net sales, Europe 38.1% and Asia and Oceania 6.8%. Domestic sales were down 1.9% to ¥93,365 million, or 64.2% of the total.

Analysis of Net Income

Cost of sales was nearly unchanged at ¥111,988 million, and the gross profit margin was 23.0%, compared with 23.3% a year earlier. Selling, general and administrative (SG&A) expenses grew 13.7% to ¥25,258 million. Factors behind this growth included higher technological development costs related to next-generation platforms. SG&A expenses as a percentage of net sales increased from 15.2% to 17.4%. Research and development expenses were ¥9,170 million, an increase of 2.5%. The operating income ratio worsened 2.4 percentage points to 5.7%, and operating income fell 29.7% to ¥8,271 million.

By segment (excluding unallocated administrative expenses), the amusement facility

Sales by Segment

(¥ million)

	1997	1998	1999
Coin-Operated Game Machines	¥ 40,051	¥ 29,518	¥ 25,968
Home Videogame Software	24,982	33,770	39,434
Amusement Facility Operations	71,304	78,371	76,229
Restaurant Operations	3,471	4,102	3,886
Total	¥139,808	¥145,761	¥145,517

Overseas Sales*

(¥ million)

	1997	1998	1999
Overseas Sales	¥ 49,723	¥ 50,552	¥ 52,151
Net Sales	139,808	145,761	145,517
Percentage of Net Sales	35.6%	34.7%	35.8%

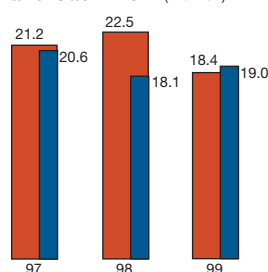
* Overseas sales include exports and sales by overseas subsidiaries.

Operating Income by Segment

(¥ million)

	1997	1998	1999
Coin-Operated Game Machines	¥ 5,907	¥ 2,344	¥ (1,668)
Home Videogame Software	10,584	12,496	15,560
Amusement Facility Operations	2,237	1,001	(779)
Restaurant Operations	26	(6)	(53)
Movies and Graphics	—	—	(294)
Elimination	654	201	(5)
Total	¥ 19,408	¥ 16,036	¥ 12,761
Unallocated Administrative Expenses	4,506	4,264	4,490
Operating Income	¥ 14,902	¥ 11,772	¥ 8,271

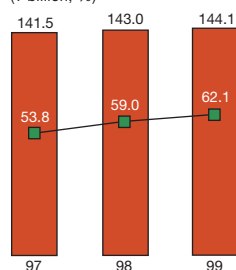
Capital Expenditure and Cash Flow (¥ billion)



■ Capital Expenditure
■ Cash Flow*

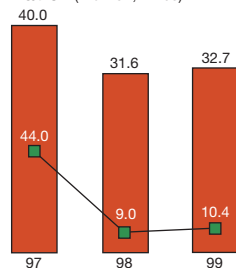
* Cash flow equals net income plus depreciation and amortisation, minus dividends and bonuses to directors and statutory auditors.

Total Assets and Shareholders' Equity Ratio (¥ billion, %)



■ Total Assets
■ Shareholders' Equity Ratio

Total Long- and Short-Term Debt and Interest Coverage Ratio* (¥ billion, times)



■ Total Long- and Short-Term Debt
■ Interest Coverage Ratio*

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

operations segment recorded an operating loss of ¥779 million, compared with operating income of ¥1,001 million in the previous term. These results reflected the adoption of market value accounting at European subsidiaries, a large depreciation burden following overinvestment in previous periods and a harsh market environment amid the domestic recession, a factor that also caused an operating loss in the coin-operated game machines segment of ¥1,668 million, compared with operating income of ¥2,344 million in the previous term. In the home videogame software segment, operating income increased 24.5% to ¥15,560 million, reflecting the success of such hit titles as *Tekken 3*, *Ridge Racer Type 4*, *Tales of Phantasia*, and *World Stadium 2*, as well as reasonably priced reissues of previous hits. Restaurant operations recorded an operating loss of ¥53 million, compared with ¥6 million in the previous fiscal year.

Other income rose 225.1% to ¥3,163 million. This was the result of a large increase in other to ¥2,667 million, which included gains on the sale of marketable securities of ¥465 million and gains resulting from the forgiveness of debt related to the share transfer of Dream Pictures Studio Inc. Other expenses edged up 3.3% to ¥3,520 million. For details, see Note 9 to the Consolidated Financial Statements.

As a result of the decline in operating income, income before income taxes declined 15.2% to ¥7,914 million. Income taxes were ¥4,348 million, and the effective tax rate was 54.9%, compared with 55.4% during the previous fiscal year. Net income was ¥3,566 million, a decline of 14.4%. The number of shares outstanding at fiscal year-end was 54,828 thousand, an increase of 2.2% from a year earlier as a result of the conversion of convertible bonds. Net income per share of common stock was ¥65.82, compared with ¥78.60 in the previous term. Management maintained cash dividends applicable to the year at ¥30.00 per share.

Analysis of Cash Flows and Financial Position

Net cash provided by operating activities rose 12.6% to ¥21,143 million. Depreciation and amortisation increased 8.0% to ¥17,251 million.

Net cash used in investing activities was ¥30,948 million, an increase of 22.0% primarily due to a redemption of convertible bond of ¥9,535 million. Capital expenditure used cash of ¥18,431 million, a decrease of 17.9% from the previous fiscal year reflecting restrained capital investment in amusement facilities.

Net cash provided by financing activities was ¥12,639 million, compared with net cash used in financing activities of ¥3,672 million in the previous fiscal year.

In aggregate, cash and cash equivalents at end of year increased 8.4% to ¥36,552 million.

Despite higher levels of cash and cash equivalents, declines in trade receivables and inventories led to a slight 1.2% decline in total current assets to ¥64,713 million. At the same time, total current liabilities decreased 9.4% to ¥39,174 million. As a result, net working capital grew 14.8% to ¥25,539 million. The current ratio was 1.7 times, compared with 1.5 times a year earlier.

Net property and equipment edged down 1.2% to ¥44,314 million. Total other assets rose 7.5% to ¥35,093 million, which reflects an increase of ¥3,335 million in leasehold deposits, which were primarily related to the opening of Namco Wonder City and Namco Wonder Park facilities, to ¥24,706 million. Total assets increased 0.8% to ¥144,120 million.

Interest-bearing debt, defined as short-term bank loans, the current portion of long-term debt and long-term debt, increased 3.3% to ¥32,648 million, primarily due to an increase in short-term bank loans. Owing to the decline in current liabilities, total liabilities declined 7.0% to ¥54,554 million.

Net shareholders' equity increased 6.2% to ¥89,566 million owing to the conversion of convertible bonds. The equity ratio at fiscal year-end was 62.1%, compared with 59.0% a year earlier.

Return on average total assets declined 0.4 percentage point to 2.5%, and return on average shareholders' equity was down 1.1 percentage points to 4.1%.

Y2K Compliance

Namco considers Y2K compliance to be an issue of the highest priority. Company-wide initiatives are underway to assess and respond to the impact of Y2K issues on operations and customers. A complete analysis of our in-house computer systems is scheduled for completion by October 1999. In various products, we are responding in areas of expected impact and have established contingency plans to deal with unforeseen problems.

Consolidated Balance Sheets

NAMCO LIMITED AND SUBSIDIARIES
31ST MARCH, 1998 AND 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
Assets			
Current assets:			
Cash	¥ 30,545	¥ 35,274	\$ 289,250
Marketable securities (Note 3)	3,173	1,278	10,480
Monetary claims in trusts	250	—	—
Trade receivables	16,389	13,949	114,383
Allowance for doubtful accounts	(491)	(299)	(2,452)
Inventories (Note 4)	12,097	9,652	79,147
Other current assets	3,550	4,859	39,844
Total current assets	65,513	64,713	530,652
Property and equipment:			
Amusement machines and facilities	85,448	91,394	749,438
Buildings and structures	6,251	6,194	50,792
Machinery and equipment	10,500	11,088	90,923
Land	5,560	5,560	45,592
Construction in progress	172	102	836
Accumulated depreciation	(63,090)	(70,024)	(574,203)
Net property and equipment	44,841	44,314	363,378
Other assets:			
Investments in:			
Non-consolidated subsidiaries and affiliates	3,382	3,435	28,167
Other securities (Note 3)	1,010	215	1,763
Leasehold deposits (Note 5)	21,371	24,706	202,591
Goodwill	1,725	1,457	11,948
Long-term prepaid expenses	2,079	1,919	15,736
Other non-current assets	3,071	3,361	27,561
Total other assets	32,638	35,093	287,766
Total assets	¥ 142,992	¥ 144,120	\$ 1,181,796

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
Current liabilities:			
Short-term bank loans	¥ 4,620	¥ 19,560	\$ 160,393
Current portion of long-term debt (Note 6)	13,879	36	296
Trade payables	13,530	10,069	82,567
Other payables	3,237	2,827	23,182
Accrued income taxes	2,477	944	7,741
Accrued expenses	3,633	3,423	28,069
Other current liabilities	1,883	2,315	18,982
Total current liabilities	43,259	39,174	321,230
Long-term debt (Note 6)	13,120	13,052	107,027
Accrued retirement allowances	1,600	1,912	15,679
Other long-term liabilities	658	416	3,411
Total liabilities	58,637	54,554	447,347
Shareholders' equity (Note 7):			
Common stock of ¥50 par value:			
Authorised—120,000,000 shares			
Issued—54,828,509 shares (1998—53,625,916 shares)	25,147	26,997	221,378
Additional paid-in capital	24,179	26,027	213,424
Retained earnings	35,365	37,143	304,575
Total shareholders' equity	84,691	90,167	739,377
Less costs of common shares of treasury stock	336	601	4,928
Net shareholders' equity	84,355	89,566	734,449
Contingent liabilities (Note 11)			
Total liabilities and shareholders' equity	¥ 142,992	¥ 144,120	\$ 1,181,796

Consolidated Statements of Income

NAMCO LIMITED AND SUBSIDIARIES
YEARS ENDED 31ST MARCH, 1998 AND 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
Net sales	¥ 145,761	¥ 145,517	\$ 1,193,251
Cost of sales	111,771	111,988	918,311
Gross profit	33,990	33,529	274,940
Selling, general and administrative expenses	22,218	25,258	207,117
Operating income	11,772	8,271	67,823
Other income:			
Interest and dividends	748	496	4,067
Other	225	2,667	21,870
	973	3,163	25,937
Other expenses:			
Interest	1,163	844	6,921
Other (Note 9)	2,245	2,676	21,944
	3,408	3,520	28,865
Income before income taxes	9,337	7,914	64,895
Income taxes (Note 10)	5,173	4,348	35,654
Net income	¥ 4,164	¥ 3,566	\$ 29,241
Per share of common stock:	Yen		U.S. dollars (Note 2)
Net income:			
Primary	¥78.60	¥65.82	\$0.54
Fully diluted	72.91	62.24	0.51
Cash dividends applicable to the year	30.00	30.00	0.25

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

NAMCO LIMITED AND SUBSIDIARIES
YEARS ENDED 31ST MARCH, 1998 AND 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
Common stock:			
Balance at beginning of year	¥21,923	¥25,147	\$206,208
Conversion of convertible bonds	3,224	1,850	15,170
Balance at end of year	¥25,147	¥26,997	\$221,378
Additional paid-in capital:			
Balance at beginning of year	¥20,956	¥24,179	\$198,270
Conversion of convertible bonds	3,223	1,848	15,154
Balance at end of year	¥24,179	¥26,027	\$213,424
Retained earnings:			
Balance at beginning of year	¥33,233	¥35,365	\$289,996
Net income	4,164	3,566	29,241
Appropriations:			
Cash dividends	(1,832)	(1,623)	(13,309)
Bonuses to directors and statutory auditors	(200)	(165)	(1,353)
Balance at end of year	¥35,365	¥37,143	\$304,575

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NAMCO LIMITED AND SUBSIDIARIES
YEARS ENDED 31ST MARCH, 1998 AND 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
Cash Flows from Operating Activities:			
Net income	¥ 4,164	¥ 3,566	\$ 29,241
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	15,979	17,251	141,459
Loss on disposal of property and equipment	875	2,135	17,507
Devaluation loss on securities	955	84	689
Other non-cash items	164	312	2,558
Changes in operating assets and liabilities:			
Trade receivables	(2,402)	2,248	18,435
Inventories	(1,432)	2,445	20,049
Trade payables	2,300	(3,461)	(28,380)
Accrued income taxes	(2,211)	(1,533)	(12,571)
Accrued expenses	320	(210)	(1,722)
Other, net	262	(1,529)	(12,538)
Other payments	(200)	(165)	(1,353)
Net cash provided by operating activities	18,774	21,143	173,374
Cash Flows from Investing Activities:			
Capital expenditure	(22,460)	(18,431)	(151,136)
Redemption of convertible bond	—	(9,535)	(78,188)
Decrease in monetary claims in trusts	1,750	250	2,050
Increase in leasehold deposits	(3,194)	(3,335)	(27,347)
Increase in investments in securities	(1,570)	658	5,396
Purchase of common shares of treasury stock	(447)	(265)	(2,173)
Other, net	548	(290)	(2,378)
Net cash used in investing activities	(25,373)	(30,948)	(253,776)
Cash Flows from Financing Activities:			
Bank borrowings, net	(1,840)	14,262	116,950
Cash dividends paid	(1,832)	(1,623)	(13,309)
Net cash provided by (used in) financing activities	(3,672)	12,639	103,641
Net decrease in cash and cash equivalents	(10,271)	2,834	23,239
Cash and cash equivalents at beginning of year	43,989	33,718	276,490
Cash and cash equivalents at end of year	¥ 33,718	¥ 36,552	\$ 299,729

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NAMCO LIMITED AND SUBSIDIARIES
31ST MARCH, 1998 AND 1999

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

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

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

The presentation of a statement of cash flows is not required for domestic purposes. It is, however, presented herein for the reader's convenience.

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

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

Significant accounting policies are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and of its significant subsidiaries, whether directly or indirectly controlled. All significant intercompany balances and intercompany transactions have been eliminated on consolidation.

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

Minority interests in net assets and income are not significant and, accordingly, are not presented separately in the accompanying balance sheets and statements of income.

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

At 31st March, 1999, 85.71% of Nikkatsu Corporation's shares are owned by the Company. The main business of Nikkatsu is the production and distribution of cinema films in Japan. Because the business of Nikkatsu has been operating under the Company Reorganisation Law since 27th September, 1996, the accounts of Nikkatsu are not consolidated. Investment in Nikkatsu amounting to ¥3,000 million (U.S.\$24,600 thousand) is stated at cost.

(b) Statements of Cash Flows

The Company considers cash and marketable securities to be cash and cash equivalents.

(c) Marketable Securities and Investments

Listed securities are stated at the lower of cost or market on an individual basis, cost being determined by the moving-average method. Other securities are stated at cost, determined by the moving-average method.

(d) Inventories

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

(e) Property and Equipment

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

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

(f) Goodwill

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

(g) Research and Development Expenses

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

(h) Retirement Benefits

Under the Company's and its domestic subsidiaries' employees' retirement plan, employees are entitled to receive lump-sum or periodic payments based on length of service and current basic salary. Amounts payable under the plan are provided by a funded pension plan. Amounts payable to employees who are not covered by the pension plan are provided by unfunded retirement allowances.

While the Company has no legal obligation, it is customary practice in Japan to make lump-sum payments to directors or statutory auditors upon retirement, with the approval of shareholders at the annual shareholders' meeting. According to established guidelines, the amount of such allowance is computed based upon payment factors determined by position and length of service as director or statutory auditor. Amounts required under the plan have been provided by unfunded retirement allowances, of which, the balances at 31st March, 1998 and 1999 were ¥1,597 million (U.S.\$13,096 thousand) and ¥1,909 million (U.S.\$15,654 thousand), respectively.

The foreign subsidiaries have defined benefit pension plans that provide pension benefits to substantially all employees.

(i) Income Taxes

The Company records income taxes currently payable based upon the determination of taxable income.

(j) Translation of Foreign Subsidiaries' Financial Statements

The accounts of the foreign subsidiaries are translated into yen at current exchange rates—that is, the rates in effect at the end of the year.

(k) Net Income and Cash Dividends per Share

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

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

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

2. U.S. Dollar Amounts

The financial statements presented herein are expressed in yen and, solely for the convenience of the readers, have been translated into United States dollars at the rate of ¥121.95 = U.S.\$1, the approximate exchange rate at 25th June, 1999.

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

3. Marketable Securities and Investments

Marketable securities and investments in other securities at 31st March, 1998 and 1999 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Marketable securities:			
Listed corporate shares	¥1,384	¥1,278	\$10,480
Corporate bonds	1,789	—	—
	¥3,173	¥1,278	\$10,480
Investments in other securities:			
Listed corporate shares	¥ 1	¥ 1	\$ 8
Non-listed corporate shares	1,009	214	1,755
	¥1,010	¥ 215	\$ 1,763

The market value of listed securities exceeds book value.

4. Inventories

Inventories at 31st March, 1998 and 1999 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Merchandise	¥ 660	¥ 705	\$ 5,781
Products	4,560	3,155	25,871
Raw Material	2,456	2,998	24,584
Work in process	3,548	1,866	15,301
Supplies	873	928	7,610
	¥12,097	¥9,652	\$79,147

5. Leasehold Deposits

Leasehold deposits at 31st March, 1998 and 1999 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Deposits for amusement facility operations and restaurant operations	¥19,758	¥23,006	\$188,651
Deposits for office space	1,430	1,524	12,497
Other deposits	183	176	1,443
	¥21,371	¥24,706	\$202,591

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

The Companies conduct amusement facility operations and restaurant operations on properties leased from lessors under long-term lease contracts. Lease expenses for amusement facility operations and restaurant operations for the years ended 31st March, 1998 and 1999 amounted to ¥21,551 million (U.S.\$176,720 thousand) and ¥21,015 million (U.S.\$172,325 thousand), respectively.

6. Long-term Debt

Long-term debt at 31st March, 1998 and 1999 is summarised as follows:

	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1998	1999
4.7% unsecured convertible bonds due 30th September, 1998 convertible into common stock at ¥3,075 per share	¥ 13,233	¥ —	\$ —	—
0.8% unsecured convertible bonds due 28th September, 2001 convertible into common stock at ¥3,106 per share	3,587	3,587	29,414	
0.9% unsecured convertible bonds due 30th September, 2003 convertible into common stock at ¥3,106 per share	7,426	7,426	60,894	
Bank loans	2,753	2,075	17,015	
	26,999	13,088	107,323	
Less current portion	13,879	36	296	
	¥13,120	¥13,052	\$107,027	

For the benefit of the holders of the 0.8% and 0.9% convertible bonds, the Company has agreed that the aggregate amount of payments of cash dividends may not exceed ¥4,400 million (U.S.\$36,080 thousand) plus the aggregate amount of net income of the Company starting from the year ended 31st March, 1995.

7. Shareholders' Equity

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

The Commercial Code provides that an amount equal to at least 10% of the amount to be disbursed as distribution of retained earnings be appropriated as a legal reserve until such reserve equals 25% of stated capital.

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

Cash dividends, directors' and statutory auditors' bonuses and appropriations to the legal reserve charged to retained earnings during the years ended 31st March, 1998 and 1999 represent dividends and bonuses paid out during such period and the related appropriations to the legal reserve.

The accompanying consolidated financial statements do not include any provision for a dividend of ¥15 per share aggregating ¥819 million (U.S.\$6,716 thousand) and bonuses to the directors and statutory auditors aggregating ¥74 million (U.S.\$607 thousand) declared in June 1999 nor for the related appropriation to legal reserve amounting to ¥90 million (U.S.\$738 thousand).

8. Research and Development Expenses

Total research and development expenses for the years ended 31st March, 1998 and 1999 amounted to ¥8,944 million (U.S.\$73,342 thousand) and ¥9,170 million (U.S.\$75,195 thousand), respectively.

9. Other Expenses

The composition of other expenses—other for the years ended 31st March, 1998 and 1999 was as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Devaluation loss of securities	¥ 955	¥ 84	\$ 689
Inventory write down	—	1,325	10,865
Loss on closure of amusement facilities	734	—	—
Foreign exchange loss	—	376	3,083
Amortisation of goodwill	186	155	1,271
Long-term prepaid expense	—	286	2,345
Other	370	450	3,690
	¥2,245	¥2,676	\$21,943

10. Income Taxes

The Company is subject to a number of taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 48% (52% in 1998).

11. Contingent Liabilities

At 31st March, 1998 and 1999 contingent liabilities for loans guaranteed by the Company principally on behalf of affiliates amounted to ¥2,747 million (U.S.\$22,526 thousand) and ¥1,789 million (U.S.\$14,670 thousand), respectively.

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

12. Stock Option Plan

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

In addition, on 27th June, 1998, shareholders approved a stock option plan (the 1998 plan), which permitted the Company to grant options for up to 119,000 shares of its common stock to all directors (except chairman and chief executive officer) and eligible key employees. The 1998 plan is exercisable from 1st July, 2000 to 30th June, 2003, and options may be granted at a price of 105% of the average market value in the month preceding the date the option is granted.

A summary of changes in common stock options during 1999 is as follows:

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

13. Segment Information

(a) Business Segment Information

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

	Millions of yen					
	Business segments					Consolidated
	Amusement Facility Operations	Coin-Operated Game Machines	Home Videogame Software	Restaurant Operations	Corporate Items	
1998:						
Net sales to customers	¥78,371	¥29,518	¥33,770	¥4,102	¥ —	¥145,761
Intersegment sales	54	660	—	89	(803)*	—
Total net sales	78,425	30,178	33,770	4,191	(803)	145,761
Operating income	1,001	2,344	12,496	(6)	(4,063)**	11,772
Identifiable assets	65,451	20,903	9,359	2,781	44,498	142,992
Depreciation and amortisation	14,230	906	383	102	358	15,979
Capital expenditure	19,297	1,188	395	121	1,459	22,460

	Business segments						Consolidated
	Amusement Facility Operations	Coin-Operated Game Machines	Home Videogame Software	Restaurant Operations	Movies	Corporate Items	
1999:							
Net sales to customers	¥76,229	¥25,968	¥39,434	¥3,886	¥ —	¥ —	¥145,517
Intersegment sales	44	1,258	—	73	—	(1,374)*	—
Total net sales	76,273	27,226	39,434	3,959	—	(1,374)	145,517
Operating income	(779)	(1,668)	15,560	(53)	(294)	(4,495)**	8,271
Identifiable assets	68,220	17,235	9,696	2,811	1,587	44,571	144,120
Depreciation and amortisation	15,161	1,043	434	100	23	490	17,251
Capital expenditure	16,427	931	493	106	210	264	18,431

* Elimination of intersegment sales

** Includes unallocated administrative expenses of ¥4,264 million in 1998 and ¥4,490 million in 1999

(b) Geographical Segment Information

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

	Millions of yen			
	Within Japan	Outside Japan	Corporate Items	Consolidated
1998:				
Net sales to customers	¥107,685	¥38,076	¥ —	¥145,761
Intersegment sales	4,260	191	(4,451)*	—
Total net sales	111,945	38,267	(4,451)	145,761
Operating income	14,511	1,533	(4,272)**	11,772
Identifiable assets	75,178	24,013	43,801	142,992
1999:				
Net sales to customers	¥108,106	¥37,411	¥ —	¥145,517
Intersegment sales	4,633	944	(5,577)*	—
Total net sales	112,739	38,355	(5,577)	145,517
Operating income	10,191	2,359	(4,279)**	8,271
Identifiable assets	75,944	23,897	44,279	144,120

* Elimination of intersegment sales

** Includes unallocated administrative expenses of ¥4,264 million in 1998 and ¥4,490 million in 1999

(c) Overseas Sales Information

Overseas sales of the Companies for the years ended 31st March, 1998 and 1999 amounted to ¥50,552 million (34.7% of consolidated net sales) and ¥52,151 million (35.8% of consolidated net sales).

Independent Auditors' Report



The Board of Directors
Namco Limited

We have audited the accompanying consolidated balance sheets of Namco Limited and subsidiaries as of 31st March, 1998 and 1999, and the related consolidated statements of income, shareholders' equity and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects the financial position of Namco Limited as of 31st March, 1998 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with **accounting principles generally accepted in Japan** applied on a consistent basis.

Century Audit Corporation

Tokyo, Japan

26th June, 1999

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

Corporate Data

Corporate Headquarters

NAMCO LIMITED

2-1-21, Yaguchi, Ota-ku, Tokyo 146-8655, Japan

Tel: 03-3756-2311

Fax: 03-3757-2553

Date of Establishment

June 1, 1955

Number of Employees (Parent Company)

2,449 (As of June 30, 1999)

Number of Shareholders

5,836 (As of March 31, 1999)

Listing of the Company's Shares

First Section of the Tokyo Stock Exchange

Independent Certified Public Accountants

Century Audit Corporation

The Japan Red Cross Bldg.

1-3, Shiba Daimon 1-chome, Minato-ku,

Tokyo 105-8535, Japan

Directors and Statutory Auditors

Chairman and Chief Executive Officer

Masaya Nakamura*

Executive Vice President

Ryuji Hashiguchi*

Senior Managing Director

Kyushiro Takagi

Managing Directors

Masahiro Tachibana*

Yasuhiko Asada

Keiji Tanaka

Shukuo Ishikawa

Director

Koichiro Homma

(The above directors serve as division executives)

Statutory Auditors

Shigeru Yamada

Nobuo Okabe

Toshinori Hayashida

Toru Okuyama

Senior Division Executives

Kunio Kawakami

Akiyoshi Sarukawa

Division Executives

Shigeichi Nakamura

Kazunori Sawano

Tsuyoshi Otsuka

Hirofumi Tashiro

Tsugio Kinoshita

Katsutoshi Endo

Jun Higashi

Seiichi Hirota

Yutaka Asakage

Mitsuo Kanehira

Yoshitaka Yamauchi

Yoichi Haraguchi

Mamoru Ikezawa

Akira Osugi

Shigeru Yokoyama

(As of June 30, 1999)

**Representative Directors*

Corporate Directory

Namco Limited

Corporate Headquarters
2-1-21, Yaguchi, Ota-ku, Tokyo 146-8655, Japan
Tel: 81-3-3756-2311

Namco Holding Corp.

2055 Junction Avenue, San Jose, CA 95131, USA
Tel: 1-408-383-3900

Namco America Inc.

2055 Junction Avenue, San Jose, CA 95131, USA
Tel: 1-408-383-3900

Namco Hometek Inc.

2055 Junction Avenue, San Jose, CA 95131, USA
Tel: 1-408-922-0712

Namco Cybertainment Inc.

877 Supreme Drive, Bensenville, IL 60106-1106, USA
Tel: 1-630-238-2200

XS Entertainment Inc.

c/o: Namco Cybertainment Inc.

Namco Europe Ltd.

Namco House, Acton Park Estate, The Vale, London
W3 7QE, U.K.
Tel: 44-20-8324-6000

Namco Ireland Ltd.

Tipperary Town, CO Tipperary, Ireland
Tel: 353-62-52155

Namco Operations Europe Ltd.

Namco House, Acton Park Estate, The Vale, London
W3 7QE, U.K.
Tel: 44-20-8324-6150

Namco Operations Spain S.L.

c/Buenavista, 3, 28220, Majadahonda, Madrid, Spain
Tel: 34-91-634-29-61

Namco Operations France S.A.

29, Rue Cartier Bresson, 93500 Pantin, France
Tel: 33-1-49910792

Namco Operations Germany GmbH

Centro-Allee 267 46047 Oberhausen, Germany
Tel: 49-208-805-656

Namco Operations F.E.C. Israel Ltd.

45 Rothschild Street, Rishon LeZion, 75266 Israel
Tel: 972-3-9692192

Namco Enterprises Asia Ltd.

Unit 1-3, 14/F, Hang Seng Bank (N.P) Branch Building
335-341 Kings Road, North Point, Hong Kong
Tel: 852-2516-6610

JPN-Namco Taiwan Co., Ltd.

6F-1, No. 82, Chang-An West Road, Taipei, Taiwan, R.O.C.
Tel: 886-2-2556-1645

Shanghai Namco Ltd.

No. 258-23, Caoshi Road, Shanghai, 200233, China
Tel: 86-21-6495-3248

Italian Tomato Ltd.

9-6-24, Akasaka, Minato-ku, Tokyo 107-0052, Japan
Tel: 81-3-3404-2681

I&K Co., Ltd.

9-6-24, Akasaka, Minato-ku, Tokyo 107-0052, Japan
Tel: 81-3-3404-2891

T&E Co., Ltd.

1273-1, Aoyagi, Ichihara, Chiba 299-0102, Japan
Tel: 81-436-23-2701

Namco Trading Ltd.

2-9-22, Tamagawa, Ota-ku, Tokyo 146-0095, Japan
Tel: 81-3-5741-5031

Mil Ltd.*

2-1-21, Yaguchi, Ota-ku, Tokyo 146-8655, Japan
Tel: 81-3-3756-1851

Wonder Seven Co., Ltd.*

3-10-10, Akasaka, Minato-ku, Tokyo 107-0052, Japan
Tel: 81-3-5562-5200

St. Tropez Co., Ltd.*

3-10-10, Akasaka, Minato-ku, Tokyo 107-0052, Japan
Tel: 81-3-5562-5400

Dream Pictures Studio Inc.

2-1-21, Yaguchi, Ota-ku, Tokyo 146-8655, Japan
Tel: 81-3-3756-8523

Nikkatsu Corp.*

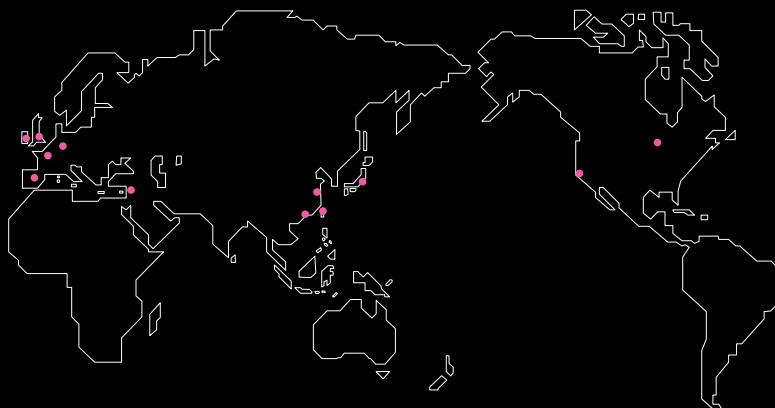
3-28-12, Hongo, Bunkyo-ku, Tokyo 113-0033, Japan
Tel: 81-3-5689-1002

Yunokawa Kanko Hotel Co., Ltd.*

2-4-20, Yunokawa-cho, Hakodate, Hokkaido 042-0932, Japan
Tel: 81-138-57-1188

(As of June 30, 1999)

** Not included in consolidated results or accounted for by the equity method for the fiscal year ended March 31, 1999*



Amusement to Entertainment
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NAMCO LIMITED

2-1-21, YAGUCHI, OTA-KU

TOKYO 146-8655, JAPAN

<http://www.namco.co.jp/>

南夢宮

