Brand New

NAMCO BANDAI Holdings Inc.
Annual Report 2006

BANDAI

In 1950, Bandai Co., Ltd., was established as a marketer of toys. Since that time, Bandai's mission has been to provide dreams, inspiration and excitement to people around the world through entertainment businesses, and the company has always risen to the challenge of achieving continual improvement. Bandai has developed a wide range of operations, including not just toys but also apparel, candy toys, card games, game software, visual products, and network services, through the active use of its original business model—character merchandising.

NAMCO

In 1955, NAMCO LIMITED was established as a manufacturer and marketer of amusement machines. Since that time, NAMCO's overriding mission has been contributing to the realization of fun, happy, healthy lifestyles, and the company has led the way in helping people experience the fun they have always dreamed of. In addition to amusement machine manufacturing and marketing, NAMCO has expanded its business fields to a wide array of other areas, including amusement facility operations and game software for home game consoles, and has developed original technical strengths and facility networks.

Notes:
1. All figures in this report are rounded to the nearest unit.
2. Fiscal 2006, the year under review, refers to the one-year period ended March 31, 2006.
3. Projections and other figures in this annual report are as of May 2006.

Table of Contents

Brand-New

Brand-New Potential

On September 29, 2005, Bandai Co., Ltd., and NAMCO LIMITED established a joint holding company—NAMCO BANDAI Holdings Inc.—and implemented a management integration. In Japan and overseas, the BANDAI NAMCO Group is developing operations in a wide range of fields, including toys, amusement facilities, arcade machines, video game software, network services, and visual products. In the future, the Group will make full use of this broad range of businesses as it strives to open up new possibilities and achieve further growth.

BANDAI NAMCO's Mission Statement:

Dreams, Fun and Inspiration

BANDAI NAMCO will continue to provide Dreams, Fun and Inspiration to people around the world through entertainment based on creativity and boundless enthusiasm.

BANDAI NAMCO believes that:

Dreams, Fun and Inspiration Are the Key to Happiness

The meaning of Dreams, Fun and Inspiration will essentially change over time, but BANDAI NAMCO holds one unshakable belief: that Dreams, Fun and Inspiration will always hold the key to happiness.

BANDAI NAMCO's basic ethos is defined by:

More Passion, More Innovation, More Perceptive

- Unparalleled curiosity and boundless enthusiasm
- Abundant creativity unrestrained by the status quo
- Open to people's needs and satisfaction from giving inspiration

Corporate Philosophy

The Group Corporate Philosophy acts as the foundation for the Group's decision-making process and a source of inspiration for every Group employee. In short, it represents the fundamental policy underpinning all the Group's activities. The Group Corporate Philosophy encompasses all of the separate corporate philosophies formulated by the individual companies in the BANDAI NAMCO Group.

Anchored by this corporate philosophy, the BANDAI NAMCO Group respects the independence and autonomy of every Group company, aiming to boost the corporate value of the entire Group by maximizing the creativity of these companies and generating new synergies.

NAMCO BANDAI Holdings Inc.
President and Representative Director
Takeo Takasu


BANDAI
NAMCO

Our Vision

To become the World's Inspiring Entertainme

The BANDAI NAMCO Group will constantly strive to be a pioneer, aiming to deepen and widen the appeal of entertainment and winning the hearts of people worldwide who enjoy having fun. Our ultimate goal is to become the World's Most Inspiring Entertainment Group.

Most
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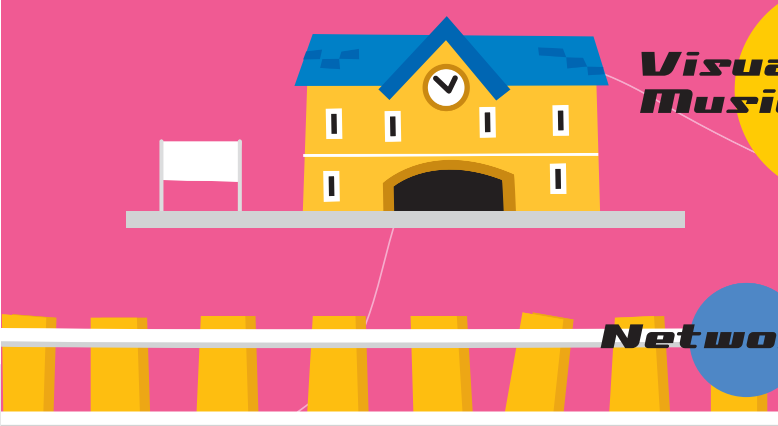

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The Business Portfolio of the BANDAI NAMCO Group

Strategic Business

Units (SBUs)

Core Company
Bandai Co., Ltd.
President and
Representative Director
Kazunori Ueno

Planning, manufacturing, and marketing of toys, candy toys, vending machine capsule products, cards, plastic models, apparel, sundries, stationery, and other products

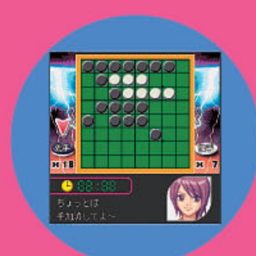
Core Company
NAMCO LIMITED
President and
Representative Director
Jun Higashi

Planning and managing of a full range of amusement facilities

Core Company
NAMCO BANDAI Games Inc.
President and
Representative Director
Shukuo Ishikawa

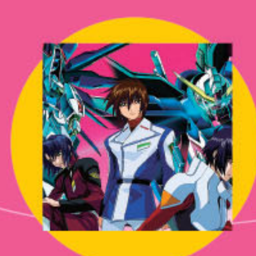
Manufacturing and distribution of game software for home and mobile game consoles and of arcade game machines and prizes

Core Company
Bandai Networks Co., Ltd.
President and
Representative Director
Satoshi Oshita



Expansion of mobile phone and PC content and planning and development of e-commerce businesses

Core Company
Bandai Visual Co., Ltd.
President and
Representative Director
Kazumi Kawashiro



Planning and creation of visual content; development and sales of visual package software; and distribution of video on demand services

Support for Strategic Business Units in such areas as distribution, logistics, leasing, and printing

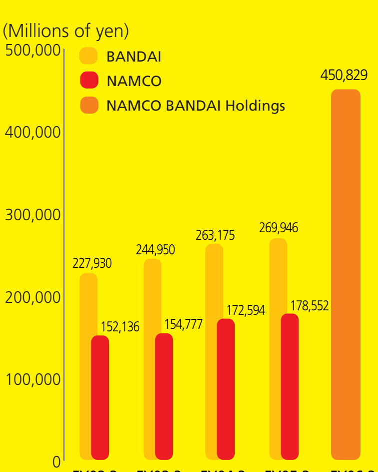
Consolidated Financial Highlights

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

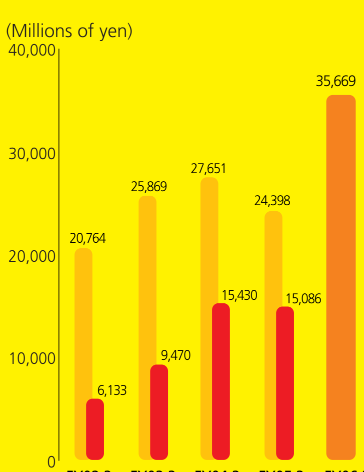
For the years ended March 31		Millions of yen except per share data and main financial indicators 2004*2	2005*2	2006	Thousands of U.S. dollars*1 2006
For the Year				NAMCO BANDAI	NAMCO BANDAI
Net sales	BANDAI	¥263,175	¥269,946	¥450,829	$3,837,822
	NAMCO	¥172,594	¥178,552		
Operating income	BANDAI	27,651	24,398	35,669	303,643
	NAMCO	15,430	15,086		
Recurring income*3	BANDAI	27,222	25,724	37,122	316,013
	NAMCO	14,428	14,589		
Net income	BANDAI	14,207	11,225	14,150	120,456
	NAMCO	7,546	9,465		
Capital expenditures	BANDAI	11,576	11,539	24,020	204,478
	NAMCO	14,009	13,155		
Depreciation	BANDAI	7,149	7,947	19,144	162,969
	NAMCO	11,104	11,173		
At Year-End					
Total assets	BANDAI	¥228,076	¥240,290	¥386,651	$3,291,487
	NAMCO	¥148,117	¥154,474		
Total shareholders' equity	BANDAI	121,068	131,750	243,607	2,073,781
	NAMCO	101,811	107,773		
Per Share Data (yen and U.S.dollars*1)*4,5					
Net income	BANDAI	¥142.28	¥111.13	¥54.39	$0.46
	NAMCO	¥133.00	¥ 83.63		
Cash dividends	BANDAI	22.50	30.00	12.00	0.10
	NAMCO	40.00	40.00		
Main Financial Indicators (%)					
Return on equity*6	BANDAI	12.0%	8.9%	5.8%	
	NAMCO	7.6%	9.0%		
Return on assets*6	BANDAI	12.0	11.0	9.6	
	NAMCO	9.9	9.6		

*1 U.S. dollar amounts have been translated, for convenience only, at the rate of ¥117.47=U.S.$1, the approximate exchange rate on March 31, 2006.
*2 Figures for 2004 and 2005 are the consolidated figures for Bandai and NAMCO prior to the management integration.
*3 Recurring income is a Japanese accounting term denoting income before extraordinary items.
*4 Bandai implemented a 2:1 stock split on November 20, 2003. Net income per share in the fiscal year ended March 2004 was calculated as if the stock split had been implemented at the beginning of the fiscal year. Calculated on the assumption that the stock split was implemented at the beginning of the fiscal year ended March 2004, per share dividends for the fiscal year ended March 2004 would be ¥15.00.
*5 Namco implemented a 2:1 stock split on November 19, 2004. Net income per share in the fiscal year ended March 2005 was calculated as if the stock split had been implemented at the beginning of the fiscal year. Calculated on the assumption that the stock split was implemented at the beginning of the fiscal year ended March 2004, net income per share for the fiscal year ended March 2004 would be ¥66.50, per share dividends for the fiscal year ended March 2005 would be ¥30.00, and per share dividends for the fiscal year ended March 2004 would be ¥20.00.
*6 Figures for total assets and shareholders' equity as of March 31, 2006, are used in calculating ROE and ROA for the fiscal year ended March 2006.

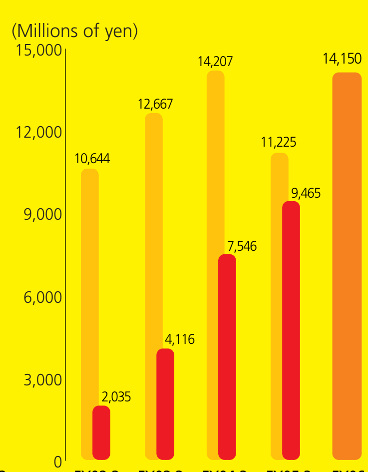
Net Sales



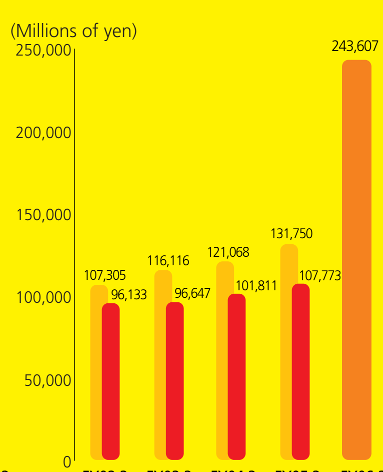
Operating Income



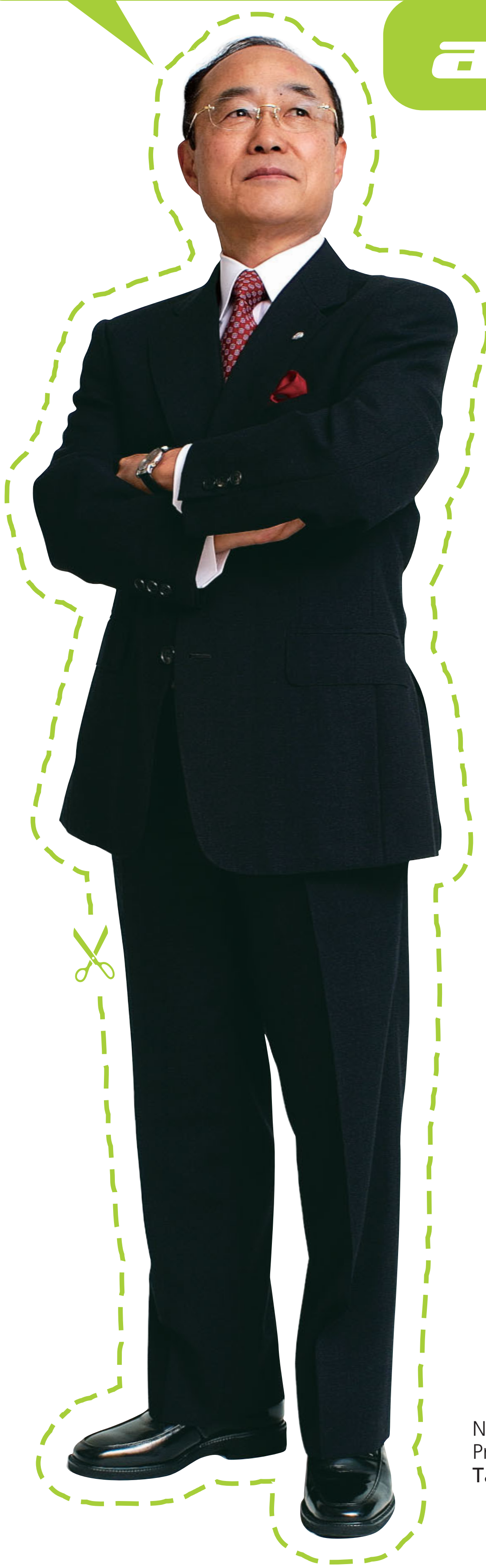
Net Income



Total Shareholders' Equity



We're Off to a Brand-New Future.



In September 2005, Bandai and NAMCO established a joint holding company, NAMCO BANDAI Holdings Inc., and made a new start as the BANDAI NAMCO Group.

The vision of the BANDAI NAMCO Group is to become the "World's Most Inspiring Entertainment Group," and its mission is to provide entertainment that offers "Dreams, Fun and Inspiration" to people around the world. Since the management integration, we have reorganized the Group at a pace that exceeded our initial plans, and a vast array of possibilities is opening up before us. We're off to a brand-new future!

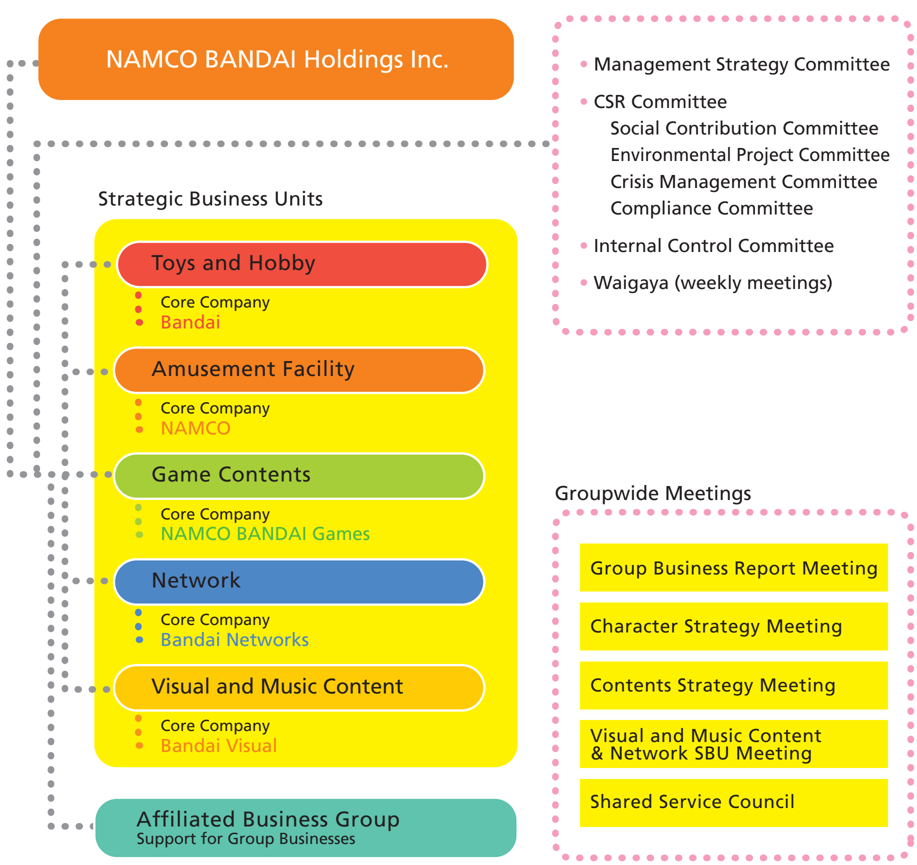
NAMCO BANDAI Holdings Inc.
President and Representative Director
Takeo Takasu

Focusing Diverse Strengths

The BANDAI NAMCO Group is developing businesses in a wide range of entertainment fields. We have established a holding company, which we believe is the ideal organizational structure for making use of the originality of the brands in each of our fields while fully leveraging Group synergies. In formulating and implementing operating strategies for Japan and overseas, a central role is played by our five SBUs—Toys and Hobby, Amusement Facility, Game Contents, Network, and Visual and Music Content—which encompass the operating companies in each field. In addition, we have clarified the lines of responsibility and authority. At the same time, the Affiliated Business Group provides support for the operations of each SBU.

NAMCO BANDAI Holdings Inc., in accordance with medium to long term management strategies, determines the overall strategic direction of the Group and advances Groupwide initiatives while respecting the independence of each SBU.

Group Organization



Enhancing Operational Breadth and Depth, and Maximizing Enterprise Value

The key objectives of the management integration were to focus the strengths of Bandai and NAMCO, to further enhance the breadth and depth of our business activities in the entertainment industry, which is marked by intense change and competition, and to maximize the enterprise value of the Group. The management integration has allowed us, as an entertainment group, to operate in a wide range of fields—such as toys, amusement facilities, arcade game machines, game software for home video game consoles, network services, and visual software—in the global market. We will aim to secure stable growth and to leverage Group synergies that make full use of these operational fields.

Consolidated Performance in the Year under Review

For the fiscal year ended March 2006 (the year under review), strong performances were recorded by the Toys and Hobby SBU, which benefited from the worldwide success of the *Tamagotchi Plus* series, and the Visual and Music Content SBU, where the *Mobile Suit Gundam* series enjoyed Group synergies. However, in the Amusement Facility and Game Contents SBUs, due to the sluggish market conditions and our slow response to changes in customer needs, our performances did not meet the planned levels. In addition, with conditions in game markets expected to remain difficult, we recorded a valuation loss on inventories, such as game software, and, from a conservative point of view, we recorded a valuation allowance for the deferred tax assets that were on our books at the beginning of the fiscal year.

Accordingly, our performance did not meet our initial plans. We recorded net sales of ¥450.8 billion, operating income of ¥35.7 billion, recurring income of ¥37.1 billion, and net income of ¥14.2 billion for the year under review.

On the other hand, in 2006 we have seen favorable signs, such as improving market conditions in the amusement facility markets. We also plan to launch multiple products and services that leverage Group synergies. We are determined to work together to achieve the objectives of the Medium-Term Management Plan.

Major Initiatives

May 2, 2005	Announcement of management integration of Bandai and NAMCO.
September 29, 2005	Establishment of NAMCO BANDAI Holdings Inc. NAMCO BANDAI Holdings Inc. listed on the First Section of the Tokyo Stock Exchange.
December 1, 2005	Transfer of a portion of Bandai and NAMCO's management of subsidiary and affiliated companies to NAMCO BANDAI Holdings Inc. through corporate separation.
January 2, 2006	Under the direction of NAMCO BANDAI Holdings (USA) Inc., a U.S. regional holding company, affiliated operating companies restructured, including integration of home console game operations.
January 31, 2006	Bandai Logipal Inc. made a wholly owned subsidiary through a share-for-share exchange.
February 23, 2006	BANDAI NAMCO Group's medium-term management plan announced.
March 31,2006	NAMCO's amusement facility management operations transferred to the newly established NAMCO LIMITED. Domestic game operations integrated under the newly established NAMCO BANDAI Games Inc.
June 1, 2006	Banpresto Co., Ltd., made a wholly owned subsidiary through a share exchange.

Key Theme of Medium-Term Management Plan: Strengthening, Enriching, and Expanding Portfolio Management

Under the Medium-Term Management Plan that commenced in April 2006, which was our first plan since the management integration, the key theme is to increase enterprise value by strengthening, enriching, and expanding the BANDAI NAMCO Group's portfolio management. We combine business portfolios, where businesses are developed in a wide range of fields; content portfolios, with extensive lineups ranging from established content to new offerings; and regional portfolios, where operations are developed in regions around the world. In our portfolio management, we use three-dimensional, multifaceted combinations of these portfolios, thereby striving to achieve ongoing, stable growth. Under the Medium-Term Management Plan, we will further strengthen these portfolios, leverage synergies among them, and strengthen, enrich, and enhance our overall portfolio management. In particular, in strengthening our business portfolios, we will target the creation of a new SBU. We plan to spin off new operations from one of the five existing SBUs. In addition, we will aggressively launch new businesses, including alliances with outside partners and M&A activities, by taking advantage of the strengths of the holding company organization, which facilitates open business structure initiatives.

Three-Year Plan Figures (Consolidated)

(¥ Million)

	FY2006.3	FY2007.3 (Target)	FY2008.3 (Target)	FY2009.3 (Target)
Net Sales	450,829	470,000	500,000	550,000
Operating Income	35,669	40,000	50,000	58,000
ROA	9.6%	10.0%	12.0%	13.5%
ROE	5.8%	8.0%	9.5%	10.0%

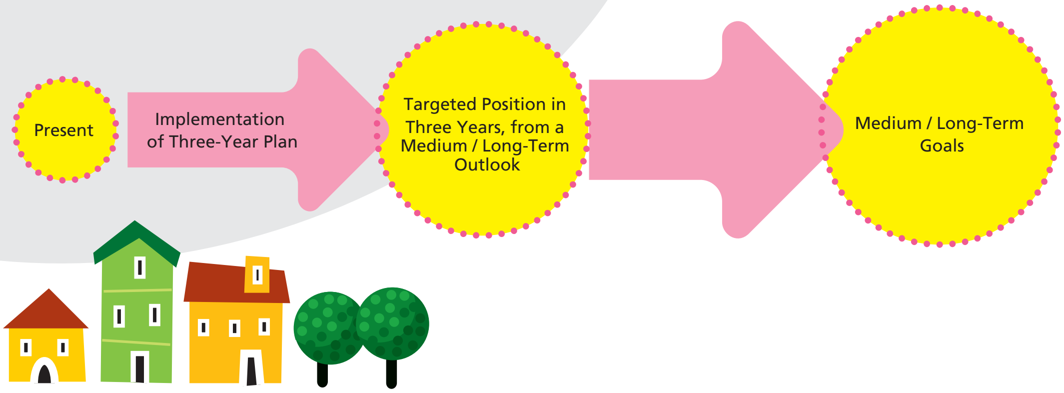
Figures for total assets and shareholders' equity as of March 31, 2006, are used in calculating ROA and ROE for the fiscal year ended March 2006.

Medium / Long-Term Goals

FY2006.3
Sales: ¥450.8 billion
Operating Income: ¥35.7 billion
Overseas Sales: 19% of total

FY2009.3 (Target)
Sales: ¥550 billion
Operating Income: ¥58 billion
Overseas Sales: 25% of total

Progress toward Big Dreams
Sales: ¥1 trillion
Operating Income: ¥100 billion
Overseas Sales: 50% of total



Focused on a Bright Future

The BANDAI NAMCO Group has set long-term goals of ¥1 trillion in net sales and ¥100 billion in operating income. To achieve these goals, we will strive to be an organization with number one positions in a wide range of entertainment categories. Our Medium-Term Management Plan is the first step toward realizing this objective, and accordingly our consolidated performance objectives for the fiscal year ending March 2009, the final year of the plan, are net sales of ¥550 billion and operating income of ¥58 billion. The plan's objectives also include ROA of 13.5% and ROE of 10.0%.

To achieve these targets, we must expand our operations not only in Japan but also overseas. Over the past 10 years, overseas sales have accounted for about 20% of Bandai and NAMCO's combined sales, with minimal changes from year to year. However, we have already implemented multiple initiatives in all overseas regions, targeting the leveraging of synergies that have resulted from the management integration. By raising the percentage of overseas sales to 25% by the fiscal year ending March 2009 and to 50% in the long term, we will make progress toward achieving our goal of ¥1 trillion in net sales.

Unlimited New Potential

NAMCO BANDAI Holdings Inc. had about 40,000 shareholders as of the end of March 2006, an increase of about 10,000 shareholders, principally made up of individual shareholders, in just six months after the implemention of the management integration. We believe that this growth is an indication of the high expectations the investors have for the new BANDAI NAMCO Group, and we are very grateful for the support. At the same time, we are committed to achieving strong results from the management integration in order to meet the expectations of the shareholders who are supporting the BANDAI NAMCO Group.

The management integration has opened up unlimited possibilities for the BANDAI NAMCO Group in the creation of new inspirations in entertainment. In the future, we will maintain a position of leadership by accelerating the integration and leveraging the synergies of the Group and strive to become the "World's Most Inspiring Entertainment Group," providing "Dreams, Fun and Inspiration" to people of all ages around the world. Everyone at the BANDAI NAMCO Group is working together with a sense of confidence and excitement to open the doors to a new future.

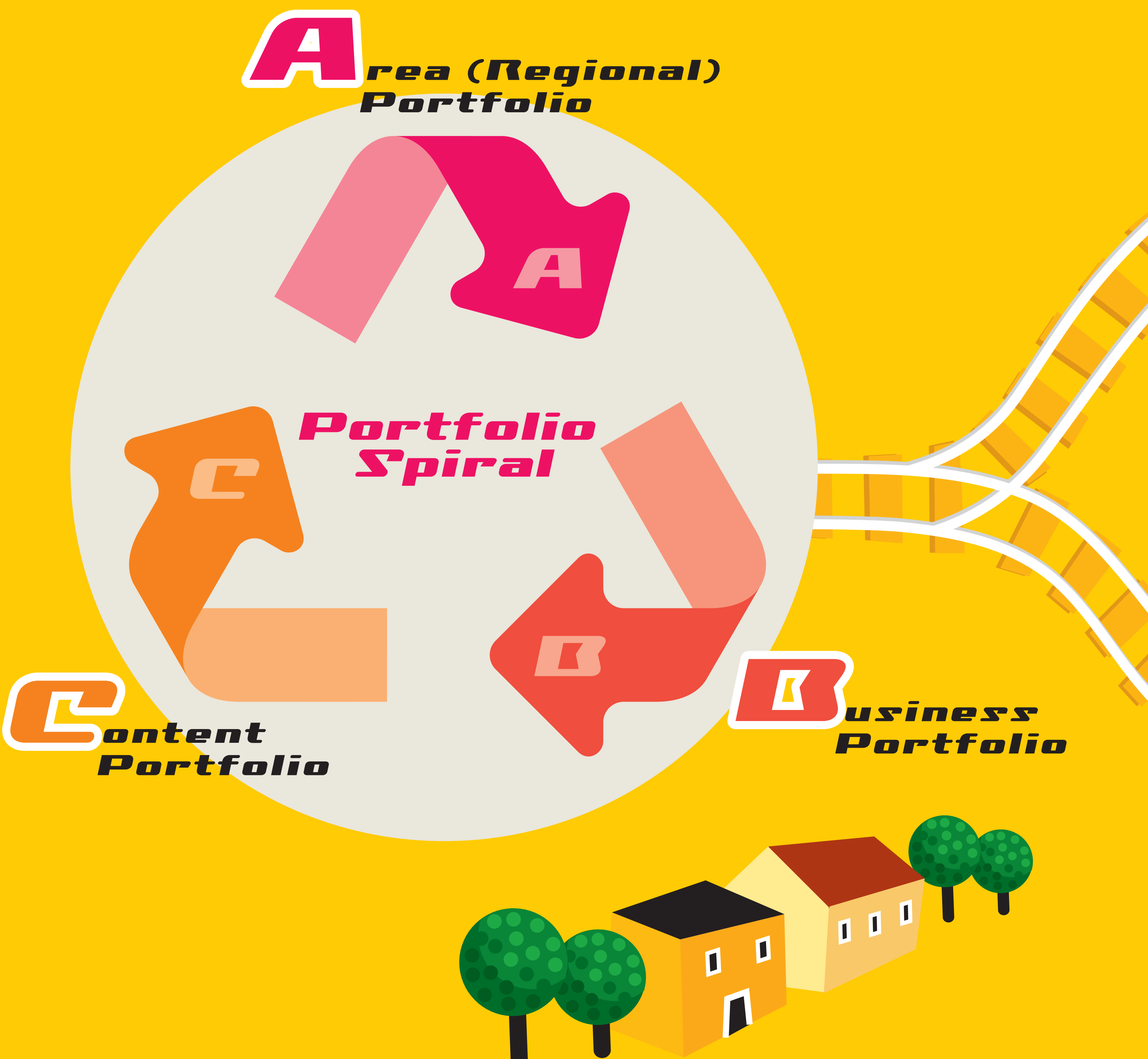
August 2006

Takeo Takasu
President and Representative Director
NAMCO BANDAI Holdings Inc.

Brand-New

The Medium-Term Management Plan of the BANDAI NAMCO Group

The BANDAI NAMCO Group is implementing a three-year medium-term management plan that covers the period from April 2006 to March 2009. Under this plan, we will leverage the strengths of the Group and maximize the synergies, thereby further enhancing our capabilities.



Synergies

Key Theme of the Medium-Term Management Plan

The key theme of the Medium-Term Management Plan is "strengthening, enriching, and expanding the BANDAI NAMCO Group's portfolio management." Portfolio management is supported by management strategies, which are implemented mainly by NAMCO BANDAI Holdings Inc., and by business strategies, which are implemented mainly by the SBUs.

Through these strategies, we will further enhance portfolio management, the Group's greatest strength, and create a portfolio spiral effect among our wide range of business portfolios, globally oriented regional portfolios, and abundant content portfolios, thereby increasing the Group's enterprise value.

Management Strategy

- Strengthening corporate governance
- Effectively utilizing human resources
- Building the optimal management system
  - Organizational reform
  - Consolidation of indirect operations

Implemented mainly by the holding company

NAMCO BANDAI Holdings Inc.

Business Strategy

- Promoting the "Entertainment Hub Concept"
  - Content strategy
  - Domain strategy
  - Channel strategy
- Strengthening overseas businesses

Implemented mainly by

Strategic Business Units

Toys and Hobby

Amusement Facility

Game Contents

Network

Visual and Music Content

Brand-New Synergies

Management Strategy

Under the Medium-Term Management Plan, we have three key management strategies—strengthening corporate governance, effectively utilizing human resources, and building the optimal management system. The holding company is primarily responsible for implementing these strategies.

NAMCO BANDAI Holdings Inc., as the key promoter of the Group's management strategies, will formulate and implement medium-term management plans, provide support for implementing business strategies, oversee business activities, effectively allocate management resources, and promote strategic tie-ups with other companies.

Strengthening corporate governance

In order to strengthen our corporate governance, we will implement a range of initiatives in becoming a trusted company that can continually contribute to society. Specifically, we will improve our corporate brand by introducing corporate brand use and management standards, strengthening and monitoring our strategy and results through the introduction of management tools, such as balanced score cards, and enhance our CSR and compliance systems. In this way, we will increase management soundness, transparency, and efficiency and, at the same time, build a corporate governance system that facilitates timely information disclosure.

Effectively utilizing human resources

We believe that our employees are our most important asset and the engine of our growth. In line with the management integration of Bandai and NAMCO, the knowledge and competence of Group employees will pave the way for our future. Accordingly, we will take the necessary steps to enhance the know-how of our employees through Group exchange programs, such as implementing intra-Group recruitment systems and transfer programs for our management-level personnel. We will also strengthen our Group human resources training programs to enhance project development skills and cultivate leaders. Through the introduction of new employment rules, which consist of high-level professional contracts and specialist job categories, we will create a work environment to promote opportunities to enable employees to demonstrate their strengths.

Building the optimal management system

Expanding operations and increasing efficiency are two key aspects of the management integration. Our fundamental policy is to restructure operations to achieve the most efficient and effective Group management system, and accordingly we have created three principal points of emphasis.

The first is "cooperation," which will drive our organizational restructuring. In mature markets, or in markets where we can increase our share through the application of the Group's comprehensive strengths, we will focus on increasing efficiency and leveraging economies of scale, by, for instance, integrating overlapping departments within SBUs.

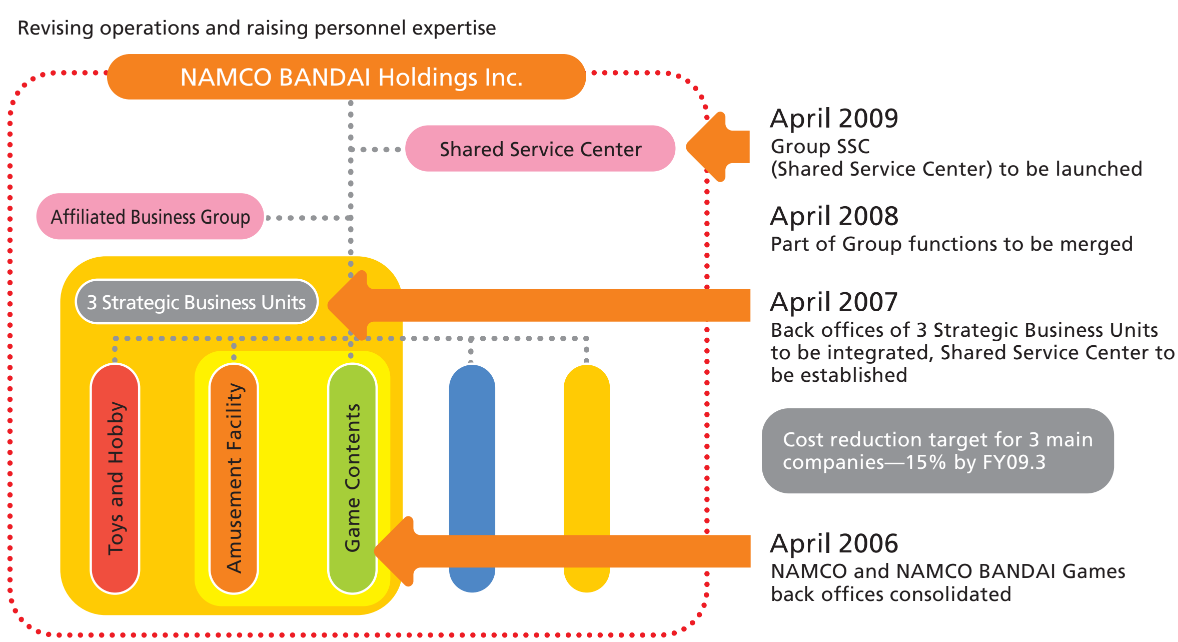
The second is "competition." In growth markets, we will compete aggressively under the current organization, including competition among members of the Group, aiming to raise Groupwide enterprise value.

The third is "collaboration." We will integrate the operations of indirect departments, such as accounting, general affairs, human resources, and IT systems, thereby reducing indirect costs and strengthening our profit base.

Since the management integration, the Group has implemented a range of organizational restructuring measures in accordance with these basic policies. In the Americas, we have established a regional holding company and taken other restructuring initiatives. In addition, from the viewpoint of "cooperation," we have integrated our domestic game operations and made Bandai Logipal and Banpresto wholly owned subsidiaries. We will continue to implement reorganization measures to establish a system that will create synergies in the Group. In addition, through management utilizing Groupwide committees, such as the Management Strategy Committee and the Group Business Report Meeting, we will bolster Group functions to facilitate close cooperation among management and the execution and utilization of synergies among SBUs.

Furthermore, from the viewpoint of "collaboration," we will increase the efficiencies in the indirect departments through the introduction of the Shared Service Center. As the first step, we have consolidated the indirect departments of NAMCO and NAMCO BANDAI Games. In the future, we plan to integrate these consolidated departments with the indirect departments of Bandai and establish the Shared Service Center. By the fiscal year ending March 2009, the final year of the Medium-Term Management Plan, we are targeting a 15% reduction in the indirect costs of these three core companies, from the current level of ¥10 billion a year, with the introduction of shared services.

Building the Optimal Management System—Consolidation of Indirect Operations



Brand-New Synergies

Business Strategy

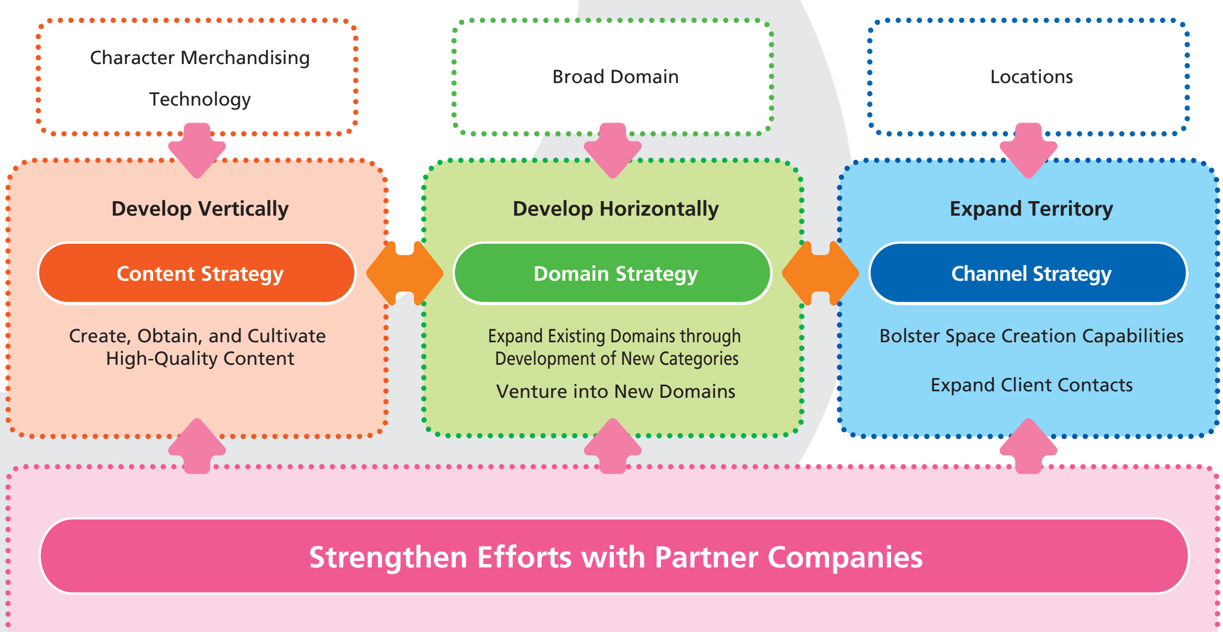
Under the Medium-Term Management Plan, we have two key business strategies—promoting the "Entertainment Hub Concept" and strengthening overseas businesses. These strategies are principally the responsibility of the Strategic Business Units, each of which is focused on expanding its operations.

Promoting the "Entertainment Hub Concept"

Following the management integration of Bandai, with its strengths in character merchandising, and NAMCO, with its technologies and extensive network of locations, the BANDAI NAMCO Group has the ability to implement a comprehensive range of activities, from the creation and acquisition of content to product development and sales, and to provide products and services in a wide range of business domains. We call this system, which is similar to a hub airport, the "entertainment hub" system.

Under the Entertainment Hub Concept, we have implemented the domain strategy and the channel strategy, with the content strategy playing a central role. We will target expansion and growth in Group operations by further strengthening and enhancing hub functionality. Specifically, under the content strategy, in addition to further strengthening Group content, we will take steps to create, acquire, and cultivate superior content, such as strengthening cooperation with outside partners and creators and utilizing M&A activities and alliances. Under our domain strategy, we will horizontally broaden the scope of our content in wide-ranging business fields and create new domains through cooperation with outside partners, thereby expanding our business. Under our channel strategy, in addition to development with our existing distribution partners, through cooperation with new partners and the use of network infrastructure, we will expand our distribution channels, thereby expanding our channels on a global scale.

The Entertainment Hub Concept



Strengthening overseas businesses

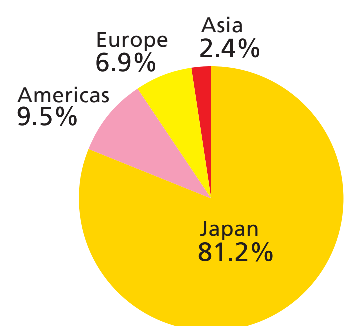
In our overseas business, each SBU will develop its own core operations around the world. At the same time, the SBUs will establish close cooperative relationships with the companies that have regional oversight functions to make full use of the unique characteristics of the region, thereby bolstering portfolio management by region.

In regard to regional oversight functions in the Americas, we reorganized the Group in January 2006 and have created an organizational system that can perform portfolio management functions that are similar to those in Japan. In Europe, centralized in BANDAI S.A. and NAMCO EUROPE LTD., and in Asia, centralized in BANDAI (H.K.) CO., LTD., we will enhance infrastructure and effectively allocate management resources. To strengthen our operations in each region, we have established a game company in Europe and two marketing companies in Asia.

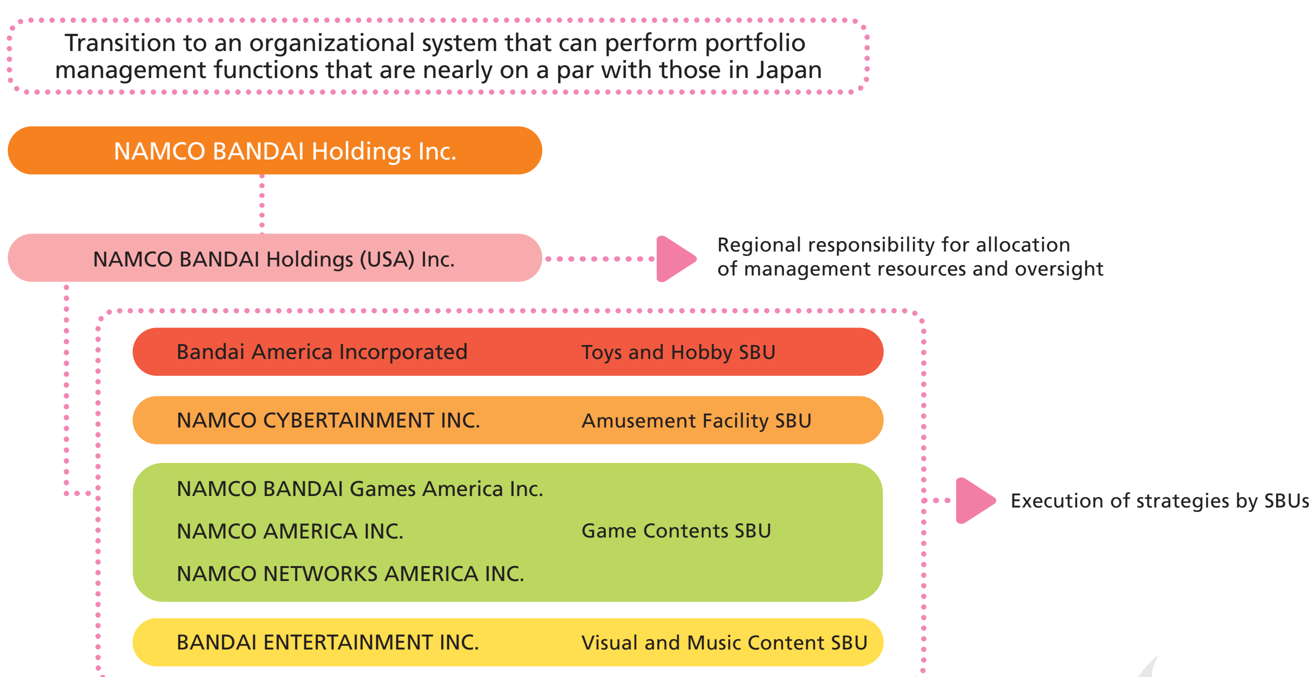
Under this system, in the Americas we will enhance the appealing content of our SBUs, including the Toys and Hobby, Game Contents, and Visual and Music Content SBUs, from two directions—developing local content in the Americas and localizing content from Japan. In Europe, in addition to expanding our geographical coverage, we will enhance our business portfolio by expanding operations, such as amusement facility and game contents operations, and strengthen product strategies by target. In Asia, meanwhile, we will bolster the roles of our production and sales bases. In particular, we will strive to establish the character merchandising business model in China and India.

In line with these strategies, in the fiscal year ending March 2009, the final year of the Medium-Term Management Plan, we plan to increase the overseas sales percentage to 25% and to strive for 50% over the long term.

Net Sales by Geographic Segment (FY2006.3)



Management System in the Americas—An Example of Our Direction in Overseas Markets



Brand-New Synergies

Business Strategy by SBU

Business Strategy

Toys and Hobby

Vision

Constantly strive to create unique value for customers through advances in character merchandising

Strategy

In the toys and hobby business, in the midst of industry reorganization, we are facing a shrinking domestic market due to the falling birthrate, diversifying consumer needs, and structural change in the industry.

In Japan, in accordance with the "Entertainment Hub Concept," we will expand our operations around a core of popular content and reinforce tie-ups with external partners, aiming to establish the number one position in all of our business categories. In addition, we will expand our target customer range to include women and senior citizens and work to create new businesses through the integration of products and services. Our objective for new businesses is to contribute ¥5 billion of sales in the fiscal year ending March 2009.

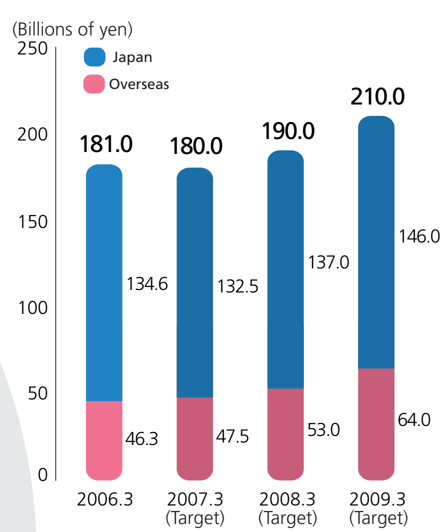
In strengthening our overseas operations, we will strive to further expand our business in the Americas, where we are working to improve our results by implementing the principles of selection and concentration in products and content. In Europe, we will work to expand our product lineup and strengthen our distribution network. In Asia, meanwhile, we will utilize our character merchandising business model in growth markets, such as China and India.

Since it was launched in March 2004, the *Tamagotchi Plus* series has sold more than 20 million units around the world.

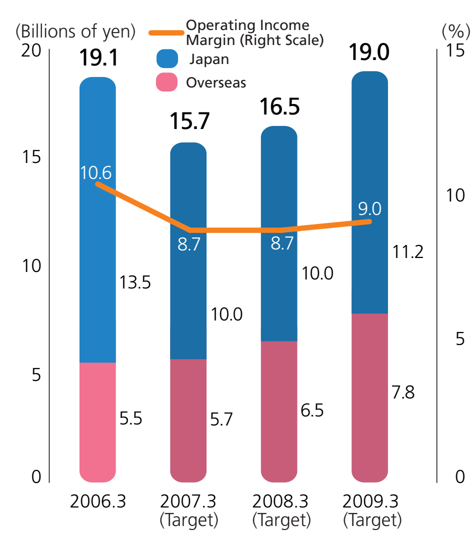
The *DATA CARDDASS* machine, which combines digital data and a card game, established a new category for the Toys and Hobby Strategic Business Unit.

The popular *Power Rangers* series has boasted hit products for more than 30 years in Japan and more than 10 years overseas.

Net Sales



Operating Income / Operating Income Margin



Amusement Facility

Vision

Diversify entertainment facility operations to strengthen revenue base

Strategy

In the amusement facility business, with increases in the consumption tax anticipated in the future, key challenges include changes in the industry's profit structure and the diversification of consumer preferences.

In response, we will aggressively open large-scale locations, in addition to scrapping unprofitable facilities. At the same time, we will work to attract more customers through synergies based on the full use of the Group's content. We will also work to improve profitability by reevaluating our workforce allocation and will take steps to accommodate new payment systems, such as electronic money. Furthermore, we will diversify our operations with new business formats for specific customer groups and expand our customer base by including younger customers, families, and senior citizens. Our objective for new formats is to contribute ¥30 billion of sales in the fiscal year ending March 2009.

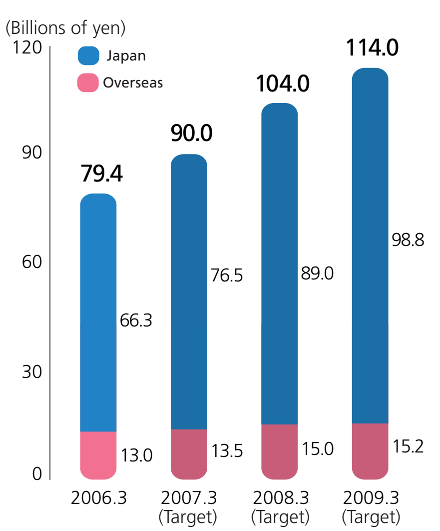
In our overseas operations, we will scrap unprofitable stores and expand the number of stores operated on a revenue-sharing basis in the Americas. In Europe, we will expand operations, centered on hybrid facilities, and we will extend the business model used in the domestic market to Asia. These strategies will enable us to bolster our profit foundation in each overseas region.

NAMJATOWN is an indoor theme park with a range of features, including attractions, a food theme park, and a healing park.

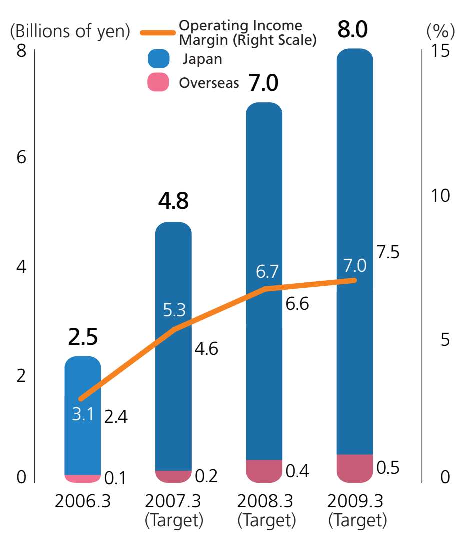
The Spa Resort Liberty, which was opened in 2005 as the Group's first spa resort, is a project of our diverse amusement facility operations.

NAMCO Aso-Base draws on Group synergies to enhance the enjoyment of Bandai toys and character apparel.

Net Sales



Operating Income / Operating Income Margin



Brand-New Synergies

Business Strategy

Game Contents

Vision

Become the world's premier quality game maker, continually providing games that are fun, enjoyable, and satisfying

Strategy

In the game contents business, our markets are anticipating the launch of the next generation of game platforms. In this setting, key challenges include dealing with changing customer needs and rising content development costs.

Accordingly, we will work to share know-how and technologies among the fields of arcade game machines, home game software, and mobile content. We will also strive to build a stable profit base through effective content utilization.

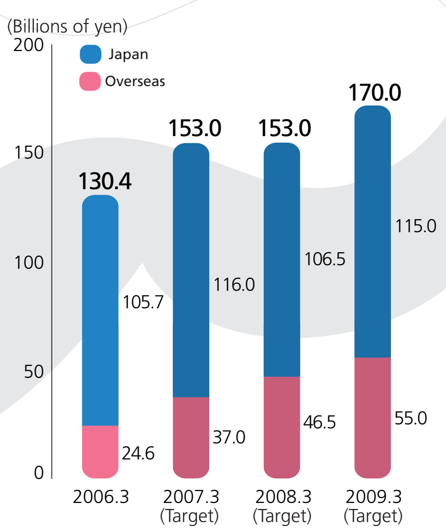
In home game software, we will respond promptly to customer needs with a balanced mix of titles for each platform. Moreover, we will endeavor to increase efficiency by optimally allocating creators and reevaluating the development process. We will also work aggressively in the development of software for next-generation platforms and accumulate technical know-how. In arcade game machines, we will bolster the content links with home game software and enhance the development of games that draw on Group synergies, such as *Mobile Suit Gundam*: *Senjo no Kizuna*. Through these initiatives, we will provide machines that better meet our customer needs. In the distribution of content for mobile phones, we will continue to utilize the content developed in-house and will expand it through the content links with home game software and arcade game machines. In addition, we will strive to create content that can be used around the world and expand overseas revenues.

The *Mobile Suit Gundam: Senjo no Kizuna* dome-type game machine features team competition and was developed jointly by Banpresto and NAMCO BANDAI Games.

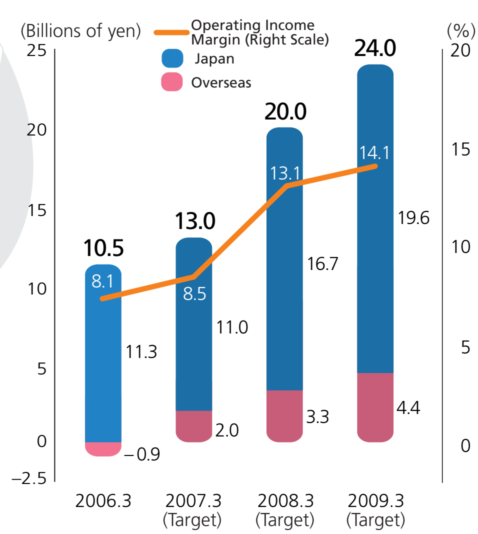
In addition to existing game machines, we provide multiplatform software for next-generation game machines that takes advantage of our planning, development, and technical capabilities.

The first version of the *Tamagotchi Connection: Corner Shop* series of Nintendo DS software, which utilizes the characters' worldview, sold more than a million units.

Net Sales



Operating Income (Loss) / Operating Income Margin



Network

Vision

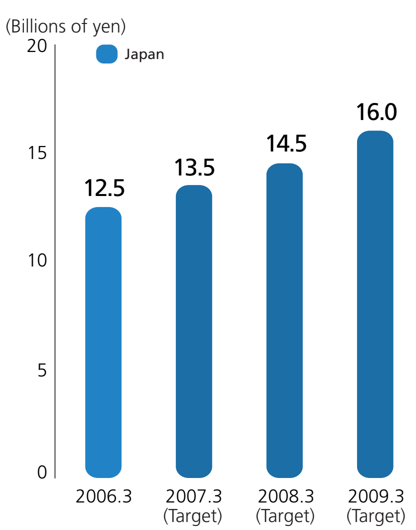
Effectively utilize Group content, technical development capabilities, and system construction capabilities and make a leap forward to become a comprehensive network company

Strategy

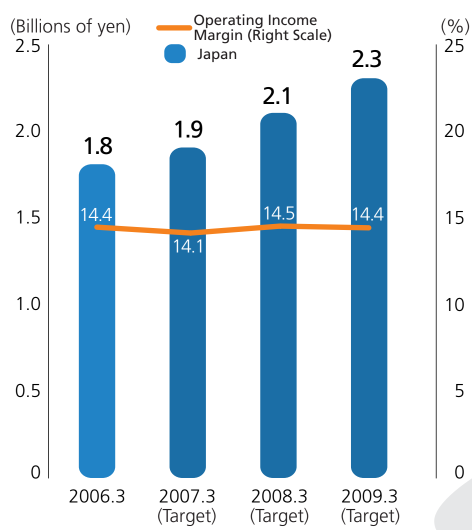
In the network business, major challenges include responding to continued progress in mobile phones—such as larger capacities and more-advanced functionality and the start of one-segment broadcasts—and responding to the expansion and growth of the network environment stemming from enhanced infrastructure, such as the broadband environment.

In response, we will make full use of Group assets, including superior content, and aggressively plan and develop appealing network content. At the same time, we will strengthen our ability to develop and propose new, industry-leading technologies. Specifically, we will develop and launch services based on new technologies and aggressively expand our solutions business for corporations by utilizing system construction and content utilization capabilities. Also, we have begun to establish new businesses, such as an entertainment portal site that will incorporate games, music, characters, commerce, and communication and will be accessible through a range of networks, such as mobile phones and PCs. Other new businesses include Internet advertising operations that leverage web sites and content with customer-drawing power. Through these initiatives, we will make a leap in becoming a comprehensive network company.

Net Sales



Operating Income / Operating Income Margin



Bandai Networks and NAMCO BANDAI Games developed *SD Gundam RPG* for mobile phones.

In addition to standby screen images and games, our content for mobile phones offers abundant variations, such as Internet-based sales.

We are developing a broad range of products sold only over the Internet, such as bike helmets with character themes.

Brand-New Synergies

Business Strategy

Visual and Music Content

Vision

Become a content production business group that can create quality content and achieve efficient management

Strategy

In the visual and music content business, our challenges include developing content businesses for new media and responding to new, advanced hardware.

Accordingly, we will build a business model for new media, such as visual and music content distribution and electronic publishing. At the same time, we will move quickly to make full use of the Group's content for new hardware.

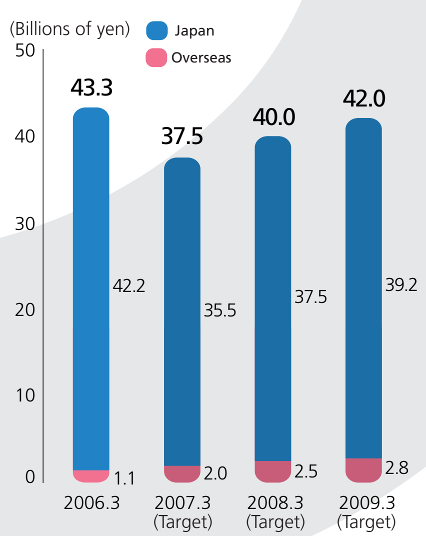
In the Medium-Term Management Plan, the Visual and Music Content SBU has the important role of original content creation in accordance with the "Entertainment Hub Concept," and the unit will also strive to enhance its ability to create or acquire content and will develop content for new media. Further, we will take strategic steps to bolster our presence as a content holder in such areas as broadband distribution and the operation of animation portal sites by establishing a new company, thereby maximizing the value of our content and, in turn, our profits.

The *Mobile Suit Gundam* series has maintained its popularity with a broad range of consumers, from children to adults, for more than 20 years.

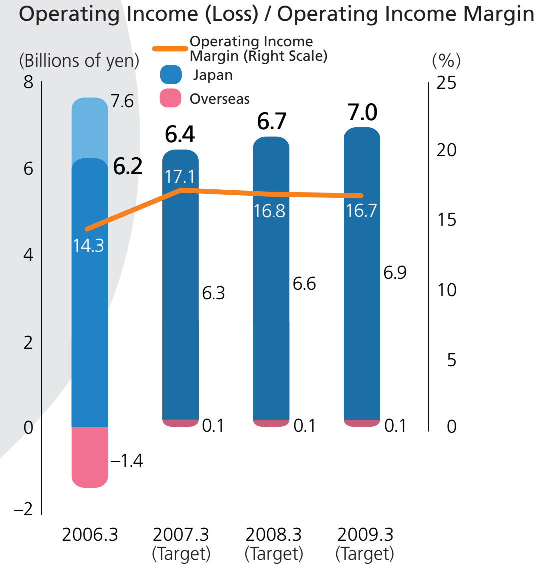
Three Group companies worked together to develop *THE WINGS OF REAN*, our first original animation for broadband.

The *.hack* series is utilizing a media mix that extends to TV animation, game software, and comics.

Net Sales



Operating Income (Loss) / Operating Income Margin



Directors and Corporate Auditors

(As of June 26, 2006)

President and Representative Director
Takeo Takasu

Director
Masahiro Tachibana

Director
Masaatsu Hayakawa

Director
Keiji Tanaka

Director
Junji Senda

Director (Part-time)
Kazunori Ueno

Director (Part-time)
Shukuo Ishikawa

Director (Part-time)
Jun Higashi

Director (Outside)
Masatake Yone

Director (Outside)
Kazuo Ichijo

Statutory Auditor (Full-time)
Koichiro Honma

Statutory Auditor (Full-time)
Katsutoshi Hirasawa

Statutory Auditor (Outside)
Osamu Sudo

Statutory Auditor (Outside)
Kouji Yanase

Corporate Governance

Fundamental Approach to Corporate Governance

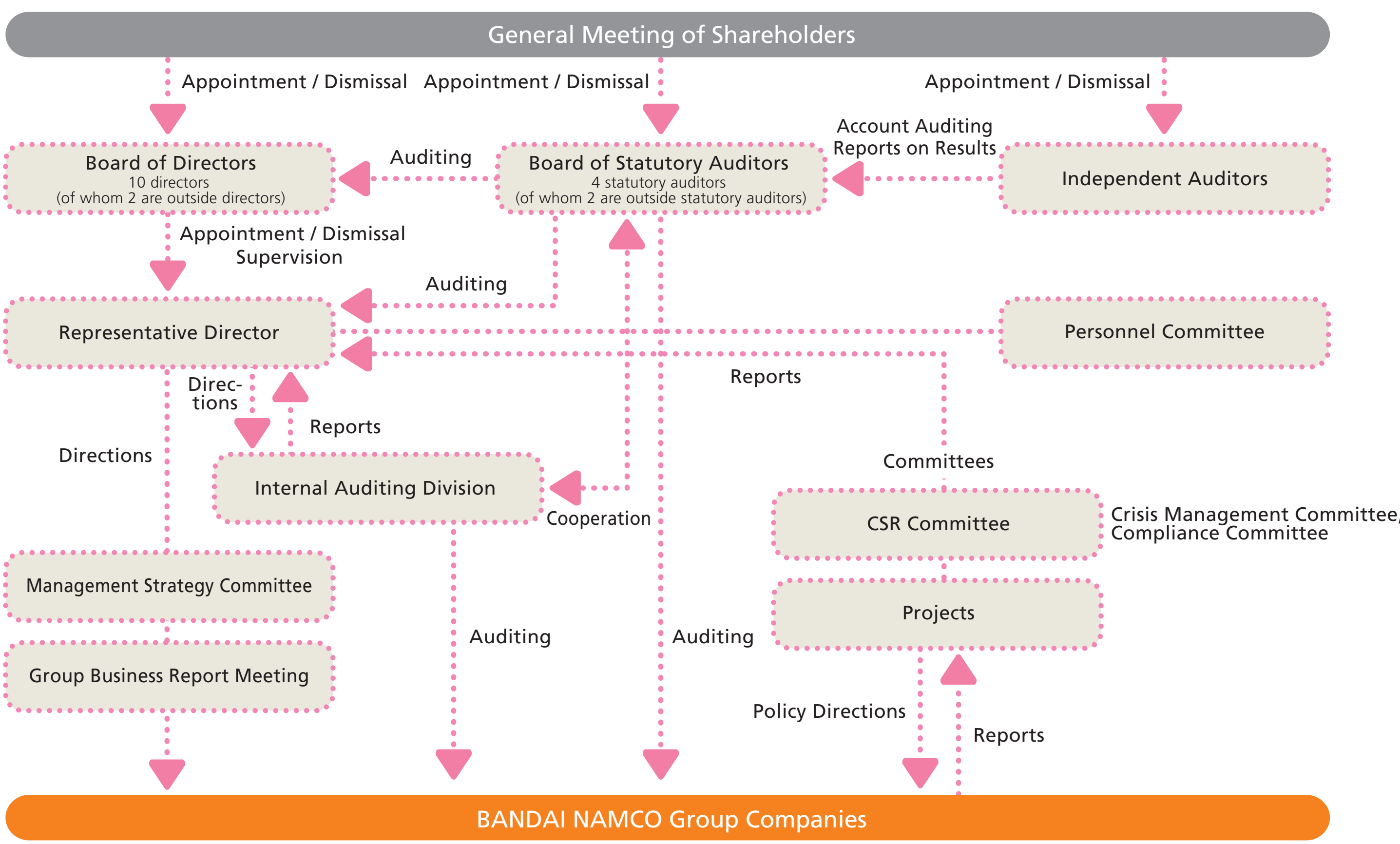
As the "World's Most Inspiring Entertainment Group," the BANDAI NAMCO Group will continue to provide "Dreams, Fun and Inspiration" to people around the world through entertainment. Our highest priority is the provision of benefits to all of the stakeholders who support our business activities. We believe that in striving to maximize enterprise value over the long term, bolstering corporate governance is an important management issue.

Corporate Governance System

The Company is working to enhance the supervision of management. The board of directors comprises 10 members, of whom 2 are outside directors. Moreover, in order to ensure that the Company responds to changes in the management environment as promptly as possible and to further clarify the responsibilities of directors, the term of directors has been set at one year or less.

The Company uses the statutory auditor system. The board of statutory auditors comprises four auditors, of whom two are outside auditors. Two of the statutory auditors are full-time. In accordance with the allocation of responsibilities as determined by the board of statutory auditors, each statutory auditor conducts audits, working with the independent auditors as needed.

The Internal Auditing Division rigorously audits business execution, and the independent auditors provide account auditing. With close interaction centered on the statutory auditors, the Company's internal control systems are continually monitored, and any issues are identified and recommendations for resolving those issues are provided.



Top management meetings attended by directors and statutory auditors are shown below.

Meeting Name	Schedule	Agenda / Purpose	Participants
Board of Directors	Monthly	Resolutions and reports on matters prescribed by the Company Law. Resolutions, deliberations, and reports on matters related to the BANDAI NAMCO Group.	Directors, statutory auditors
Management Strategy Committee	Monthly	Deliberations on BANDAI NAMCO Group management strategies, business creation, and business expansion.	Inside directors, full-time statutory auditors, others depending on meeting topics
Group Business Report Meeting	Monthly	Reports on BANDAI NAMCO Group business affairs and deliberations on business issues and problems.	Full-time directors, full-time statutory auditors, SBU representatives, others
Waigaya Meeting	Weekly	Weekly reports on divisions supervised by NAMCO BANDAI Holdings' directors.	Full-time directors, general managers

As shown in the table above, the Company holds a variety of top management meetings. With the representative director, the director with chief responsibility for information-related issues, and other directors attending these meetings, the BANDAI NAMCO Group has established a system that facilitates timely tracking and responding to Group management information. Moreover, the Company has established the Personnel Committee. Outside directors represent half of the members of this committee, which objectively and neutrally considers personnel and compensation issues regarding directors of the Company as well as other matters that are referred to it.

In addition, we hold regular meetings of the Compliance Committee, which is led by the president. This committee is in charge of monitoring and supervising important issues related to compliance and has established a system to prevent violations of laws and regulations and to ensure prompt action in the event of any incidents that could be a legal or regulatory violation.

In crisis management, the Crisis Management Committee, which is led by a director, meets on an as needed basis and works on behalf of the BANDAI NAMCO Group to prevent crisis situations and to ensure a prompt response if such situations do occur.

The Group comprises five Strategic Business Units (SBUs) and an Affiliated Business Group that handle Groupwide functions. In each SBU, operating strategies are formulated and implemented, centered on that SBU's core company.

Under the Medium-Term Management Plan that began in April 2006, management strategies are mainly implemented by the holding company and business strategies are mainly implemented by the SBUs. The key theme of the plan is "strengthening, enriching, and expanding the BANDAI NAMCO Group's portfolio management."

Overall Group strategies are formulated by such committees as the Management Strategy Committee, the Group Business Report Meeting, and the CSR Committee.

Internal Control Systems

From the fiscal year ending March 2007, to further enhance its internal control systems and to provide a sound foundation for internal control on a Groupwide basis, the Group has established basic policies in each of the following areas and is working to bolster its internal control systems.

1. A system for ensuring that the directors conform to laws, regulations, and the articles of incorporation in the execution of their duties.
2. A system for storing and controlling information concerning the execution of the duties of directors.
3. Regulations concerning the management of the risk of losses and other systems.
4. A system for ensuring that directors execute their duties efficiently.
5. A system for ensuring that employees' duties conform to laws, regulations, and the articles of incorporation.
6. A system for ensuring that work is carried out appropriately by the Group, comprising the company, its parent company, and its subsidiaries.
7. Items concerning employees requested by auditors to assist the auditors in the performance of their duties.
8. Items concerning the independence of such employees described in the previous section from the directors.
9. A system for reports by directors and employees to the statutory auditors and a system for other reports to the statutory auditors.
10. Other systems for ensuring that the audits performed by the statutory auditors are effective.

The BANDAI NAMCO Group's CSR Initiatives

The BANDAI NAMCO Group's corporate philosophy is to provide "Dreams, Fun and Inspiration" to people around the world through entertainment based on creativity and boundless enthusiasm. To ensure that we can continue to provide "Dreams, Fun and Inspiration," we have formulated Groupwide CSR initiatives that include three types of responsibilities.

In accordance with these basic responsibilities, a range of initiatives are implemented by the CSR Committee and its sub-committees, the Social Contribution Committee, the Environmental Project Committee, the Crisis Management Committee, and the Compliance Committee.

Legal and ethical responsibilities
(compliance)

Legal and ethical responsibilities (compliance)

We have formulated basic compliance standards for Group companies, officers, and employees in Japan and overseas, and we continually monitor the activities to ensure appropriate observance of legal and ethical standards.

Environmental and social responsibilities
(safety / quality, environmental conservation, cultural / social support activities)

Environmental and social responsibilities

(safety / quality, environmental conservation, cultural / social support activities)

Safety / quality initiatives

We follow industry and in-house standards, and we have built a system that facilitates the achievement of higher levels of safety and quality, so that customers can use our products with confidence.

Environmental conservation initiatives

We are aggressively implementing forward-looking environmental conservation measures to ensure that we can continue to provide "Dreams, Fun and Inspiration" to people around the world.

Cultural / social support activities

We are also active in areas outside the provision of products and services, such as museum operations and volunteer activities.

Economic responsibilities

Economic responsibilities

We are continually working to enhance management transparency and monitoring the management plans and conditions of Group companies. Moreover, we are working to provide maximum returns to society and stakeholders by selecting the optimal operational fields for Group development and focusing our management resources in these fields.

Topics

Manufacturing Safe, Reliable Products

Dropping products to test for quality

In the Group's broad range of product fields, we follow all legal and industry quality and safety standards, and we have also established our own more-rigorous in-house standards, which are updated as needed, such as due to changes in the operating environment.

For example, to verify such characteristics as safety, strength, and durability, Bandai has more than 300 inspection items. In accordance with product characteristics, appropriate items are selected for inspections. In addition, for NAMCO BANDAI Games arcade game machines, we design parts and systems with concern not only for customer safety but also for maintenance in the arcades.

Packaging Reduction

In addition to implementing measures to reduce packaging, such as decreasing packaging space ratios and developing packaging-free products, we are also working to shift toward the use of lower-environmental-impact packaging. Furthermore, we are working to reduce waste by taking measures with the packaging used for the distribution of amusement machines and other products.

Packaging-free product from Bandai

Social Welfare

NAMCO's *TalkingAid*

In 1985, we developed *TalkingAid*, a portable assistance device for people that have difficulty in speaking, and since that time we have continued to improve this product and enhance its functionality. We also develop and market rehabilitation-entertainment machines, which are enhanced versions of arcade game machines that are designed to provide both fun and physical rehabilitation. In 2005, we used the experience that we have cultivated in these operations to open *Kaikaya*, a day-care service center for senior citizens. Through these initiatives, we are implementing a range of activities that combine entertainment and social welfare.

Wide-Ranging Environmental Impact Reduction

Bandai Hobby Center
(plastic model plant)

Bandai Logipal low-emission truck

Bandai Logipal has acquired Green Management Certification, which is given to transportation companies that implement low-environmental-impact operations. Furthermore, NAMCO ECOLOTECH is conducting product planning, development, and sales of low-environmental-impact products, such as waste processing equipment and deodorization equipment.

In addition, we are conducting green procurement in arcade game machine operations and implementing a range of energy-saving and resource conservation measures at Group work sites.

At the Bandai Hobby Center, a plastic model plant that opened in 2006, we are taking a range of steps—such as the use of solar power generation and raw material recycling—with the goal of making it the first plant in the domestic toy industry to receive green certification.

Human Resources

The BANDAI NAMCO Group believes that its employees are its most important asset. Accordingly, we are working to create systems and environments that help employees to maximize their abilities.

In order to provide a challenging environment to bring out the best in our employees, we recruit for open positions on a Groupwide basis. In addition, we solicit proposals for new businesses and internal reforms, provide monetary support for promising plans, and work to implement them. We also have a range of training programs, such as a training program for next-generation leaders that is attended by Group employees. Moreover, with a range of systems to support a balance between home and work life, such as maternity and child-care leave, we are working to support our employees.

Social Contribution

Bandai's World Toy Museum

We are conducting a variety of activities to help children enjoy culture and science, such as operating the World Toy Museum, which has a collection of antique toys from the 18th to 20th centuries, and holding events that draw on a collection that includes many items created by the famous inventor Thomas Edison. In addition, the Group supports the activities of Japan's Toy Libraries through such means as donations to the Japan Toy Library Foundation, which provides children who have physical and mental challenges the chance to play with toys and have fun. We also provide assistance to the New Technology Foundation, which is active in R&D, promotion, and support activities in science and technology.

Local Community Contribution Activities

We have made space available in Bandai's head office for a child-care center that is certified by Tokyo prefecture. In addition, we are implementing a range of communication activities in local areas, such as inviting community residents to events at Bandai head office and holding events at amusement facilities.

Child-care center in Bandai's head office

Overview of Main Group Companies

(As of July 31, 2006)

NAMCO BANDAI Holdings Inc.	Planning and execution of medium- and long-term management strategies; support for business strategy implementation by Group companies (Tokyo Stock Exchange, First Section)
NAMCO BANDAI Holdings (USA) Inc.	Execution of North American regional strategy; management guidance and support for North American operating companies

Toys and Hobby Strategic Business Unit

Bandai Co., Ltd.	Planning, production, and sales of toys, apparel, and vending machine products, etc.
Megahouse Corporation	Planning, manufacturing, and sales of toys, etc.
Popy Co., Ltd.	Manufacturing and sales of toys, etc.
Seika Co., Ltd.	Planning, development, and sales of stationery and sundries, etc.
Seeds Co., Ltd.	Manufacturing of toys, etc.
Plex Co., Ltd.	Planning and design of character-based products
Sunlink Co., Ltd.	Operation and sales of vending machine products, etc.
People Co., Ltd.*	Planning, manufacturing, and sales of toys for infants (JASDAQ)
Bandai America Incorporated	Sales of toy-related products
BANDAI S.A.	Regional management functions; sales of toy-related products
BANDAI U.K. LTD.	Sales of toy-related products
BANDAI ESPAÑA S.A.	Sales of toy-related products
BANDAI (H.K.) CO., LTD.	Regional management functions; import, export, manufacturing, and sales of toy-related products
BANDAI ASIA CO., LTD.	Sales of toy-related products
BANDAI INDUSTRIAL CO., LTD.	Manufacturing of toy-related products
BANDAI KOREA CO., LTD.	Manufacturing, import, and sales of toys, etc., and licensing operations
CREATIVE B WORKS CO., LTD.	Sales of toy-related products

Amusement Facility Strategic Business Unit

NAMCO LIMITED	Management of amusement facilities
Pleasure Cast Co., Ltd.	Operation of amusement facilities
Hanayashiki Co., Ltd.	Operation of Asakusa Hanayashiki amusement park
St. Tropez Ltd.	Management of amusement facilities; real estate leasing operations
NAMCO SPA RESORT LTD.	Management of spa facilities
Yunokawa Kanko Hotel Co., Ltd.	Management of tourist hotels
NAMCO CYBERTAINMENT INC.	Management of amusement facilities
NAMCO OPERATIONS EUROPE LTD.	Management of amusement facilities
NAMCO OPERATIONS SPAIN S.L.	Management of amusement facilities
NAMCO ENTERPRISES ASIA LTD.	Management of amusement facilities
SHANGHAI NAMCO LTD.*	Management of amusement facilities; manufacturing and sales of amusement machines, etc.

* Companies accounted for by the equity method

Game Contents Strategic Business Unit

NAMCO BANDAI Games Inc.	Planning, development, and sales of game software and arcade machines, etc.
Banpresto Co., Ltd.	Planning, development, and sales of arcade machines, amusement prizes, and game software
Bec Co., Ltd.	Planning and development of game software
Banpresto Sales Co., Ltd.	Sales of amusement prizes, etc.
Banpresoft Co., Ltd.	Planning and development of game software
Monolith Software Inc.	Planning, development, and sales of game software
NAMCO TALES STUDIO LTD.	Planning, development, and sales of game software
BANPRESTO (H.K.) LTD.	Manufacturing and production management of arcade machines and prizes
NAMCO BANDAI Games America Inc.	Planning, development, and sales of game software
NAMCO AMERICA INC.	Sales of arcade machines
NAMCO NETWORKS AMERICA INC.	Development and distribution of content for mobile phones
NAMCO EUROPE LTD.	Regional management functions; manufacturing and sales of arcade machines and development and distribution of content for mobile phones
NAMCO BANDAI Games Europe SAS	Sales of game software, etc.

Network Strategic Business Unit

Bandai Networks Co., Ltd.	Development and provision of network content and network solutions (JASDAQ)
VIBE Inc.	Development and provision of network content and network advertising

Visual and Music Content Strategic Business Unit

Bandai Visual Co., Ltd.	Planning, production, and sales of visual software, etc. (Tokyo Stock Exchange, First Section)
Sunrise Inc.	Planning and production of animation
Bandai Channel Co., Ltd.	On-demand delivery of content, such as animations
Lantis Co., Ltd.	Planning, production, sales, and management of music content
BANDAI ENTERTAINMENT INC.	Planning, production, sales, and copyright management of visual content

Affiliated Business Group

Bandai Logipal Inc.	Logistics management, warehousing, and transportation operations
Banalex Corporation	Staffing services, leasing and financial services, and building management
Artpresto Co., Ltd.	Planning and design of various printed materials
NAMCO ECOLOTECH LTD.	Development and sales of environmental equipment
NAMCO SUPPORTERS LTD.	Building management, real estate, and insurance agency
NAMCO TRADING LTD.	Vending machine installation and management; distribution of content for mobile phones
Happinet Corporation*	Wholesale of toys and video game consoles (Tokyo Stock Exchange, First Section)
Sotsu Agency Co., Ltd.*	Planning and development of advertising and copyright business (JASDAQ)
Italian Tomato Ltd.*	Management of directly operated restaurants; franchise operations

* Companies accounted for by the equity method

Financial Section

Contents

Consolidated Six-Year Financial Summary

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

Millions of yen except per share data and main financial indicators

For the years ended March 31		2001*1	2002*1	2003*1	2004*1	2005*1	2006
For the Year:							NAMCO BANDAI Holdings Inc. (Consolidated)
Net sales	BANDAI	¥217,010	¥227,930	¥244,950	¥263,175	¥269,946	¥450,829
	NAMCO	¥146,554	¥152,136	¥154,777	¥172,594	¥178,552	
Gross profit	BANDAI	79,918	90,866	106,801	116,258	116,801	156,565
	NAMCO	25,816	34,853	37,529	49,088	47,555	
Selling, general and administrative expenses	BANDAI	64,102	70,102	80,932	88,607	92,403	120,896
	NAMCO	28,682	28,720	28,059	33,658	32,469	
Operating income (loss)	BANDAI	15,816	20,764	25,869	27,651	24,398	35,669
	NAMCO	(2,866)	6,133	9,470	15,430	15,086	
Recurring income (loss)*2	BANDAI	16,346	21,993	26,435	27,222	25,724	37,122
	NAMCO	(3,477)	4,664	8,777	14,428	14,589	
Net income (loss)	BANDAI	12,897	10,644	12,667	14,207	11,225	14,150
	NAMCO	(6,000)	2,035	4,116	7,546	9,465	
Capital expenditures	BANDAI	7,107	7,212	8,593	11,576	11,539	24,020
	NAMCO	16,197	11,943	10,376	14,009	13,155	
Depreciation	BANDAI	6,362	6,505	6,885	7,149	7,947	19,144
	NAMCO	14,623	14,085	11,227	11,104	11,173	
Cash flows from operating activities	BANDAI	14,838	26,568	28,009	20,033	14,839	31,809
	NAMCO	12,332	15,368	15,890	12,931	3,172	
At Year-End:							
Total assets	BANDAI	¥205,558	¥197,424	¥225,683	¥228,076	¥240,290	¥386,651
	NAMCO	¥138,962	¥144,140	¥143,214	¥148,117	¥154,474	
Current assets	BANDAI	121,017	126,966	158,782	163,131	173,402	240,635
	NAMCO	51,261	61,346	68,089	73,614	82,666	
Current liabilities	BANDAI	67,409	62,208	67,215	61,319	68,862	107,528
	NAMCO	30,275	29,659	35,920	33,860	33,219	
Total shareholders' equity	BANDAI	107,217	107,305	116,116	121,068	131,750	243,607
	NAMCO	91,646	96,133	96,647	101,811	107,773	
Per Share Data (yen):							
Net income (loss) per share	BANDAI	¥ 265.47	¥217.62	¥254.09	¥142.28	¥111.13	¥54.39
	NAMCO	¥(109.09)	¥ 36.95	¥ 72.35	¥133.00	¥ 83.63	
Cash dividends	BANDAI	30.00	30.00	40.00	22.50	30.00	12.00*6
	NAMCO	15.00	17.00	30.00	40.00	40.00	
Main Financial Indicators (%):							
Return on equity (ROE)*3, 5	BANDAI	12.9%	9.9%	11.3%	12.0%	8.9%	5.8%
	NAMCO	(6.3)%	2.2%	4.3%	7.6%	9.0%	
Return on assets (ROA)*4, 5	BANDAI	7.7	10.9	12.5	12.0	11.0	9.6
	NAMCO	(2.3)	3.3	6.1	9.9	9.6	
Selling, general and administrative expenses to net sales	BANDAI	29.5	30.8	33.0	33.7	34.2	26.8
	NAMCO	19.6	18.9	18.1	19.5	18.2	
Operating income (loss) to net sales	BANDAI	7.3	9.1	10.6	10.5	9.0	7.9
	NAMCO	(2.0)	4.0	6.1	8.9	8.4	
Net income (loss) to net sales	BANDAI	5.9	4.7	5.2	5.4	4.2	3.1
	NAMCO	(4.1)	1.3	2.7	4.4	5.3	
Shareholders' equity ratio	BANDAI	52.2	54.4	51.5	53.1	54.8	63.0
	NAMCO	66.0	66.7	67.5	68.7	69.8	
Debt/equity ratio	BANDAI	33.8	18.1	31.6	21.1	21.4	13.3
	NAMCO	19.3	18.6	16.3	6.7	6.7	

*1 Figures for 2001 to 2005 are the consolidated figures for Bandai and NAMCO prior to the management integration.
*2 Recurring income (loss) is a Japanese accounting term denoting income before extraordinary items.
*3 ROE = Net income (loss) / Average total shareholders' equity
*4 ROA = Recurring income (loss) / Average total assets
*5 Figures for total assets and shareholders' equity as of March 31, 2006, are used in calculating ROA and ROE for the fiscal year ended March 2006.
*6 In lieu of interim dividends, share transfer payments of ¥18 per share were paid to shareholders of Bandai and ¥12 were paid to shareholders of NAMCO.

Financial Review

Overview of Performance

In the fiscal year ended March 31, 2006, corporate earnings were strong in Japan and corporate sentiment improved moderately. In addition, capital investment continued to increase. Although rising crude oil prices and other factors adversely affected consumer spending, employees' wages followed a moderate upward trend, and consumer spending was firm overall.

In the entertainment industry, global competition intensified further due to the spread and expansion of network environments stemming from technological innovation. In Japan, the markets are characterized by ongoing trends of fewer children per family household and greater diversity in leisure activities. As a result, to secure stable revenues, companies must attract customers through aggressive research and development activities and the creation and availability of appealing products and services.

In the current environment, on September 29, 2005, Bandai Co., Ltd., and NAMCO LIMITED implemented a management integration to establish NAMCO BANDAI Holdings Inc., thereby broadening and strengthening their business operations and enhancing shareholder value.

During the year under review, the *Tamagotchi Plus* series was popular around the world, and strong performances were reported by *Tamagotchi Connection: Corner Shop* for the Nintendo DS and *Mario Kart Arcade GP*, an arcade game machine. The *Mobile Suit Gundam* series benefited from Group synergies and made a solid contribution to the Company's performance. However, in the home video game software market, in addition to sluggish market conditions, the Company was unable to respond swiftly to changing customer preferences, and sales of major titles were weak.

Net Sales:

The Company reported consolidated net sales of ¥450.8 billion. In the domestic market, sales were ¥374.3 billion. Overseas, sales were ¥44.1 billion in the Americas, ¥31.2 billion in Europe, and ¥32.1 billion in Asia.

Cost of Sales:

Cost of sales was ¥294.3 billion, and the ratio of cost of sales to net sales was 65.3%. Gross profit was ¥156.6 billion.

SG&A Expenses:

Selling, general and administrative (SG&A) expenses were ¥120.9 billion, and the ratio of SG&A expenses to net sales was 26.8%. Major items included advertising and promotion of ¥31.1 billion, directors' remuneration and employees' wages of ¥28.2 billion, retirement and severance benefits of ¥1.1 billion, and R&D expense of ¥20.2 billion.

Operating Income:

Operating income was ¥35.7 billion, and the operating income margin was 7.9%.

Other Income (Loss):

Gain on sales of investment securities was ¥3.1 billion, while loss on impairment of fixed assets was ¥3.0 billion. As a result, net other loss was ¥0.1 billion.

Net Income:

With conditions in the game market expected to remain challenging, the Company strictly assessed inventories, such as inventories of home video game software, and recorded a valuation loss. In addition, from a conservative accounting perspective, we established a valuation allowance against deferred income tax assets at the beginning of the fiscal year. As a result, net income was ¥14.2 billion and net income per share was ¥54.39.

Business Segment Overview

Toys and Hobby SBU

In Japan, the *Tamagotchi Plus* series, including related products, reported extremely strong results. In addition, *DATA CARDDASS*, which combines digital data and card games, also performed well, principally with such characters as *Dragon Ball Z*. Other popular products included girls' toys and children's apparel based on the *Pretty Cure: Max Heart* line, *Power Rangers* toys for boys, and children's apparel and goods based on *MUSHIKING: The King of Beetles*.

Overseas, the Company worked to build a stable revenue platform in the Americas by implementing the principles of selection and concentration in characters and product categories. Sales in Europe and Asia remained strong, centered on the *Power Rangers* and *Tamagotchi* series.

As a result, the Toys and Hobby SBU recorded sales of ¥181.0 billion and operating income of ¥19.1 billion.

Amusement Facility SBU

In Japan, the Company took steps to activate the amusement facility market, such as launching *Mario Kart Arcade GP* in the second half of the fiscal year. We also focused on attracting new customers with a newly developed food theme park and a full-scale entry into the spa resort facility business. However, these initiatives were not sufficient to offset the sluggish market conditions in the first half of the fiscal year and the declining popularity of prize game machines. Net sales at existing directly managed locations and amusement facilities were down 1.5% from the previous year.

Overseas, we continued taking steps to counter challenging market conditions in the Americas, such as expanding revenue-sharing locations (where revenues derived from coin-operated game machines are shared), closing unprofitable sites, and implementing other cost-cutting measures. Nonetheless, successive hurricanes, rising gasoline prices, and other factors had a negative effect on market conditions, which were sluggish overall. Net sales at existing directly managed locations were down 3.0% from the previous year. In Europe, sales were strong, particularly at amusement complexes in the United Kingdom, and in Asia the Company intensified its product development, based on prize games and other original products.

As a result, the Amusement Facility SBU recorded net sales of ¥79.4 billion and operating income of ¥2.5 billion. At the end of the fiscal year, we had a total of 1,683 facilities—464 directly managed facilities, 1,215 revenue-sharing facilities, and 4 theme parks.

Game Contents SBU

In the home video game software market, sales of *Tamagotchi Connection: Corner Shop* for the Nintendo DS surpassed one million units in Japan. *Super Robot Wars* α *3*, *Tales of the Abyss*, and *Dragon Ball Z Sparking!*—all for the PlayStation 2—were also popular in the domestic market. In general, however, the market was sluggish, and the Company was unable to respond swiftly to changing customer preferences, both in Japan and overseas. In addition, sales of other major game titles were slack, and the Company recorded valuation losses on inventory. Overall, our performance was weak in this business.

In the arcade game machines market, sales of *Mario Kart Arcade GP*, a game for arcade game machines, were extremely strong worldwide. In addition, *Idol M@ster* registered a solid performance in Japan, and *Wangan Midnight MAXIMUM TUNE 2* performed strongly in the Americas.

NAMCO's content for mobile phones and other mobile platforms includes *TAIKO: Drum Master* and the *Tales of . . .* series, which were popular in the domestic market, with the number of subscribers increasing 2.9%, to 980 thousand subscribers at the end of the year under review. In the Americas, more mobile carriers are offering games and the number of subscribers is increasing. In Europe, however, delays in introducing new services and other factors resulted in weak results.

As a result, the Game Contents SBU recorded net sales of ¥130.4 billion and operating income of ¥10.5 billion.

Network SBU

In its content distribution services for mobile phones, Bandai Networks Co., Ltd., recorded a decrease in the number of subscribers for stand-by screens and wallpaper, and as a result the total number of fee-paying subscribers declined. At the end of the fiscal year under review, Bandai Networks had 3,960,000 paid subscribers, a decline of 3.3% from the previous fiscal year-end. In this setting, the company took steps to reinforce its revenue base by actively introducing high-value-added content, such as *Gundam Network Online Mobile*, a *Mobile Suit Gundam* simulation game. As a result, the average revenue per subscriber increased. Strong contributions to Bandai Network's performance were also made by the provision of new technologies—such as 2D Vector Engine, which enables the display of animation on a mobile phone, and 3D Engine, which delivers three-dimensional renderings of characters—as well as by solutions services for corporations and web content.

Moreover, in the fiscal year under review, Bandai Networks entered a tie-up with VIBE Inc., a provider of music-related content to a variety of mobile communications companies. VIBE has become a consolidated subsidiary of NAMCO BANDAI Holdings.

As a result, the Network SBU recorded net sales of ¥12.5 billion and operating income of ¥1.8 billion.

Visual and Music Content SBU

In Japan, the *Mobile Suit Gundam* series fostered powerful Group synergies and made a substantial contribution to the SBU's performance. The *Mobile Suit Gundam SEED DESTINY*, an animated television series, *Mobile Suit Gundam* series of theatrical films, and packages all garnered strong popularity. Sales of DVD videos for rental use also performed well, with support from an expanding market.

Overseas, the market in the Americas was sluggish, and returns of unsold items increased, resulting in a weak performance.

In September 2005, NAMCO LIMITED transferred a portion of the shares it held in Nikkatsu Corporation to Index Corporation. As a result of this transaction, Nikkatsu ceased to be a consolidated subsidiary of the Company.

As a result, the Visual and Music Content SBU recorded net sales of ¥43.3 billion and operating income of ¥6.2 billion.

Other Businesses

In logistics and other support services, we have taken steps to increase efficiency. In social welfare, in consideration of Japan's aging population, the Group opened a second *Kaikaya* day service center and began sales of *TalkingAid Light*, a portable communication support device for people with disabilities and senior citizens that is lighter in weight compared to the conventional devices.

As a result, Other Businesses recorded net sales of ¥23.1 billion and an operating loss of ¥0.2 billion.

■ Geographic Segment Overview

Japan

In the Toys and Hobby SBU, favorable performances were recorded by the *Tamagotchi Plus* series, *DATA CARDDASS*, which integrates digital data and card games, and girls' toys and children's apparel, centered on *Pretty Cure: Max Heart*.

In the Amusement Facility SBU, we took steps to activate our operations with the launch of original products in the second half of the fiscal year and we worked to acquire new customers. Nonetheless, these initiatives could not offset weak market conditions in the first half of the fiscal year and the declining popularity of coin-operated prize game machines.

In the Game Contents SBU, popular home video game software titles included *Tamagotchi Connection: Corner Shop* for the Nintendo DS and *Super Robot Wars α 3* for the PlayStation 2. However, in addition to sluggish market conditions, we failed to respond quickly to changes in consumer needs. Sales of other main titles declined steeply compared with previous versions, resulting in a weak performance. On the other hand, sales of arcade game machines, such as *Mario Kart Arcade GP*, were strong.

In the Network SBU, specifically in content distribution services for mobile phones and other mobile platforms, we reinforced our profit foundation by actively launching high-value-added content, leading to an increase in average revenue per subscriber.

In the Visual and Music Content SBU, the *Mobile Suit Gundam* series generated strong synergies and made a substantial contribution to results.

As a result, net sales in Japan totaled ¥374.3 billion and operating income was ¥37. 6 billion.

The Americas

In the Americas, we worked to establish a stable foundation for the Toys and Hobby SBU through a strategy of selection and concentration for characters and product categories. The Game Contents SBU recorded favorable sales of arcade game machines, such as *Mario Kart Arcade GP*.

However, in home video game software, sales of main titles declined substantially in comparison with previous versions, and as a result overall performance was poor. To counter challenging market conditions, the Amusement Facility SBU continued to take such steps as expanding facilities operated under revenue-sharing arrangements, closing unprofitable establishments, and trimming costs. Despite these efforts, overall performance was sluggish, as successive hurricanes, rising gasoline prices, and other factors had an adverse effect on market conditions. Furthermore, performance in the Visual and Music Content SBU was poor as slack market conditions prompted increased product returns.

As a result of these factors, in the Americas we recorded sales of ¥44.1 billion and an operating loss of ¥3.3 billion.

Europe

In Europe, the Toys and Hobby SBU recorded a strong performance, centered on the *Power Rangers* and *Tamagotchi* series. In the Amusement Facility SBU, amusement complexes proved popular in the United Kingdom, and the Game Contents SBU registered favorable results with software for home video games, such as *Tekken 5: Dark Resurrection* and *Dragon Ball Z Budokai 4* (Japanese product name: *Dragon Ball Z Sparking!*), both products for the PlayStation 2. In coin-operated game machines, *Mario Kart Arcade GP* turned in a solid performance.

As a result, net sales in Europe were ¥31.2 billion and operating income was ¥4.3 billion.

Asia (excluding Japan)

In Asia, the Toys and Hobby SBU registered solid results, centered on the *Power Rangers* and *Tamagotchi* series. In the Amusement Facility SBU, we reinforced business development through the use of prize games and original products.

As a result, net sales in Asia were ¥32.1 billion and operating income was ¥2.3 billion.

■ Financial Position

At the end of the fiscal year, on a consolidated basis, current assets were ¥240.6 billion, investments and other assets were ¥54.9 billion, property, plant and equipment totaled ¥74.1 billion, intangible assets were ¥17.0 billion, and total assets were ¥386.7 billion.

Current liabilities were ¥107.5 billion, long-term liabilities were ¥26.9 billion, and total liabilities at year-end were ¥134.4 billion.

Total shareholders' equity at year-end was ¥243.6 billion, and the shareholders' equity ratio was 63.0%. In addition, the current ratio* was 2.2 times, and the quick ratio* was 1.7 times. The interest coverage ratio* was 125.4 times.

* Current ratio: Current assets / Current liabilities
  Quick ratio: (Cash and time deposits + Short-term investments + Trade receivables) / Current liabilities
  Interest coverage ratio: (Operating income + Interest income + Dividend income) / Interest expense

■ Cash Flow

Cash and cash equivalents at the end of the fiscal year totaled ¥113.2 billion.

Cash flows from operating activities

Net cash provided by operating activities was ¥31.8 billion, due primarily to ¥35.6 billion in income before income taxes and minority interests.

Cash flows from investing activities

Net cash used in investing activities was ¥24.4 billion. Major items included ¥18.0 billion for the acquisition of shares in consolidated subsidiaries, net of cash acquired, following the acquisition of shares in Banpresto Co., Ltd., and ¥9.9 billion in purchases of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities was ¥20.0 billion. Major items included ¥11.0 billion in redemption of bonds, including bonds of Bandai, and ¥10.6 billion for purchase of treasury stock.

In the fiscal year ending March 31, 2007, the Company expects net cash provided by operating activities to increase, reflecting improved results, while the levels of net cash used in investing activities and financing activities should remain high due to such factors as capital investments. The net change in cash and cash equivalents is expected to remain the same as in the fiscal year ended March 31, 2006, and as a result, cash and cash equivalents at the end of March 2007 will remain consistent with the prior year.

■ Basic Policy on the Distribution of Profits and the Payment of Dividends

The Company places a high priority on the distribution of profits to shareholders, and its basic policy for the payment of dividends is to continue to pay dividends and raise enterprise value while further strengthening the Group's competitiveness and maintaining a sound financial position. Specifically, our objectives are to maintain a base level of annual per share dividend payments of ¥24 and a consolidated dividend payout ratio of 30%.

Internal reserves will be used for aggressive investment for the purpose of enhancing enterprise value, such as investment to develop new operational fields and M&A and alliance initiatives.

In lieu of interim dividends, share transfer payments of ¥18 per share were paid to shareholders of Bandai and ¥12 were paid to shareholders of NAMCO. In accordance with the Company's basic policy, year-end dividend payments were ¥12 per share.

■ Targets and Management Indicators

The Group uses ROA and ROE for the medium-term management indicators. The Group believes that it can reinforce and stabilize its management foundation over the medium to long term by striving to consistently utilize all of its assets and shareholders' equity effectively.

In fiscal year ending March 2009, the final year of the Medium-Term Management Plan that the Group rolled out in April 2006, our targets, on a consolidated basis, are ROA of 13.5% and ROE of 10.0%. We will strive to further increase management efficiency and expand operations.

■ Outlook for the Fiscal Year Ending March 2007

Although there are positive signs in employment and consumer spending, stemming from improved corporate performances and increased capital investment, there is cause for concern, such as rising crude oil prices, and the economic outlook remains uncertain.

In this environment, the Group will work to strengthen, enrich, and expand its portfolio management, based on the three-year Medium-Term Management Plan launched in April 2006.

In the Toys and Hobby SBU, in addition to popular characters from *Power Rangers* (*Boukenjer*), *Mobile Suit Gundam*, and *Tamagotchi*, we will work to create and develop new characters and to further strengthen content offerings targeting a wide range of customers. Moreover, in the Americas, we will strive to establish a stable foundation by implementing the principles of selection and concentration for characters and product categories.

In the Amusement Facility SBU, we will work to increase sales by actively opening large facilities and introducing new business formats. At the same time, we will strive to expand profits by sharing our experience for low-cost operations. Moreover, in the Americas, we will continue to increase the number of revenue-sharing locations and reduce costs.

In the Game Contents SBU, in order to facilitate prompt responses to rapidly changing operating environments in Japan and overseas, we will work to meet customer needs and implement a balanced multiplatform strategy. At the same time, we will strive to increase the efficiency of sales and development activities. Furthermore, we will leverage the Group's strengths to generate sales of coin-operated game machines, such as *Mobile Suit Gundam: Senjo no Kizuna*.

In the Network SBU, we will provide high-value-added content for mobile platforms, such as *SD Gundam RPG,* and move ahead with planning and development targeting our entry into the field of video distribution. We will also reinforce our solutions operations and enlarge our mail-order site.

In the Visual and Music Content SBU, we will reinforce our existing DVD video business, such as through the sale of DVD box sets of the extremely popular *Mobile Suit Gundam TV 23* series. We will also work to respond to changes in the operating environment, such as new markets and media, while striving to expand our operations.

As a result, our consolidated financial forecasts for the fiscal year ending March 2007 are for net sales of ¥470.0 billion, an increase of 4.3%; recurring income of ¥40.5 billion, an increase of 9.1%; and net income of ¥22.0 billion, an increase of 55.5%.

■ Forward-Looking Statements

Forecasts for the next fiscal year and other future projections in this annual report are based on information available to the Group at the time they were made and are therefore subject to various risks and uncertainties. Actual results therefore may differ materially from projections for a variety of factors. Major factors that could influence results include changes in the Company and the Group's operating environment, market trends, and exchange rate fluctuations.

■ Business Risks

Risk factors related to the BANDAI NAMCO Group's businesses that might significantly affect decisions made by the investment community, include, but are not limited to, those listed below. These statements on risk are based on information available to the Group as of May 11, 2006.

1. Risks associated with the core business model

The Group's businesses are centered on products and services based on content, such as characters. Accordingly, the Group's operating results might be affected by changes in the popularity of specific content or related trends. Therefore, the Group is working to achieve stable earnings by strengthening, enriching, and expanding its portfolio management through three-dimensional and multi-lateral business administration. This portfolio management comprises business portfolios, in which the Group conducts operations in a diverse array of business domains; content portfolios, where many different content lines are developed; and regional portfolios, where businesses are conducted in regions around the world. In each business, the Group works to develop new content and conducts marketing activities designed to cultivate and develop that content over the long term.

2. Risks associated with overseas business expansion

The Group is aggressively expanding its business overseas. This initiative exposes the Group to a variety of risks, including business risks associated with regional characteristics, such as local media and distribution systems; risks associated with intellectual property rights, such as those related to counterfeit products; and risks associated with fluctuations in exchange rates. Operationally, the Group conducts sufficient research to minimize these risks and formulates countermeasures before proceeding with overseas business expansion. With respect to intellectual property rights, the Group cooperates with local government agencies and other authorities to identify counterfeit products, promote enhanced recognition of genuine products, etc. In addition, for foreign-exchange risks, the Group uses forward contracts to lower the risks from short-term fluctuations in the exchange rates for major currencies.

3. Retaining and developing employees

In the fast-changing entertainment industry, it is essential for the Group to retain and develop employees who can respond effectively to rapid changes. In addition to developing a compensation system that will facilitate the retention of these employees, the Group actively delegates authority. To develop the next generation of employees, the Group is devoting resources to training seminars and other development programs.

4. Risk associated with game contents business

In the game contents business, titles are a significant cause of fluctuations in profits, and there is a risk that changes in the timing of product launches will affect earnings in a given period. The Group tightly controls software development schedules for every game while striving to diversify risks by flexibly developing multiple products with different software characteristics and development periods. Moreover, with a slowdown in sales associated with the launch of new game platforms and with customer needs diversifying, market conditions remain marked by uncertainty. The Group is therefore working to implement a title composition that is balanced across individual game platforms and to respond promptly to customer needs.

5. Risks associated with advances in and new generations of platforms

In developing game content, visual content, and network content, the Group faces the risk of delays in responding to advances in and new generations of content-provision platforms and the risk of delays in changing its business models in response to these developments. The Group conducts research into new technologies and works to develop competitive content that is in step with the latest advances. At the same time, the Group actively works to acquire expertise on new business models. Additionally, the Group takes steps to further develop the content that it has created and to acquire rights to new content.

6. Decline in domestic birthrate

In the future, an ongoing decline in the domestic birthrate might affect the financial results of the Group. Accordingly, the Group has been expanding the scope and target of its business activities in Japan and is aggressively taking steps to expand its operations in overseas markets.

7. Concentration of production in China

In the Group's Toys and Hobby SBU, approximately 90% of the toys are manufactured in China. The Group faces the risk of higher production costs from the revaluation of the yuan and country risk stemming from the regional concentration of production. In response, the Group is working to reduce production costs and to diversify its production bases into Southeast Asia and other regions.

8. Risks from higher crude oil prices

The Group faces the risk that higher crude oil prices could lead to higher production costs from increased product raw material prices and to higher transportation costs. Accordingly, the Group is working to standardize the metal casts and molds used for character toys marketed worldwide and to reduce costs by enhancing the efficiency of processes, ranging from production to distribution.

Additional risks include disasters, such as natural disasters or accidents, changes in laws and regulations, defective or deficient products or services, leaks of customer information, and litigation associated with business activities. The Group maintains risk management systems and works to strengthen its management foundation in order to minimize the effects on its results in the unlikely event that any of these risks should materialize.

Consolidated Balance Sheet

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
As of March 31, 2006

	Millions of yen	Thousands of U.S. dollars (note 3)
	2006	2006
Assets		
Current assets:		
Cash and time deposits (note 4)	¥ 109,514	$ 932,272
Short-term investments (notes 4 and 5)	5,547	47,221
Trade receivables (note 6)	70,911	603,652
Allowance for doubtful receivables	(1,506)	(12,820)
Inventories (note 7)	27,530	234,358
Deferred tax assets (note 12)	7,038	59,913
Other current assets	21,601	183,884
Total current assets	240,635	2,048,480
Investments and other assets:		
Investment securities (note 5)	22,522	191,726
Guarantee money deposited	24,916	212,105
Deferred tax assets (note 12)	3,901	33,208
Other investments and assets	4,822	41,049
Allowance for doubtful receivables	(1,212)	(10,318)
Total investments and other assets	54,949	467,770
Property, plant and equipment:		
Buildings and structures	32,150	273,687
Amusement facilities and machines	87,048	741,024
Land	22,094	188,082
Other property, plant and equipment	55,141	469,405
Total	196,433	1,672,198
Less accumulated depreciation	(122,360)	(1,041,628)
Net property, plant and equipment	74,073	630,570
Intangible assets:		
Consolidation goodwill	7,668	65,276
Other intangible assets	9,326	79,391
Total intangible assets	16,994	144,667
Total assets	¥ 386,651	$ 3,291,487

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen	Thousands of U.S. dollars (note 3)
	2006	2006
Liabilities, minority interests and shareholders' equity		
Current liabilities:		
Short-term borrowings (note 9)	¥ 19,888	$ 169,303
Trade payables (note 10)	40,561	345,288
Accrued expenses	32,362	275,492
Accrued income taxes (note 12)	6,827	58,117
Other current liabilities (note 12)	7,890	67,166
Total current liabilities	107,528	915,366
Long-term liabilities:		
Long-term debt (note 9)	12,542	106,768
Accrued retirement and severance benefits (note 11)	2,970	25,283
Deferred tax liabilities (note 12)	7,283	61,999
Other long-term liabilities	4,084	34,765
Total long-term liabilities	26,879	228,815
Total liabilities	134,407	1,144,181
Minority interests	8,637	73,525
Shareholders' equity:		
Common stock (note 17)		
Authorized 1,000,000,000 shares;		
issued 260,580,191 shares	10,000	85,128
Additional paid-in capital (note 17)	95,772	815,289
Retained earnings (note 15)	164,504	1,400,392
Land revaluation difference (notes 12 and 16)	(21,460)	(182,685)
Other securities valuation difference (notes 5 and 12)	4,145	35,286
Translation adjustment	1,802	15,340
Total	254,763	2,168,750
Treasury stock, at cost; 7,616,892 shares	(11,156)	(94,969)
Total shareholders' equity	243,607	2,073,781
Contingencies (note 20)		
Total liabilities, minority interests and shareholders' equity	¥386,651	$3,291,487

Consolidated Statement of Income

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Year Ended March 31, 2006

	Millions of yen	Thousands of U.S. dollars (note 3)
	2006	2006
Net sales	¥450,829	$3,837,822
Cost of sales	294,264	2,505,014
Gross profit	156,565	1,332,808
Selling, general and administrative expenses (note 13)	120,896	1,029,165
Operating income	35,669	303,643
Other income (loss):		
Interest and dividend income	960	8,172
Interest expense	(292)	(2,486)
Gain on sales of investment securities	3,073	26,160
Loss on valuation of investment securities	(260)	(2,213)
Gain (loss) on sales and disposal of property, plant and equipment	(68)	(579)
Loss on impairment of fixed assets (note 8)	(3,001)	(25,547)
Other	(511)	(4,349)
	(99)	(842)
Income before income taxes and minority interests	35,570	302,801
Income taxes (note 12)	19,282	164,145
Minority interests	2,138	18,200
Net income	¥ 14,150	$ 120,456

	Yen	U.S. dollars (note 3)
Data per common share (note 14):		
Net assets at March 31	¥961.36	$8.18
Net income:		
Basic	54.39	0.46
Diluted	54.37	0.46
Dividend applicable to period (note 15)	12.00	0.10

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Year Ended March 31, 2006

	Millions of yen	Thousands of U.S. dollars (note 3)
	2006	2006
Common stock (note 17):		
Balance at beginning of year	¥ 10,000	$ 85,128
Balance at end of year	10,000	85,128
Additional paid-in capital:		
Balance at beginning of year	92,034	783,468
Exercise of stock option	397	3,380
Issuance of stock	3,341	28,441
Balance at end of year	95,772	815,289
Retained earnings (note 15):		
Balance at beginning of year	158,182	1,346,574
Net income	14,150	120,456
Increase in retained earnings due to exclusion of consolidated subsidiaries	29	247
Increase in retained earnings due to increase in the number of companies in equity method	15	128
Reversal of land revaluation difference	303	2,579
Cash dividends	(4,416)	(37,593)
Cash payment for share transfer	(3,013)	(25,649)
Bonuses to directors and corporate auditors	(559)	(4,758)
Decrease in retained earnings due to exclusion of consolidated subsidiaries	(187)	(1,592)
Balance at end of year	164,504	1,400,392
Land revaluation difference (notes 12 and 16):		
Balance at beginning of year	(21,163)	(180,157)
Net change during year, net of tax	(297)	(2,528)
Balance at end of year	(21,460)	(182,685)
Other securities valuation difference (notes 5 and 12):		
Balance at beginning of year	2,932	24,960
Net change during year, net of tax	1,213	10,326
Balance at end of year	4,145	35,286
Translation adjustment:		
Balance at beginning of year	(1,870)	(15,919)
Net change during year	3,672	31,259
Balance at end of year	1,802	15,340
Treasury stock:		
Balance at beginning of year	(591)	(5,031)
Net change during year	(10,565)	(89,938)
Balance at end of year	(11,156)	(94,969)
Total shareholders' equity at end of year	¥243,607	$2,073,781

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Year Ended March 31, 2006

	Millions of yen	Thousands of U.S. dollars (note 3)
	2006	2006
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 35,570	$ 302,801
Depreciation	19,144	162,969
Loss on impairment of fixed assets	3,001	25,547
Loss (gain) on sales and disposal of property, plant and equipment	68	579
Loss on disposal of amusement facilities and machines	1,348	11,475
Gain on sales of investment securities	(3,073)	(26,160)
Loss on valuation of investment securities	260	2,213
Decrease (increase) in trade receivables	4,455	37,925
Decrease (increase) in inventories	5,842	49,732
Acquisition of amusement facilities and machines	(10,892)	(92,722)
Increase (decrease) in trade payables	(2,679)	(22,806)
Other	(5,091)	(43,338)
Subtotal	47,953	408,215
Interest and dividends received	1,349	11,484
Interest paid	(352)	(2,997)
Income taxes paid	(17,141)	(145,918)
Net cash provided by operating activities	31,809	270,784
Cash flows from investing activities:		
Decrease (increase) in time deposits	(351)	(2,988)
Purchases of property, plant and equipment	(9,924)	(84,481)
Sales of property, plant and equipment	4,388	37,354
Purchases of intangible assets	(3,204)	(27,275)
Purchases of investment securities	(2,064)	(17,570)
Sales of investment securities	783	6,666
Acquisition of shares in consolidated subsidiaries, net of cash acquired	(18,033)	(153,512)
Sales of shares in consolidated subsidiaries	349	2,971
Purchase of subsidiary shares affecting the scope of consolidation	(1,781)	(15,161)
Sales of subsidiary shares affecting the scope of consolidation	5,439	46,301
Payment of guarantee money deposited	(883)	(7,517)
Collection of guarantee money deposited	1,964	16,719
Other	(1,090)	(9,279)
Net cash used in investing activities	(24,407)	(207,772)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	10,848	92,347
Proceeds from long-term debt	575	4,895
Repayment of long-term debt	(13,399)	(114,063)
Proceeds from issuance of stock	397	3,380
Proceeds from capital paid by minority interests	20	170
Purchase of treasury stock	(10,551)	(89,819)
Dividends paid	(4,416)	(37,593)
Dividends paid to minority interests	(426)	(3,626)
Cash payments for share transfer	(3,013)	(25,649)
Net cash used in financing activities	(19,965)	(169,958)
Effect of exchange rate changes on cash and cash equivalents	1,676	14,267
Net increase (decrease) in cash and cash equivalents	(10,887)	(92,679)
Cash and cash equivalents at beginning of year	124,924	1,063,455
Increase in cash and cash equivalents due to additional consolidation of subsidiaries	10	85
Decrease in cash and cash equivalents due to exclusion of consolidated subsidiaries	(861)	(7,330)
Cash and cash equivalents at end of year (note 4)	¥113,186	$ 963,531

See accompanying Notes to Consolidated Financial Statements.

1 Basis of Presentation

NAMCO BANDAI Holdings Inc. ("the Company") and its consolidated subsidiaries (collectively, "the Company") have prepared their financial statements in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been prepared and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

Some supplementary information included in the statutory Japanese language consolidated financial statements that is not required for fair presentation is not presented in the accompanying consolidated financial statements.

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

2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries.

Consolidation of the remaining subsidiaries would have had no material effect on the accompanying consolidated financial statements. Investments in significant affiliates are stated at the Company's equity in their underlying net assets.

Investments in unconsolidated subsidiaries and certain affiliates other than those discussed in the previous paragraph are stated at cost, and if the equity method had been applied to the investments in these companies, there would have been no material effect on the accompanying consolidated financial statements.

All significant intercompany accounts and transactions have been eliminated in consolidation. The excess of cost over the underlying fair value of the net assets of consolidated subsidiaries from acquisition is being amortized over a five-year period.

(b) Matters Relating to Capital Consolidation Procedures Accompanying a Share Transfer

NAMCO BANDAI Holdings Inc. was established in a stock exchange program as a holding company for Bandai Co., Ltd., and NAMCO Limited (currently NAMCO BANDAI Games Inc.). The consolidation procedures for the business combination were accounted in accordance with "capital consolidation procedure for the establishment of the entire parent and subsidiary relationship use a stock-to-stock exchange and the stock-transfer method" (Japanese Institute of Certified Public Accountants (JICPA) Accounting Committee Research Report No. 6). The consolidation was accounted for under the pooling-of-interests method.

The Company considered the operations, financial position and sharing of the risks and rewards of the consolidating entities and believed that pooling the interest of both entities was appropriate for the combination.

(c) Cash and Cash Equivalents

In reporting cash flows, the Company considers cash on hand, demand deposits and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents (note 4).

(d) Foreign Currency Translation

Foreign currency transactions are translated into yen at rates in effect at the dates they are transacted, and the gains or losses arising from the settlement of the related receivables or payables are reflected in "Other income (loss)".

Receivables and payables denominated in foreign currencies at the balance sheet date are translated at the rates in effect as of the balance sheet dates, and the unrealized gains or losses are reflected in "Other income (loss)".

The assets and liabilities of foreign consolidated subsidiaries and affiliates are translated into yen at the rates of exchange in effect at the balance sheet dates. Revenue and expenses of foreign consolidated subsidiaries and affiliates are translated into yen at the average rates of exchange during the year. Gains and losses resulting from foreign currency transactions are included in "Other income (loss)", and those resulting from the translation of financial statements are generally excluded from the consolidated statements of income and are included in "Minority interests" and "Translation adjustment" in "Shareholders' equity".

(e) Accounting Standards for Income and Expenses

Accounting procedures for video game software production expenses:

A distinctive characteristic of video game software is the production through which the software is combined with the content that cannot be separated into identifiable components.

The content is considered an important component of each video game title which combines the game content and visual / music data. Once management makes a decision to go forward in distributing the title, the Company records the software and content development costs to inventory and advanced payments.

The capitalized production costs (which include inventory and advanced payments) are amortized to cost of sales based on projected sales volumes.

(f) Short-Term Investments and Investment Securities

The Company classifies its securities into one of the following three categories: held-to-maturity securities, investments in unconsolidated subsidiaries and affiliated companies, or other securities.

Held-to-maturity securities are amortized to face value over the period remaining to the maturity date. Investments in unconsolidated subsidiaries and affiliated companies are carried at cost. Other securities with a market value are principally carried at market value. The difference, net of tax, between the acquisition cost and the carrying amount of other securities, including unrealized gains and losses, is recognized in "Other securities valuation difference" in "Shareholders' equity" until realized. Other securities without a market value are principally carried at cost. The cost of other securities sold is principally computed based on the moving average method.

(g) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided for possible losses on unrecoverable receivables. For ordinary receivables, the amount of the allowance is based on the historical rate of loss. For receivables from debtors at risk of bankruptcy and receivables from debtors in bankruptcy or under reorganization, the amount of the allowance is based on individually estimated unrecoverable amounts.

(h) Inventories

Domestic consolidated subsidiaries:

Inventories are stated at cost determined on an average cost basis.

Foreign consolidated subsidiaries:

Inventories are stated at the lower of cost, determined principally by the first-in, first-out method, or market.

However, both domestic and foreign consolidated subsidiaries state work-in-process of game software by the specific-cost method.

(i) Income Taxes

Current income taxes are accounted for based on income and deferred income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rate is recognized in income in the period that includes the enactment date.

(j) Property, Plant and Equipment

The Company and its domestic consolidated subsidiaries:

Depreciation of property, plant and equipment is principally computed by the declining-balance method based on estimated useful life. The straight-line method is used for buildings (except for building fixtures) acquired since April 1, 1998. The estimated useful lives for Buildings and structures and Amusement facilities and machines are 2-50 years and 3-15 years, respectively.

Foreign consolidated subsidiaries:

Depreciation of property, plant and equipment is principally computed by the straight-line method based on estimated useful life. The estimated useful lives for Buildings and structures and Amusement facilities and machines are 5-50 years and 2-7 years, respectively.

(k) Intangible Assets

Depreciation of intangible assets is computed by the straight-line method based on estimated useful life. Software for company use is depreciated over 2-5 years.

Goodwill incurred by domestic subsidiaries is amortized over 5 years using the straight-line method.

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

(l) Impairment of Fixed Assets

The Company has applied the Accounting Standard for Impairment of Fixed Assets (the "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (Business Accounting Deliberation Council, August 9, 2002) and the "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (Guidance on Corporate Accounting Standard No. 6, October 31, 2003). The amount of accumulated losses on impairment of fixed assets is deducted directly from the amount of each asset pursuant to the Regulations Concerning Financial Statements.

(m) Derivatives and Hedging Activities

The Company and its consolidated subsidiaries use derivative instruments, such as forward exchange contracts and interest rate swap contracts, to reduce market risks stemming from fluctuations in foreign exchange rates and interest rates. The Company and its consolidated subsidiaries use these derivative instruments solely for the purpose of reducing the risk of fluctuations, such as fluctuations in foreign exchange rates and interest rates, to which it is exposed in the course of its business activities. Accordingly, the Company does not use derivative instruments or other financial instruments for speculative purposes.

Because the Company's counterparties for derivative instruments are all highly creditworthy financial institutions, the Company believes that it is exposed to almost no counterparty risk. Also, derivative transactions are conducted in accordance with internal rules that specify transaction authority and transaction amount limits, within the scope of the above policies, and for the intended purposes.

As a general rule, companies are required to state derivative instruments at fair value. For derivative instruments that meet the standards for hedge accounting, recognition of gains or losses is deferred. In cases where forward foreign exchange contracts meet certain hedging criteria, they are accounted for under the allocation method. Interest rate swaps that meet specific matching criteria are accounted for using special methods.

As a general rule, the Company assesses the effectiveness of hedging transactions from the start of the transaction to the point at which effectiveness is assessed, comparing the cumulative changes in the fair value or the cumulative changes in the cash flows of the hedged item with the cumulative changes in the fair value or the cumulative changes in the cash flows of the hedging instrument. The assessment is based on the amounts of those changes. In the event that important conditions are the same for the hedging instrument and the hedged assets, liabilities, or scheduled transaction, it is obvious that the hedge is 100% effective, so the assessment of effectiveness is not abbreviated. Also, for interest rate swaps for which the special methods are applied, the assessment of effectiveness is abbreviated.

In the event that a hedge loses its effectiveness, hedge accounting is no longer applied and the recognition of the gains or losses on the hedge transaction is no longer deferred.

(n) Retirement and Severance Benefits

The Company has established a retirement lump-sum grant system and a defined contribution pension plan. With the exception of certain companies, domestic consolidated subsidiaries have established qualified retirement benefit plans, retirement lump-sum grants, or comprehensive employee pension funds. At the Company's discretion, additional benefits may be paid at retirement. Certain overseas consolidated subsidiaries have established defined contribution retirement pension plans.

The allowance for retirement benefits for employees is provided for based on the estimated values of retirement benefit obligations and pension plan assets at the end of the fiscal year. Unrecognized actuarial gain or loss is amortized, beginning from the fiscal year following the year in which it is incurred, using the straight-line method over a period that does not exceed the average remaining years (10 to 17 years) of service of employees as of the end of the fiscal year in which it is incurred. Certain domestic consolidated subsidiaries amortize prior service costs over a fixed period (10 years) that does not exceed the average remaining years of service of employees at the point when the costs are incurred, and, to provide for payment of retirement benefits to directors and auditors, they record the amount needed at the end of the fiscal year in accordance with internal regulations.

(o) Leases

Financial leases, except for those where the legal title to the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similar to operating leases. The Company and its consolidated subsidiaries do not have any leases where the title is transferred. However, overseas consolidated subsidiaries account for finance leases as ordinary purchase or sale transactions in accordance with local accounting principles.

(p) Issuance of Shares by Consolidated Subsidiaries

The change in the Company's proportionate share of consolidated subsidiary equity resulting from issuance of capital stock by the consolidated subsidiaries is accounted for in the consolidated statement of income.

(q) Appropriation of Retained Earnings

In Japan, retained earnings with respect to a given financial period are appropriated by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations.

(r) Data per Common Share

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

Diluted net income per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted into issuance of common stock.

Cash dividends per common share are computed based on dividends declared with respect to the income for the year.

3 Financial Statement Translation

The consolidated financial statements are expressed in yen.

However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 2006 have been translated into U.S. dollars at the rate of ¥117.47=US$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2006.

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

4 Cash and Cash Equivalents

A reconciliation of cash and cash equivalents at March 31, 2006 between the balance sheet and the statement of cash flows is as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Cash and time deposits	¥109,514	$932,272
Short-term investments	5,547	47,221
Time deposits with maturities in excess of three months	(1,875)	(15,962)
Cash and cash equivalents per consolidated statement of cash flows	¥113,186	$963,531

Cash and time deposits of ¥54 million ($460 thousand) at March 31, 2006 are pledged as collateral for short-term borrowings of ¥29 million ($247 thousand).

5 Short-Term Investments and Investment Securities

Short-term investments and investment securities at March 31, 2006 are summarized as follows:

Held-to-maturity securities at March 31, 2006 include marketable governmental bond securities with a carrying amount of ¥10 million ($85 thousand), which approximates market value.

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Held-to-maturity securities	¥ 47	$ 400
Other securities–marketable	11,548	98,307
Other securities–non-marketable	7,190	61,207
Investments in unconsolidated subsidiaries and affiliated companies	9,284	79,033
Total of short-term investments and investment securities	¥28,069	$238,947

The original cost, carrying amount (market value) and gross unrealized holding gain (loss) for marketable other securities at March 31, 2006 are summarized as follows:

	Millions of yen			
	2006			
	Original Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Carrying Amount (Market Value)
Other securities–marketable:				
Equity securities	¥2,971	¥8,316	¥(128)	¥11,159
Debt securities	100	—	(2)	98
Other	233	62	(4)	291
Total	¥3,304	¥8,378	¥(134)	¥11,548

	Thousands of U.S. dollars			
	2006			
	Original Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Carrying Amount (Market Value)
Other securities–marketable:				
Equity securities	$25,293	$70,793	$(1,090)	$94,996
Debt securities	851	—	(17)	834
Other	1,983	528	(34)	2,477
Total	$28,127	$71,321	$(1,141)	$98,307

Proceeds and gross realized gains and losses from the sale of other securities in the year ended March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Proceeds from the sales of other securities	¥783	$6,666
Gross realized gains from the sales of other securities	489	4,163
Gross realized losses from the sales of other securities	—	—

The following is a summary of non-marketable securities at March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
	Carrying Amount	Carrying Amount
Other securities–non-marketable:		
Unlisted stock securities	¥1,579	$13,442
Non-listed equity securities money market fund, etc.	5,047	42,964
Other	564	4,801
Total	¥7,190	$61,207

Other securities with specified maturity dates and held-to-maturity securities at March 31, 2006 mature as follows:

	Millions of yen		
	2006		
Due:	Within One Year	After 1 through 5 Years	After 5 through 10 Years
Debt securities:			
Governmental bond securities	¥—	¥10	¥ —
Corporate bond securities	—	—	135
Total	¥—	¥10	¥135

	Thousands of U.S. dollars		
	2006		
Due:	Within One Year	After 1 through 5 Years	After 5 through 10 Years
Debt securities:			
Governmental bond securities	$—	$85	$ —
Corporate bond securities	—	—	1,149
Total	$—	$85	$1,149

6 Trade Receivables

Trade receivables at March 31, 2006 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Notes receivable	¥ 8,218	$ 69,958
Accounts receivable–trade	62,693	533,694
Total	¥70,911	$603,652

7 Inventories

Inventories at March 31, 2006 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Finished goods	¥ 9,743	$ 82,940
Work in process	14,618	124,441
Raw materials and supplies	3,169	26,977
Total	¥27,530	$234,358

8 Loss on Impairment of Fixed Assets

In order to test for impairment, the Company and its consolidated subsidiaries formed group assets by strategic business unit for management accounting purposes, excluding important idle assets, assets scheduled for disposal and leased assets.

In order to fairly state the Company's financial position, the Company reduced the book values of the following assets scheduled for disposal and intangible assets to recoverable amounts during fiscal 2006 and reported the reduction as an impairment loss in "Other income (loss)".

The recoverable amounts for land in the following table have been calculated based on net sales prices, assessed in accordance with real estate appraisals. In calculating the recoverable values of other assets, the value in use is considered to be zero.

			Millions of yen	Thousands of U.S. dollars
Location	Use	Item	Impairment Loss	
Minato-ku, Tokyo	—	Consolidation goodwill	¥1,619	$13,783
Matsudo-shi, Chiba	Cultural facility	Buildings and structures, etc.	825	7,023
Ota-ku, Tokyo	Parking	Land	531	4,520
Taito-ku, Tokyo	Software for internet content business	Other intangible assets	26	221
Total			¥3,001	$25,547

9 Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2006 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Bank borrowings	¥12,661	$107,781
Long-term debt due within one year	7,227	61,522
Total	¥19,888	$169,303

The weighted average interest rate on bank borrowings outstanding at March 31, 2006 was 0.61%.

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Loans, principally from banks, maturing in installments through March 31, 2012; the weighted average interest rates of current installments at March 31, 2006 was 0.96% and non-current installments at March 31, 2006 was 1.14%	¥ 4,769	$ 40,598
0.60% debentures, due Mar. 28, 2007	5,000	42,564
0.69% debentures, due Mar. 28, 2008	10,000	85,128
Total long-term debt	19,769	168,290
Less current installments	(7,227)	(61,522)
Total	¥12,542	$106,768

The aggregate annual maturities of long-term debt outstanding at March 31, 2006 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 7,227	$ 61,522
2008	11,408	97,115
2009	596	5,074
2010	346	2,945
2011	96	817
2012	96	817
Total	¥19,769	$168,290

10 Trade Payables

Trade payables at March 31, 2006 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Notes payable	¥ 7,998	$ 68,085
Accounts payable–trade	32,563	277,203
Total	¥40,561	$345,288

11 Retirement and Severance Benefits

The plan's funded status and amount recognized in the accompanying consolidated balance sheet at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Employee retirement and severance benefits:		
Projected benefit obligations	¥ 14,275	$121,520
Plan assets at fair value	(11,232)	(95,616)
Projected benefit obligation in excess of plan assets	3,043	25,904
Unrecognized gain	(1,180)	(10,044)
Unrecognized prior service cost	10	85
Net retirement and severance benefits recognized on the balance sheet	1,873	15,945
Prepaid pension cost	192	1,634
Accrued retirement and severance benefits	2,065	17,579
Officers' retirement severance benefits:		
Accrued retirement and severance benefits	905	7,704
Total accrued retirement and severance benefits	¥ 2,970	$ 25,283

Notes:
1. In addition to the above plan assets, plan assets of ¥1,099 million ($9,356 thousand) at March 31, 2006 are managed by a governmental welfare pension benefit plan, which was jointly established by the Company and various third-party companies. The aforementioned plan assets are computed on a pro-rata allocation of contributions paid.
2. Certain consolidated subsidiaries use a simplified method for calculating projected benefit obligations.

Net periodic cost of employee retirement and severance benefits for the year ended March 31, 2006 consist of the following:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Service cost for benefits earned–net of employee contributions	¥1,415	$12,046
Interest cost on projected benefit obligation	252	2,145
Estimated return on plan assets	(188)	(1,600)
Amortization of unrecognized actuarial gain or loss	291	2,477
Amortization of prior service cost	18	153
Net periodic cost	¥1,788	$15,221

Notes:
1. In addition to the net periodic cost of employee retirement and severance benefits, additional retirement payment of ¥175 million ($1,490 thousand) is charged to expense in the year ended March 31, 2006, and is included in "Selling, general and administrative expenses" and "Other income (loss)".
2. In addition to the net periodic cost of employee retirement and severance benefits, contributions to the governmental welfare pension benefit plan of ¥80 million ($681 thousand) are charged to "Cost of sales" and "Selling, general and administrative expenses" in the year ended March 31, 2006.
3. The defined contribution amount for certain overseas consolidated subsidiaries that have established defined contribution retirement pension systems is recorded as a service cost.

Actuarial assumptions and the basis for the calculation of retirement and severance benefits in 2006 are as follows:

	2006
Method of the benefit attribution	"Benefit/year-of-service" approach
Discount rate	1.3%~2.0%
Estimated rate of return on plan assets	2.0%~3.0%
Period of amortization of unrecognized prior service cost	10 years
Period of amortization of unrecognized actuarial gain or loss	10~17 years (from the year following the year incurred)

12 Income Taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese corporate, inhabitant and enterprise taxes based on income which, in the aggregate, resulted in a normal tax rate of approximately 40.6% in 2006.

Income tax expenses reflected in the accompanying consolidated statement of income for the year ended March 31, 2006 consist of the following:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Current	¥14,468	$123,164
Deferred	4,814	40,981
Total	¥19,282	$164,145

Reconciliation of the normal tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2006 is as follows:

	2006
Normal tax rate	40.6%
Increase in valuation allowance related to deferred tax assets	11.3
Entertainment expenses not deductible for tax purposes	1.2
Amortization of consolidation goodwill	0.9
Corporate inhabitant tax on per capita basis	0.7
Other	(0.5)
Effective tax rate	54.2%

Significant components of deferred tax assets and liabilities at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Deferred tax assets:		
Land revaluation difference	¥ 9,323	$ 79,365
Excess depreciation of fixed assets	3,387	28,833
Losses carried forward	3,261	27,760
Loss on valuation of advance payments	1,892	16,106
Inventory valuation losses	1,785	15,195
Accrued employee bonuses	1,526	12,991
Allowance for doubtful receivables	1,357	11,552
Loss on impairment of fixed assets	1,313	11,177
Accrued enterprise taxes, etc.	845	7,193
Retirement and severance benefit accruals	776	6,606
Excess amortization of deferred assets	764	6,504
Research and development costs	497	4,231
Other	4,452	37,899
Total gross deferred tax assets	31,178	265,412
Valuation allowance	(18,631)	(158,602)
Total deferred tax assets	12,547	106,810
Deferred tax liabilities:		
Retained earnings of foreign consolidated subsidiaries	(4,511)	(38,401)
Other securities valuation difference	(3,388)	(28,841)
Inventory revaluation	(1,199)	(10,207)
Land revaluation difference	(891)	(7,585)
Reserve for deferred income tax	(164)	(1,396)
Other	(39)	(332)
Total gross deferred tax liabilities	(10,192)	(86,762)
Net deferred tax assets	¥ 2,355	$ 20,048

Net deferred tax assets are included in the following line items in the consolidated balance sheet:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Current assets–Deferred tax assets	¥ 7,038	$ 59,913
Investments and other assets–Deferred tax assets	3,901	33,208
Current liabilities–Other (deferred tax liabilities)	(1,301)	(11,074)
Long-term liabilities–Deferred tax liabilities	(7,283)	(61,999)
Total	¥ 2,355	$ 20,048

13 Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the year ended March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Marketing	¥ 31,056	$ 264,374
Directors' remuneration and employees' wages	28,220	240,232
Retirement and severance benefits	1,125	9,577
Director retirement benefits	187	1,592
Research and development	20,240	172,299
Allowance for doubtful receivables, investments and other assets	798	6,793
Other	39,270	334,298
Total selling, general and administrative expenses	¥120,896	$1,029,165

14 Reconciliation of Differences between Basic and Diluted Net Income per Common Share

The reconciliation of the differences between basic and diluted net income per common share for the year ended March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Net income	¥14,150	$120,456
Unappropriated bonuses to directors and corporate auditors	(418)	(3,558)
Net income available to common stock	13,732	116,898
Effect of dilutive securities:		
Stock options in certain consolidated subsidiary	(5)	(43)
Net income for diluted EPS calculation	¥13,727	$116,855
	Thousands of shares	
Average number of common shares outstanding	252,488	252,488
Effect of dilutive securities:		
Stock options	8	8
Average number of common shares for diluted EPS calculation	252,496	252,496
	Yen	U.S. dollars
Net income per common share:		
Basic	¥54.39	$0.46
Diluted	54.37	0.46

15 Retained Earnings and Dividends

In Japan, earnings in an amount equal to at least 10% of appropriations of retained earnings that are paid in cash, such as cash dividends, shall be appropriated as a legal reserve until the aggregate amount of capital surplus and the legal reserve equals 25% of stated capital.

Certain foreign consolidated subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

The Company's retained earnings includes legal reserves of ¥1,645 million ($14,004 thousand) at March 31, 2006. Proposed appropriations of retained earnings have not been reflected in the consolidated financial statements at the end of the fiscal year. The Company's approved appropriations of retained earnings at March 31, 2006 were cash dividends of ¥3,127 million ($26,620 thousand). In addition, a mid-year dividend may be paid based on approval by the Board of Directors, which is subject to limitations.

16 Land Revaluation Difference

In accordance with the "Law Concerning Land Revaluation (Law No. 34, promulgated on March 31, 1998)", the Company revalued its land used for business purposes on March 31, 2002. The write-down in the value of the land (¥20,769 million), net of related deferred tax assets and liabilities, was reported as "Land revaluation difference" in "Shareholders' equity".

Revaluation method:

The fair value of land is determined based on official notice prices that are calculated by the method assessed and published by the Commissioner of the National Tax Administration. The Commissioner assesses and publishes the method to calculate land value that forms the foundation for calculating taxable value of land value tax prescribed in "Article 16 of Land Value Tax Law (Law No. 69, promulgated on May 2, 1991)", as stipulated in "Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Cabinet Order No. 119, promulgated on March 31, 1998)". Reasonable adjustments are made to the official notice prices.

In fiscal 2006, unrealized losses for land of ¥883 million ($7,517 thousand) were calculated based on the difference between the land carrying amount, which was revalued in fiscal 2002, and the fair market value of the land as of March 31, 2006.

17 Common Stock and Stock Option Plan

The ordinary general meeting of shareholders of NAMCO BANDAI Holdings Inc. held on June 26, 2006, approved the adoption of the following stock option system.

Those receiving stock subscription rights	Directors of NAMCO BANDAI Holdings Inc.	Directors of the subsidiaries of NAMCO BANDAI Holdings Inc.	Employees of NAMCO BANDAI Holdings Inc. and its subsidiaries
Number of stock subscription rights (items)	Upper limit of 1,700 per year	Upper limit of 2,100	Upper limit of 24,300
Type of share to be acquired upon exercise of stock subscription rights	Common stock of NAMCO BANDAI Holdings Inc.	Common stock of NAMCO BANDAI Holdings Inc.	Common stock of NAMCO BANDAI Holdings Inc.
Number of shares to be acquired upon exercise of stock subscription rights (shares)	Upper limit of 170,000 per year	Upper limit of 210,000	Upper limit of 2,430,000
Amount to be paid upon exercise of stock subscription rights (yen)	1	1	note 1
Period for exercise of stock subscription rights	July 10, 2009–June 30, 2014	July 10, 2009–June 30, 2014	July 10, 2008–June 30, 2010
Conditions for exercise of stock subscription rights	note 2	note 3	note 4
Items relating to the transfer of stock subscription rights	Approval of the directors of NAMCO BANDAI Holdings Inc. required for the transfer of stock subscription rights	Approval of the directors of NAMCO BANDAI Holdings Inc. required for the transfer of stock subscription rights	Approval of the directors of NAMCO BANDAI Holdings Inc. required for the transfer of stock subscription rights

Notes:

1. The average closing price of NAMCO BANDAI Holdings Inc.'s common stock on the Tokyo Stock Exchange in the month (excluding non-trading days) prior to the month in which stock subscription rights are exercised multiplied by 1.05 (amounts less than ¥1 rounded up). However, if the amount is less than the closing price on the most recent trading day prior to the exercise of stock subscription rights, the closing price is used.
2. Stock subscription rights cannot be exercised if the growth rate of the share price of NAMCO BANDAI Holdings Inc. is lower than the TOPIX growth rate during the period after allocation of stock subscription rights to the first day of the period for exercise of stock subscription rights. Further, the growth rate of the share price of NAMCO BANDAI Holdings Inc. is calculated by dividing the average closing price of the common stock of NAMCO BANDAI Holdings Inc. on the Tokyo Stock Exchange in the three months (excluding non-trading days) prior to the month of the first day of the period for exercise of stock subscription rights by the average closing price of the common stock of NAMCO BANDAI Holdings Inc. on the Tokyo Stock Exchange in the three months (excluding non-trading days) prior to the month of the day of allocation of stock subscription rights. Further, the TOPIX growth rate is calculated using the same method as for the growth rate of the share price of NAMCO BANDAI Holdings Inc.
3. (1) When rights are granted, as an evaluation indicator of net sales and operating income of the strategic business units to which those allocated stock subscription rights (stock subscription rights holders) belong, annual business targets and an evaluation period (the three-year period from the granting of stock subscription rights to the time when stock subscription rights can be exercised) are fixed. During the evaluation period, target achievement rates are measured for each year. If, upon completion of the evaluation period, respective average achievement rates are 50% or higher over the evaluation period, stock subscription rights can be exercised. However, even in such cases, the number of shares of common stock that can be acquired through the exercise of subscription rights is based on the same rate as the average achievement rate (with an upper limit of 100%).
   (2) In the event of the death of a stock subscription rights holder, the rights shall be transferred to their heirs (limited to one person). However, the rights cannot be owned or exercised beyond the exercise period of the stock subscription rights.
   (3) The Company will not recognize the transfer, pledging, or any other dispositions of stock subscription rights.
   (4) Other conditions are stipulated in stock subscription rights contracts concluded between NAMCO BANDAI Holdings Inc. and those receiving rights, which are based on the resolutions of the ordinary general meeting of shareholders and the Board of Directors.
4. (1) At the time of exercising rights, stock subscription rights holders are required to be employees of NAMCO BANDAI Holdings Inc. or the BANDAI NAMCO Group.
   (2) If, despite the regulation in (1), stock subscription rights holders retire due to personal circumstances, they can own and exercise stock subscription rights for a maximum of six months following the occurrence of grounds for retirement. However, the said rights cannot be owned or exercised beyond the period for exercise of stock subscription rights. Further, if stock subscription rights holders due to circumstances of the Company or in other cases that the Company recognizes as valid, there will be no change in the rights or the exercise period of the stock subscription rights.
   (3) In the event of the death of a stock subscription rights holder, the rights shall be transferred to their heirs (limited to one person). In such an event, the heirs can own and exercise the stock subscription rights that have been granted for a maximum of six months following the death (in the event of the death of a stock subscription rights holder prior to the exercise period of the stock subscription rights, six months from the beginning of the period for exercise of stock subscription rights). However, the rights cannot be owned or exercised beyond the exercise period of the stock subscription rights.
   (4) The Company will not recognize the transfer, pledging, or any other dispositions of stock subscription rights.
   (5) Other conditions are stipulated in stock subscription rights contracts concluded between NAMCO BANDAI Holdings Inc. and those receiving rights, which are based on the resolutions of the ordinary general meeting of shareholders and the Board of Directors.

18 Leases

1. Lessee

The Company and its subsidiaries occupy offices and other facilities under various finance and operating lease arrangements.

(1) Finance leases

Finance leases, except for those where the legal title to the underlying property is transferred to the lessee, are accounted for similar to operating leases. The title does not transfer in any of the Company's leases.

The original cost and accumulated depreciation of assets under such finance leases at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Original cost at inception of leases	¥1,239	$10,548
Less accumulated depreciation	(522)	(4,444)
Assets under finance lease, net	¥ 717	$ 6,104

Future minimum payments due under finance leases as of March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Due within one year	¥237	$2,018
Due after one year	480	4,086
Total	¥717	$6,104

The lease and depreciation expense for such finance leases for the year ended March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Lease expense	¥239	$2,035
Depreciation expense	239	2,035

(2) Operating leases

Future minimum payments required under operating leases at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Due within one year	¥1,798	$15,306
Due after one year	6,380	54,312
Total	¥8,178	$69,618

2. Lessor

Finance leases

Finance leases, except for those where the legal title to the underlying property is transferred from the lessor to the lessee, are accounted for similar to operating leases.

The acquisition cost, accumulated depreciation and net value of assets under such finance leases included in fixed assets at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Acquisition cost	¥1,497	$12,744
Less accumulated depreciation	(879)	(7,483)
Assets under finance leases, net	¥ 618	$ 5,261

Future minimum payments due under finance leases at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Due within one year	¥294	$2,503
Due after one year	409	3,482
Total	¥703	$5,985

Lease income and depreciation expense for finance leases for the year ended March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Lease income	¥357	$3,039
Depreciation expense	320	2,724

19 Foreign Exchange Risk Management and Interest Rate Risk Management

Derivative financial instruments are comprised principally of foreign exchange contracts and interest rate swaps. These instruments are used to reduce the risks of changes in foreign exchange rates and interest rates; they are not used for speculation.

The Company is exposed to credit risk related to nonperformance by the counterparties to foreign exchange contracts and interest rate swaps, but the Company does not expect any problems with nonperformance due to the high credit ratings of the counterparties.

Contract amounts, market values, and gains or losses from valuation of foreign exchange contracts outstanding at March 31, 2006 are set forth as follows. These contract amounts in themselves should not be considered indicative of the market risk associated with the derivative financial instruments.

	Millions of yen			Thousands of U.S. dollars		
	2006			2006		
	Contract Amount	Estimated Fair Value	Unrealized Gain (Loss)	Contract Amount	Estimated Fair Value	Unrealized Gain (Loss)
Foreign Exchange Contracts						
Sold:						
British Pounds	¥ 964	¥ 958	¥ 6	$ 8,206	$ 8,155	$ 51
Yen	590	547	43	5,023	4,657	366
Won	178	185	(7)	1,515	1,575	(60)
Purchased:						
U.S. dollars	2,396	2,497	101	20,397	21,257	860
Total	—	—	¥143	—	—	$1,217

Notes:
1. The above table does not include any derivative financial instruments which are treated as effective hedges of the assets and/or liabilities.
2. The above foreign exchange contracts were originally utilized to manage risks arising from foreign currency receivables and payables between consolidated companies, which were eliminated in the consolidated financial statements.

20 Commitments and Contingent Liabilities

Contingent liabilities as of March 31, 2006 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Guarantee for lease agreement made by a business partner of a foreign consolidated subsidiary	¥86	$732

21 Segment Information

(1) Business segments

	Millions of yen								
	2006								
	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and Corporate	Consolidated
Net sales and Operating income									
Sales to external customers	¥176,474	¥78,793	¥128,105	¥12,196	¥42,280	¥12,981	¥450,829	¥ —	¥450,829
Intersegment transactions	4,534	592	2,326	325	1,048	10,090	18,915	(18,915)	—
Subtotal	181,008	79,385	130,431	12,521	43,328	23,071	469,744	(18,915)	450,829
Cost of sales and operating expenses	161,923	76,878	119,980	10,685	37,141	23,243	429,850	(14,690)	415,160
Operating income (loss)	¥ 19,085	¥ 2,507	¥ 10,451	¥ 1,836	¥ 6,187	¥ (172)	¥ 39,894	¥ (4,225)	¥ 35,669
Assets, Depreciation, Impairment losses and Capital expenditures									
Assets	¥136,692	¥57,910	¥113,800	¥10,578	¥36,928	¥23,212	¥379,120	¥7,531	¥386,651
Depreciation	5,055	9,164	2,107	151	527	1,446	18,450	694	19,144
Loss on impairment of fixed assets	825	—	557	1,619	—	—	3,001	—	3,001
Capital expenditures	8,457	10,979	1,404	253	1,595	753	23,441	579	24,020

Thousands of U.S. dollars

2006	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and Corporate	Consolidated
Net sales and Operating income									
Sales to external customers	$1,502,290	$670,750	$1,090,534	$103,822	$359,922	$110,504	$3,837,822	$ —	$3,837,822
Intersegment transactions	38,597	5,040	19,801	2,767	8,921	85,894	161,020	(161,020)	—
Subtotal	1,540,887	675,790	1,110,335	106,589	368,843	196,398	3,998,842	(161,020)	3,837,822
Cost of sales and operating expenses	1,378,421	654,448	1,021,367	90,959	316,174	197,863	3,659,232	(125,053)	3,534,179
Operating income (loss)	$ 162,466	$ 21,342	$ 88,968	$ 15,630	$ 52,669	$ (1,465)	$ 339,610	$ (35,967)	$ 303,643
Assets, Depreciation, Impairment losses and Capital expenditures									
Assets	$1,163,633	$492,977	$968,758	$90,049	$314,361	$197,599	$3,227,377	$64,110	$3,291,487
Depreciation	43,033	78,011	17,936	1,285	4,486	12,310	157,061	5,908	162,969
Loss on impairment of fixed assets	7,023	—	4,742	13,782	—	—	25,547	—	25,547
Capital expenditures	71,993	93,462	11,952	2,154	13,578	6,410	199,549	4,929	204,478

Notes:
1. The industry segments used above are those used for internal management purposes.
2. Main products in each business segment:
   (1) Toys and Hobby: toys, candy toys, products for vending machines, cards, plastic models, apparel, sundries, stationery.
   (2) Amusement Facility: amusement facilities operation.
   (3) Game Contents: home-use video game software, commercial-use video game machines, prizes for amusement arcade machines.
   (4) Network: mobile contents.
   (5) Visual and Music Content: video products, video software, on-demand video distribution.
   (6) Other: transportation and storage of products, leases, real estate management, printing, welfare facilities and facilities for senior citizens, development and sales of environmental devices.
3. Unallocatable operating expense included in the "Eliminations and Corporate" column under "Operating expenses" was ¥5,812 million ($49,476 thousand) for the year ended March 31, 2006. The majority of these costs represent administrative costs incurred by the general administration department of the Company, Bandai Co., Ltd. and NAMCO Limited (presently NAMCO BANDAI Games Inc.).
4. Assets included in the "Eliminations and Corporate" column under "Assets" approximated ¥24,800 million ($211,118 thousand) as of March 31, 2006. The significant assets included in the amount were surplus operating funds (cash and time deposits) of the Company, long-term Investment funds (investment securities) and assets held by the administrative sections.

(2) Geographic segments

Millions of yen

2006	Japan	Americas	Europe	Asia, Excluding Japan	Subtotal	Eliminations and Corporate	Consolidated
Net sales and Operating income							
Sales to external customers	¥365,823	¥42,769	¥31,231	¥11,006	¥450,829	¥ —	¥450,829
Intersegment transactions	8,497	1,335	13	21,106	30,951	(30,951)	—
Subtotal	374,320	44,104	31,244	32,112	481,780	(30,951)	450,829
Cost of sales and operating expenses	336,706	47,388	26,914	29,841	440,849	(25,689)	415,160
Operating income (loss)	¥ 37,614	¥ (3,284)	¥ 4,330	¥ 2,271	¥ 40,931	¥ (5,262)	¥ 35,669
Assets	¥291,500	¥32,543	¥34,087	¥15,898	¥374,028	¥12,623	¥386,651

	Thousands of U.S. dollars						
	2006						
	Japan	Americas	Europe	Asia, Excluding Japan	Subtotal	Eliminations and Corporate	Consolidated
Net sales and Operating income							
Sales to external customers	$3,114,182	$364,084	$265,864	$ 93,692	$3,837,822	$ —	$3,837,822
Intersegment transactions	72,333	11,365	111	179,671	263,480	(263,480)	—
Subtotal	3,186,515	375,449	265,975	273,363	4,101,302	(263,480)	3,837,822
Cost of sales and operating expenses	2,866,315	403,405	229,114	254,031	3,752,865	(218,686)	3,534,179
Operating income (loss)	$ 320,200	$ (27,956)	$ 36,861	$ 19,332	$ 348,437	$ (44,794)	$ 303,643
Assets	$2,481,485	$277,032	$290,176	$135,337	$3,184,030	$107,457	$3,291,487

Notes:

1. Definition of geographic segments and main countries and regions in geographic segments:
   (1) Foreign geographic segments are defined by geographic region, similarity of economic activities and interrelation of business activities, etc.
   (2) The main countries and regions in each geographic segment are as follows:
      1) Americas: United States and Canada
      2) Europe: France, United Kingdom and Spain
      3) Asia, Excluding Japan: Hong Kong, Thailand and Korea
2. Unallocatable operating expense included in the "Eliminations and Corporate" column under "Operating expenses" was ¥5,812 million ($49,476 thousand) for the year ended March 31, 2006. The majority of these costs represent administrative costs incurred by the general administration department of the Company, Bandai Co., Ltd. and NAMCO Limited (presently NAMCO BANDAI Games Inc.).
3. Assets included in the "Eliminations and Corporate" column under "Assets" approximated ¥24,800 million ($211,118 thousand) as of March 31, 2006. The significant assets included in the amount were surplus operating funds (cash and time deposits) of the Company, long-term Investment funds (investment securities) and assets held by the administrative sections.

(3) Foreign sales

	Millions of yen			
	2006			
	Americas	Europe	Asia	Total
Foreign sales	¥43,406	¥31,537	¥10,844	¥ 85,787
Consolidated sales				450,829
Share of sales to customers outside Japan	9.6%	7.0%	2.4%	19.0%

	Thousands of U.S. dollars			
	2006			
	Americas	Europe	Asia	Total
Foreign sales	$369,507	$268,469	$92,313	$ 730,289
Consolidated sales				3,837,822
Share of sales to customers outside Japan	9.6%	7.0%	2.4%	19.0%

Notes:

1. Foreign sales are defined as total sales by the Company and its consolidated subsidiaries in countries and regions other than Japan.
2. Segmentation by country or by regions and the main countries and regions in each geographic segment are as follows:
   (1) Foreign geographic segments are defined by geographic region, similarity of economic activities and interrelation of business activities, etc.
   (2) The main countries and regions in each geographic segment are as follows:
      1) Americas: United States, Canada and Latin America
      2) Europe: France, United Kingdom, Spain, Middle East and Africa
      3) Asia, Excluding Japan: Hong Kong, Singapore, Thailand, Korea, Australia, China and Taiwan

22 Significant Subsequent Events

1. Simplified share exchange with grant

The Company implemented a share exchange which BANPRESTO Co., Ltd. (BANPRESTO), became a wholly owned subsidiary on June 1, 2006, based on a decision of the Company's Board of Directors held on March 29, 2006, and a share exchange agreement concluded with BANPRESTO on that date. In accordance with Article 358, Paragraph 1 of the former Commercial Code for the Company and in accordance with Article 12, Paragraph 4, Clause 2 of the Industrial Revitalization Law for BANPRESTO, a simplified share exchange was conducted without obtaining the approval of the general meetings of shareholders as stipulated in Article 353, Paragraph 1 of the former Commercial Code. The share exchange allows the Company to acquire the remaining shares for cash in accordance with Article 12-9 of the Industrial Revitalization Law.

(1) Objective of making BANPRESTO a wholly owned subsidiary through a share exchange

From February 24, 2006, to March 16, 2006, the Company made a take-over bid for the shares of BANPRESTO with the objective of making BANPRESTO a wholly owned subsidiary. The Company acquired 97.01% of the 10.8 million shares of BANPRESTO. Subsequently, on June 1, 2006, through the share exchange, the Company achieved its final objective of making BANPRESTO a wholly owned subsidiary. BANPRESTO becoming a wholly owned subsidiary was undertaken for the purpose of creating an organization that responds flexibly to the Group's management strategy.

(2) Terms of share exchange agreement

In accordance with the share exchange agreement concluded on March 29, 2006, the Company will pay ¥3,450 for each BANPRESTO stock owned by the remaining shareholders of BANPRESTO, who have entered or otherwise recorded their shares in the shareholders' register as of May 31, 2006, which is the day prior to the effective date of the share exchange. The share exchange will not apply to those shares held by the Company.

2. Announcement of Zapf Creation AG take-over bid

On June 13, 2006, the Company decided to make a take-over bid to acquire the shares of Zapf Creation AG ("Zapf") of Germany through Bandai GmbH of Germany. Bandai GmbH is a subsidiary of BANDAI S.A., a wholly owned subsidiary of the Company. Zapf's Supervisory Board and Management Board have expressed their support for this take-over bid.

(1) Purpose of take-over bid

Under the three-year medium-term management plan (April 2006 to March 2009) being implemented by the BANDAI NAMCO Group, the key theme is "Strengthening, Enriching, and Expanding the BANDAI NAMCO Group's portfolio management", and one of the key business strategies is to strengthen overseas operations. The take-over bid for Zapf will enable the Company to achieve one of the strategies in the medium-term management plan.

Zapf is headquartered in Germany and has an extremely high name recognition in the European markets for large dolls for infants and girls, with a share of more than 60% in Germany and more than 40% in the United Kingdom. In Europe, the BANDAI NAMCO Group's toys and hobby product portfolio is centered on products for boys. Zapf's product portfolio and the Group's product portfolio complement each other well. Zapf has operations not just in Central Europe but also in Eastern Europe, where the Company does not have a sales network. Zapf and the Company will also complement each other well in markets. Accordingly, the Company decided that a capital tie-up with Zapf will enable the two companies to synergize their products and markets.

(2) Summary of take-over bid

1. Summary of target company

Company name: Zapf Creation AG

Main business: Production and sales of toys

Establishment: 1932

Head office: Rödental, Germany

Representative: Georg Kellinghusen, CFO

Stock exchange listings: Frankfurt, Stuttgart, Munich

Number of shares issued and outstanding:
8,000,000 shares of common stock

Relationship with the Company: There are no capital, personal, or trading relationships.

Number of employees, consolidated:
408 (as of December 31, 2005)

Net sales: 140.7 million euro
(year ended December 31, 2005)*

Net loss: 27.0 million euro
(year ended December 31, 2005)*

Total assets: 135.6 million euro
(as of December 31, 2005)*

Net assets: 11.0 million euro (as of December 31, 2005)*

* Figures for the year ended December 31, 2005, are unaudited.

2. Type of shares to be acquired

Shares of common stock

3. Take-over bid period

Approximately a 6-week period from the end of June 2006 is scheduled.

4. Purchase price (per share)

One share of common stock: 10.50 euro

5. Planned total number of shares to be acquired

More than 75% of shares issued and outstanding

Planned total number of shares to be acquired:
6,000,001 or more

6. Movement of shares owned as a result of tender offer bid

Before take-over bid: 0 shares

After take-over bid: 6,000,001 or more
(ownership rate of 75% or more)

7. Public announcement of take-over bid

The take-over bid will be made pursuant to Germany's regulations, and accordingly, a local take-over bid public announcement will be made based on Germany's securities exchange laws. There will be no public announcement in Japan.

8. Take-over bid agent

BNP PARIBAS Securities Services

9. The target company acceptance of the take-over bid

The target company's Supervisory Board and Management Board have accepted in principal the take-over bid.

10. Other

In Germany, BANDAI GmbH has not yet submitted the notification of the take-over bid to Deutsche Gesellschaft für Ad-hoc-Publizität mbH, which is responsible for handling these procedures. There is a possibility that the application may not be accepted. If the application is not accepted, the take-over bid will not commence.

Independent Auditors' Report

To the Board of Directors of
NAMCO BANDAI Holdings Inc.:

We have audited the accompanying consolidated balance sheet of NAMCO BANDAI Holdings Inc. and consolidated subsidiaries as of March 31, 2006, and the related consolidated statement of income, shareholders' equity and cash flows for the year in the period ended March 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NAMCO BANDAI Holdings Inc. and subsidiaries as of March 31, 2006, and the consolidated results of their operations and their cash flows for the year in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 22 to the consolidated financial statements. On June 13, 2006, the Company decided to make a take-over bid to acquire the shares of Zapf Creation AG ("Zapf") of Germany through Bandai GmbH of Germany. Bandai GmbH is a wholly owned subsidiary of BANDAI S.A., of France, which is a subsidiary of the Company.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 26, 2006

Corporate Information

(As of March 31, 2006)

Corporate Name: NAMCO BANDAI Holdings Inc.

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Minato-ku, Tokyo 108-0075, Japan
URL: www.bandainamco.co.jp

Capital: ¥10 billion

Stock Exchange Listing: Tokyo Stock Exchange, First Section (Code number: 7832)

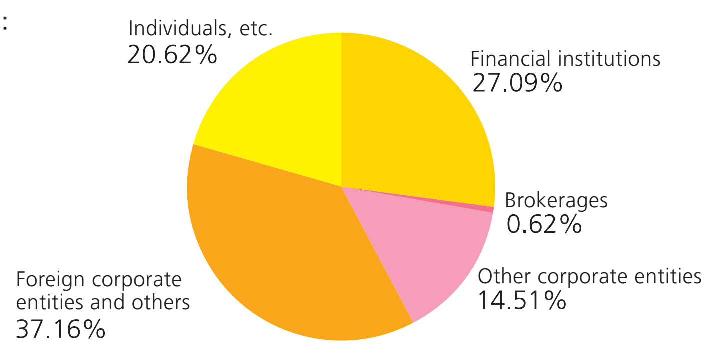
Main Business: Planning and execution of medium- and long-term management strategies for the BANDAI NAMCO Group; provision of support for business strategy implementation by Group companies and management of business activities.

Stock Information:
Number of Shares Authorized: ················ 1,000,000,000 shares
Number of Shares Issued: ························· 260,580,191 shares
Number of Shareholders: ························· 39,579
Number of Shares per Trading Unit: ······ 100 shares

Major Shareholders:

Name	% of Total
Japan Trustee Services Bank, Ltd. (Trust Account)	7.29
Northern Trust Company (AVFC) Sub Account American Client	5.55
Masaya Nakamura	5.51
The Master Trust Bank of Japan, Ltd. (Trust Account)	5.17
MAL Ltd.	4.03
Goldman Sachs International	2.79
Bandai Co., Ltd.	2.72
Sanka Ltd.	1.91
The Nomura Trust and Banking Co., Ltd. (Holder in Retirement Benefit Trust for The Bank of Tokyo-Mitsubishi UFJ, Ltd. Account)	1.76
Om04 SSB Client Omnibus	1.62

Ownership Breakdown:



NAMCO BANDAI Holdings Inc.
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