Feel the BEAT, Hit the NOTE

NAMCO BANDAI Holdings Inc.
Annual Report 2007

NAMCO BANDAI Holdings Inc. Annual Report 2007

Feel the BEAT,

The BANDAI NAMCO Group creates exciting and attractive entertainment around the world.

The BANDAI NAMCO Group was established in September 2005 through the management integration of Bandai and NAMCO. The Group is developing entertainment-related products and services in a wide range of fields, including toys, amusement facilities, arcade game machines, video game software, network services, and visual products, in Japan and overseas.

Since our establishment, we have worked to open up new possibilities and made steady progress. As we move forward, we will strive to accurately track changes in our markets around the world and to create movements with exciting entertainment that showcases our distinctive strengths. The BANDAI NAMCO Group will endeavor to achieve further growth in accordance with its mission of providing “Dreams, Fun and Inspiration” to people around the world.

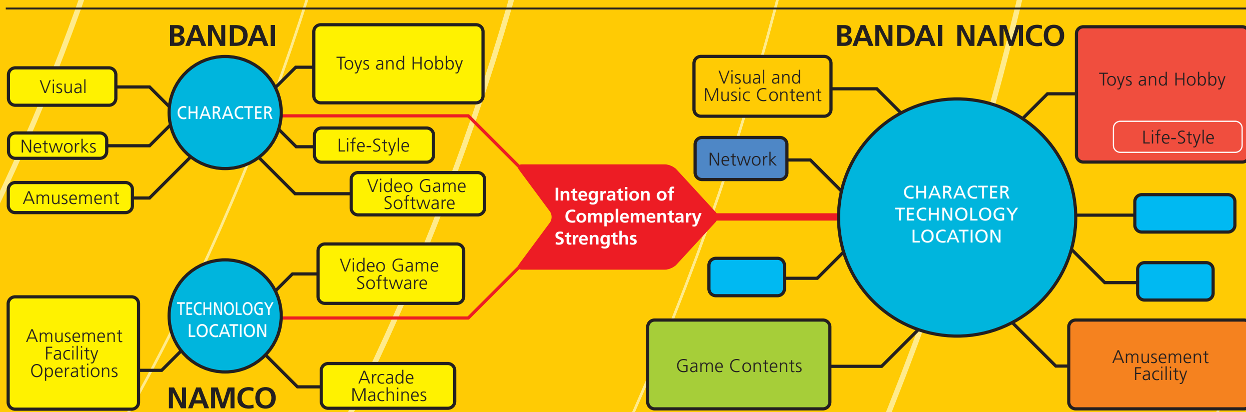
Hit the NOTE

Our Vision

To Become the World's Most Inspiring Entertainment Group

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.

The Business Portfolio of the BANDAI NAMCO Group



Contents

Forward-Looking Statements

The forward-looking statements in this annual report are based on the information currently available to management and include various risks and uncertainties. Accordingly, actual results may differ materially from these projections for a variety of reasons. Major factors that could influence actual results include changes in business environments, market trends, and exchange rate fluctuations relevant to the businesses of the BANDAI NAMCO Group.

Notes:

1. All figures in this report are rounded to the nearest unit.
2. Fiscal 2007 or FY2007.3, the year under review, represents the one-year period ended March 31, 2007.
3. Projections and other figures in this annual report are as of May 2007.

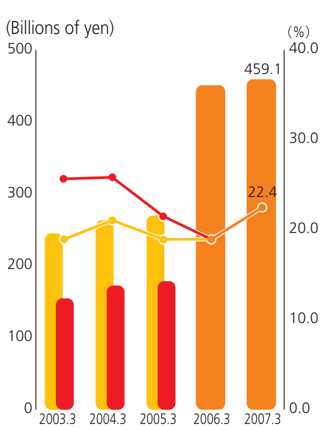
Consolidated Financial Highlights

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

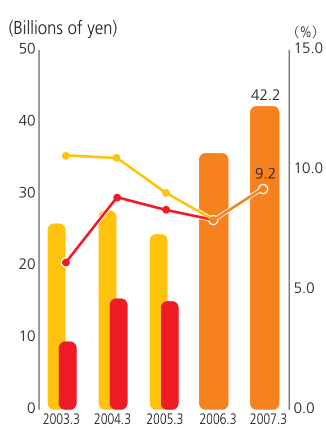
For the years ended March 31	Millions of yen except per share data and main financial indicators 2006	2007	Thousands of U.S. dollars*1 except per share data 2007
For the Year			
Net sales	¥450,829	¥459,133	$3,889,310
Gross profit	156,565	168,080	1,423,804
Operating income	35,669	42,224	357,679
Recurring income*2	37,122	45,616	386,413
Net income	14,150	24,252	205,438
Capital expenditures	24,020	27,925	236,554
Depreciation	19,144	21,201	179,593
At Year-End			
Total assets	¥386,651	¥408,490	$3,460,313
Total Net assets	252,244	284,254	2,407,911
Per Share Data (yen and U.S. dollars*1)			
Net income	¥54.39	¥95.73	$0.81
Cash dividends	12.00	28.00	0.24
Main Financial Indicators (%)			
Return on equity*3	5.8%	9.4%	
Return on assets*3	9.6	11.5	
Overseas sales proportion	18.8	22.4	
Operating income margin	7.9	9.2	
Shareholders' equity ratio	63.0	67.1	

*1 U.S. dollar amounts have been translated, for convenience only, at the rate of ¥118.05=U.S.$1, the approximate exchange rate on March 31, 2007.
*2 Recurring income is a Japanese accounting term denoting income before extraordinary items.
*3 Figures for total shareholders' equity and total assets as of March 31, 2006, are used in calculating ROE and ROA for the fiscal year ended March 2006.

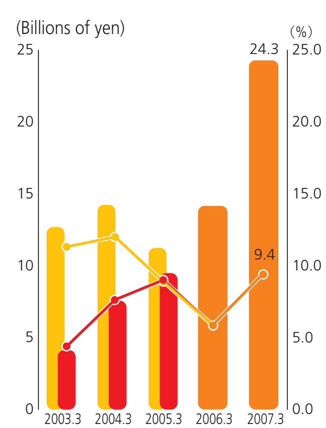
Net Sales / Overseas Sales Proportion (%)



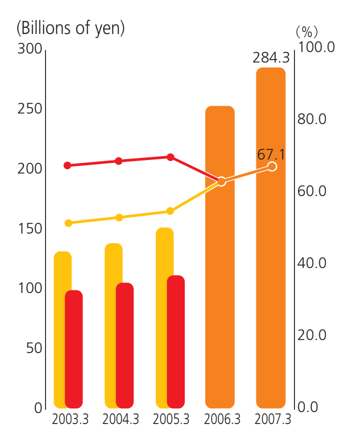
Operating Income / Operating Income Margin (%)



Net Income / ROE (%)



Total Net Assets / Shareholders' Equity Ratio (%)



BANDAI NAMCO NAMCO BANDAI Holdings

SYNERGY EFFECT

Pursuing Group Synergies

As it targets the creation of exciting entertainment that will lead its markets, the BANDAI NAMCO Group pursues Group synergies that integrate character merchandising with technical development capabilities and a location network. In this section, we introduce two of the BANDAI NAMCO Group's new entertainment products that resulted from these Group synergies.

Feel the BEAT,

Mobile Suit Gundam: Senjo-no-Kizuna

Arcade game machine—*Mobile Suit Gundam: Senjo-no-Kizuna*

Mobile Suit Gundam: Senjo-no-Kizuna was created through synergies between Banpresto and NAMCO BANDAI Games. This cockpit-style amusement machine uses a hemispherical dome screen called the P.O.D., or panoramic optical display. The players can hear each other's voices, and up to 16 people can play at one time. This is an example of an entertainment product that combines Bandai's characters and NAMCO's technologies. Moreover, in addition to contributing to the customer-drawing power of the Group's amusement facilities, it is making a substantial contribution to sales of character goods and mobile phone game services, showcasing Group synergies.

Through the use of newly developed dome screen technology on the P.O.D., players can experience being in the picture, which was not possible with previous flat-screen displays.

Hit the NOTE

NAMCO WONDER PARK HERO'S BASE

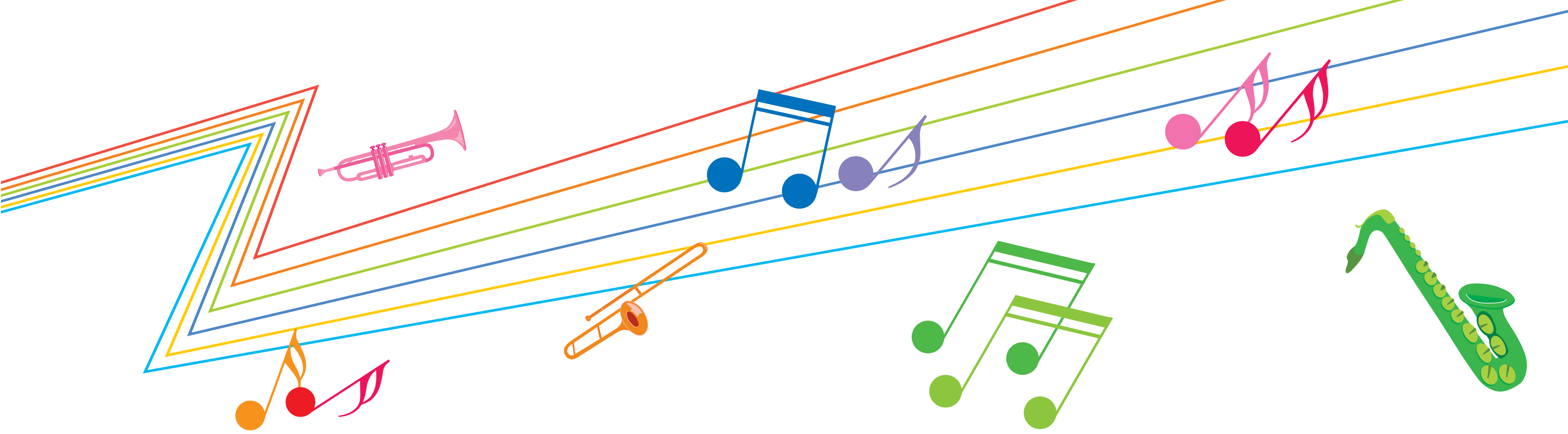
Large-scale hybrid facility—*Namco Wonder Park Hero's Base*

Leveraging abundant Group synergies, this amusement facility exemplifies the benefits of the management integration. Based on the theme of meeting and experiencing the heroes of your dreams, the park includes five zones that integrate amusement and characters. The park provides an excellent demonstration of the synergies between NAMCO's location management know-how and Bandai's character merchandising. The favorable performance of the park has exceeded initial expectations, with attendance reaching more than a million people in the first three and a half months after it opened in September 2006.

To Our Shareholders

Challenge

In September 2005, we formed the BANDAI NAMCO Group through a management integration, and we are now approaching the second anniversary of the Group's establishment. In the fiscal year ended March 2007, the first full fiscal year for the Group, we recorded increases in sales and profits year on year. This performance would not have been possible without the support of our shareholders and investors, which enabled us to leverage the comprehensive strengths of the Group, centered on the holding company and the five Strategic Business Units (SBUs). We are grateful for your support.



& Speed

Guided by the slogan "challenge and speed," the BANDAI NAMCO Group will continue working to accurately track market trends and to provide innovative, appealing entertainment that makes full use of the Group's distinctive strengths. We will create movements that continually lead the markets and provide "Dreams, Fun and Inspiration" to people around the world through entertainment. We are committed to becoming the World's Most Inspiring Entertainment Group, and we are confident that our shareholders and investors can expect further growth and development from the BANDAI NAMCO Group in the years ahead.

July 2007

Takeo Takasu
President and Representative Director
NAMCO BANDAI Holdings Inc.

An Interview with the President

Always taking on new challenges with a sense of speed

Takeo Takasu
President and Representative Director

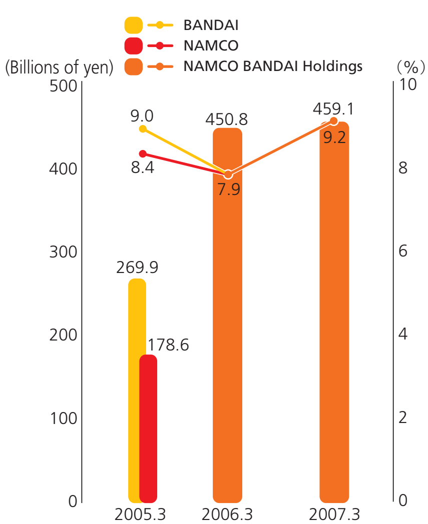
Q It has been nearly two years since the management integration. How would you evaluate the Group's progress over that period?

A Over the past two years, we implemented reorganization measures targeting the establishment of a foundation for future growth. In addition, we are starting to see benefits in operations from the synergies among the two companies' strengths in products, services, and facilities. In each of these areas, our progress has been faster than we originally planned at the time of the management integration.

We have taken steps to reorganize and enhance the Group structure, including the establishment of a holding company system, with NAMCO BANDAI Holdings overseeing the major operating companies. In the Americas and Europe, aiming to establish an organizational system that can implement optimal execution in the same manner as the system in Japan, we set up regional holding companies and moved to a system under which each SBU can efficiently conduct its activities. Furthermore, in game contents, the one area in which the operations of Bandai and NAMCO overlapped prior to the management integration, we have integrated the business in Japan and overseas, such as the establishment of NAMCO BANDAI Games Inc. We are currently implementing measures to foster exchanges of personnel and the sharing of know-how.

On this foundation, we will utilize enhanced synergies in the Group and tie-ups with business partners to further bolster existing SBUs as well as to create new SBUs.

Net Sales /
Operating Income Margin (%)



Major elements of the BANDAI NAMCO Group's reorganization initiatives

- **September 2005**
  NAMCO BANDAI Holdings Inc. established.
  NAMCO BANDAI Holdings Inc. listed on the First Section of the Tokyo Stock Exchange.
- **December 2005**
  Transfer of a portion of Bandai and NAMCO's management of subsidiary and affiliated companies and management of all listed investment securities by a corporate separation.
- **January 2006**
  NAMCO BANDAI Holdings (USA) Inc., a U.S. regional holding company, established. Affiliated operating companies restructured, including the integration of home-use game console operations.
- **January 2006**
  BANDAI LOGIPAL INC. made a wholly owned subsidiary through a share-for-share exchange.
- **March 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 2006**
  Banpresto Co., Ltd., made a wholly owned subsidiary through a share exchange.
- **January 2007**
  NAMCO Holdings UK LTD., a European regional holding company established with the restructuring of certain affiliated operating companies.

Q Would you provide an overview of the fiscal year ended March 2007, the first full fiscal year for the BANDAI NAMCO Group?

A The year under review was the first year of our medium-term management plan, which has the theme of "strengthening, enriching, and expanding portfolio management." On a consolidated basis, we recorded higher sales and profits. Net sales were up 1.8%, to ¥459.1 billion; operating income was up 18.4%, to ¥42.2 billion; and net income was up 71.4%, to ¥24.3 billion.

In operations, the Toys and Hobby SBU benefited from the worldwide success of *Tamagotchi* and the domestic popularity of *DATA CARDDASS*, and the Visual and Music Content SBU enjoyed favorable results due to the popularity of *Mobile Suit Gundam* series products, such as DVD-BOX. By geographical region, sales and profits were down year on year in domestic operations but higher in the Americas, Europe, and Asia. In this way, overseas operations supported domestic operations, demonstrating the effectiveness of our Group portfolio management.

Meanwhile, in the first year of the medium-term management plan, we recorded net sales of ¥459.1 billion, versus the planned level of ¥470.0 billion. However, we cleared our targets for operating income and net income. Operating income was ¥42.2 billion, compared with the planned level of ¥40.0 billion, and net income was ¥24.3 billion, compared with the planned level of ¥22.0 billion.

The performance of the Game Contents SBU was the reason why we did not reach our target for net sales. The "between seasons" period following the launch of the new, next-generation game consoles lasted longer than we had forecasted when the medium-term plan was formulated. On the other hand, the Toys and Hobby SBU and the Visual and Music Content SBU, which exceeded the plan's targets, complemented our other SBUs. In operations, we were able to leverage the Group's strengths in portfolio management.

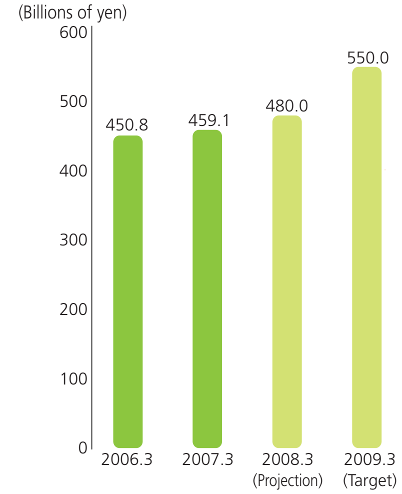
Q Overseas operations made a major contribution to the Company's favorable performance in the year under review. What were the reasons for this strong performance?

A One of the Group's key business strategies in the medium-term management plan is strengthening overseas businesses. We decided that, with domestic market growth expected to be sluggish due to the trends of a lower birthrate and an aging population, we need to expand our operations overseas in order to further increase the scale of the Group. Accordingly, we implemented Group reorganization measures to achieve optimal business execution in each region.

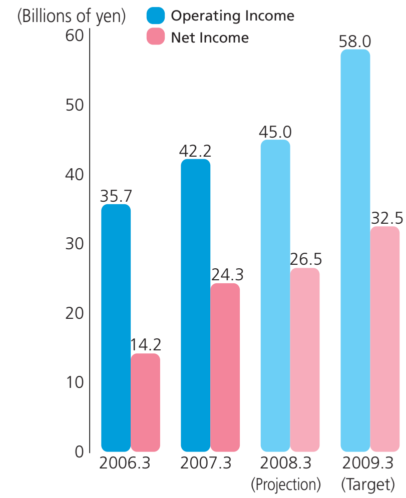
In the year under review, the Toys and Hobby SBU had favorable results with the overseas development of products from Japan, such as *Tamagotchi* and *POWER RANGERS*. In addition, *BEN10*, which originated overseas, enjoyed growing popularity and made a contribution to our results. In the Amusement Facility SBU, our hybrid bowling facilities in Europe performed well. As a result, we recorded strong growth in overseas operations. Overseas sales were up approximately 20% year on year, and the overseas sales ratio increased from 19% in the previous year to 22% in the year under review.

In the future, in addition to the overseas development of content originating in Japan, we will develop content originating overseas and enhance our operations in line with the tastes and characteristics of each region in order to steadily bolster our overseas operations. Our targets for the overseas sales percentage are 23% in the fiscal year ending March 2008, 25% in the following year, and then 50% in the long term.

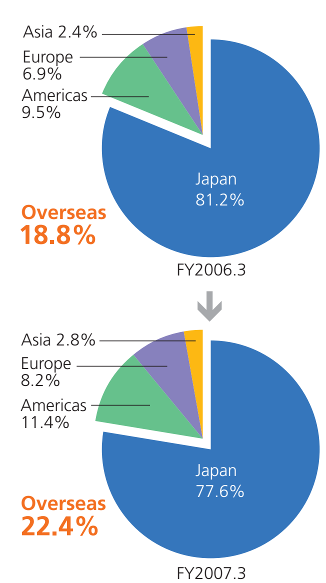
Net Sales



Operating Income / Net Income



Net Sales by Geographic Segment



Note: Percentage figures are calculated based on external sales.

Top Interview

Q The BANDAI NAMCO Group has adopted the slogan "challenge and speed." What does this slogan mean to you?

A For the Group to achieve continued strong growth in the rapidly changing entertainment industry, we must move quickly to take on new challenges. We need to create movements at the forefront of the industry, carefully track emerging trends, and always stay one step ahead. We must be aggressive in our thinking and our actions. Clearly, if we are not eager to take on the challenge of providing new entertainment, then we will not be able to provide "Dreams, Fun and Inspiration" to our customers. Accordingly, "challenge and speed" is not just a temporary slogan; it is a never-ending theme for the BANDAI NAMCO Group.

Sometimes, however, taking on challenges involves risk. We need to continually ask ourselves if we can leverage our own know-how and strengths in a particular field. We also need an environment and systems that encourage employees to continually take on challenges with sustained commitment. And, of course, if we fail in taking on a challenge, we should assess why we failed. But to record continued growth as a company we need to be able to develop employees without inhibiting the spirit of taking on challenges that drives future success. Even if we fail once, there will be another chance. While controlling risk, we will strive to provide an environment in which employees are eager to take on challenges. I believe that spirit is the source of new growth.

Q In preparation for achieving the goals of the final year of the medium-term management plan, which ends in March 2009, what type of strategies will the Company implement in the fiscal year ending March 2008?

A The biggest objective of the medium-term management plan is "strengthening, enriching, and expanding portfolio management." Our basic strategies are to leverage the substantial growth potential of each of our five SBUs and to create and develop new SBUs. In business strategies, in addition to strengthening overseas businesses, we are promoting the Group's Entertainment Hub Concept, which integrates a variety of functions, from content creation to product development and sales. We will aggressively expand this concept in conjunction with external partners. We have already entered capital tie-ups with content holders, such as the Toei Group, Kadokawa Group Holdings, and the Ishimori Group, and we have invested in Fujiya Co., Ltd., a confectionery company. These measures have strengthened the hub concept, and in the future we will also bolster initiatives with our partners, including those in overseas markets.

In the fiscal year ending March 2008, the second year of the medium-term management plan, we are forecasting net sales of ¥480 billion, operating income of ¥45 billion, and net income of ¥26.5 billion, an increase of 9.3%. However, the forecast for operating income is ¥5 billion less than the initial target of ¥50 billion that is set out in the medium-term management plan. This shortfall is primarily attributable to a reduction of ¥5 billion in the forecast for the Game Contents SBU. This revision stemmed from uncertainty about the future direction of game markets in Japan and overseas, including the pace of market penetration of next-generation home-use game consoles. As an internal target, we will continue striving toward the target set out in the medium-term management plan. We will do our utmost to come as close as possible to the initial numerical objectives of net sales of ¥500 billion and operating income of ¥50 billion.

FY2006.3
Net Sales: ¥450.8 billion
Operating Income: ¥35.7 billion
Overseas Sales: 18.8%

Implementation of Three-Year Plan

↓

FY2007.3
Net Sales: ¥459.1 billion
Operating Income: ¥42.2 billion
Overseas Sales: 22.4%

↓

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

Targets for the final year of the medium-term management plan

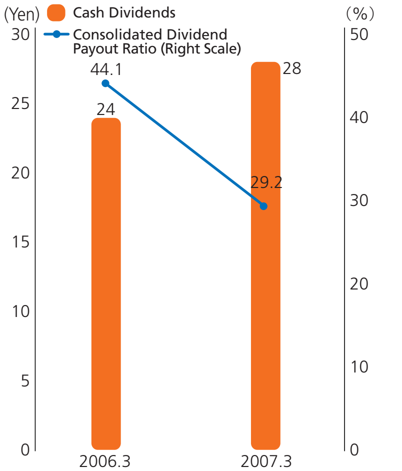
Q **M&A activities are increasingly common, and the importance of providing a return to shareholders is drawing considerable attention. Would you discuss the policy of the BANDAI NAMCO Group for shareholder returns, especially dividends?**

A The Company gives high priority to the distribution of profits to shareholders. We strive to continue to pay dividends and raise enterprise value while further strengthening the Group's competitiveness and maintaining a sound financial position. Our fundamental policy for providing a return to shareholders is to aim for a payout ratio of 30% in accordance with consolidated operational results, based on a stable annual dividend payment of ¥24 per share.

In accordance with this fundamental policy, for the year under review we paid dividends of ¥28 per share, which comprised the base portion of ¥24 per share—¥12 per share for both interim and year-end dividends—and a performance-linked portion of ¥4 per share. This represents an increase of ¥4 per share from the previous year and a consolidated payout ratio of 29.2%.

In addition, we have completed the initial round of Group reorganization, and, at the end of the first full fiscal year since the management integration, we clarified the Group's basic policy for the application of cash. Specifically, with regard to reserve funds after the deduction of working capital and outlays for forward capital investments related to operations, the Company considers the acquisition of treasury stock for the provision of a return to shareholders and other purposes, after taking into account an overall assessment of expected earnings for the current and next terms as well as capital expenditure projects. We have moved quickly to implement this policy. After deducting essential funds defined in the policy from reserve funds of about ¥120 billion at the end of the fiscal year ended March 2007, we implemented repurchases of our own stock from May 10 to June 12, 2007, and acquired 4.98 million shares. And in June 2007, we cancelled 4.50 million shares of treasury stock, or 1.73% of the total number of shares issued prior to the cancellation.

Cash Dividends / Consolidated Dividend Payout Ratio



Note: Dividends for the fiscal year ended March 2006 include share transfer payments made in lieu of interim dividends.

Q **In recent years, in addition to profit contributions, the social expectations for listed companies have included growing concern with CSR in a wide range of fields, including compliance, product and service safety, and environmental considerations. Please tell us about the Group's CSR initiatives.**

A The Group's corporate philosophy is to provide "Dreams, Fun and Inspiration" to people around the world through entertainment based on creativity and boundless enthusiasm. Accordingly, we have formulated Groupwide CSR initiatives that include three types of responsibilities—legal and ethical, environmental and social, and economic. Centered on the CSR Committee, which I lead, we are implementing a range of CSR activities that are characteristic of the BANDAI NAMCO Group. (Please see page 28 for more information.)

On the other hand, in regard to legal and ethical responsibilities, we have taken steps to ensure that Group companies in Japan and overseas and all directors and employees understand the fundamental elements of compliance. At the same time, we are continually monitoring legal and ethical compliance under an original corporate governance system. Without the support of society, a company will not be able to grow. We are undertaking both business activities and CSR activities in accordance with our strong commitment to providing "Dreams, Fun and Inspiration" and existing as a group together with society.

INTERVIEW

Shukuo Ishikawa,
CEO and Representative Director
NAMCO BANDAI Games Inc.

&

Shin Unozawa,
COO and Representative Director
NAMCO BANDAI Games Inc.

Game Contents

Special Feature: Medium-Term Strategies in the Game Contents SBU

NAMCO BANDAI Games aims to become the world's premier quality game maker.

The BANDAI NAMCO Group is implementing a three-year medium-term management plan with the key theme of "strengthening, enriching, and expanding portfolio management," centered on its five SBUs. The year under review was the first year of the management plan, and it got off to a smooth start. However, many analysts and investors believe that the success of the Game Contents SBU will substantially affect the Group's ability to achieve the goals set out for the final year of the plan—net sales of ¥550 billion and operating income of ¥58 billion in the fiscal year ending March 2009.

In this section, Shukuo Ishikawa, CEO and Representative Director, and Shin Unozawa, COO and Representative Director, of NAMCO BANDAI Games, the core company in the Game Contents SBU, discuss the medium-term strategies that NAMCO BANDAI Games is implementing.

Q NAMCO BANDAI Games was established in March 2006. What degree of progress has the company made over the past year?

A Our greatest success over the past year was the integration of NAMCO and Bandai, which had strengths in different fields. In particular, employees came together quickly on their own initiative. Employees from Bandai showed interest in NAMCO's strong technical development capabilities, while employees from NAMCO showed interest in Bandai's marketing capabilities, such as media tie-ups. We think that the smooth and natural process of integration among employees has had tremendous value. Actually, we started to see concrete results from the second half of FY2007.3. In October 2006, for example, we launched *Mobile Suit Gundam: Senjo-no-Kizuna*, an arcade game machine that showcases the synergies from the management integration.

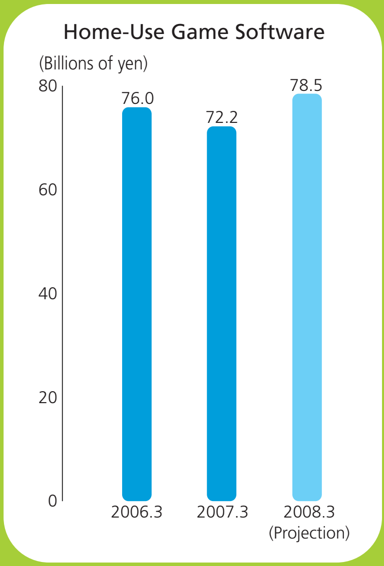
And we expect the integration of bases, which has brought together our people, facilities, and know-how, to serve as a trigger for even greater benefits from the management integration. In April 2007, NAMCO BANDAI Games consolidated its offices from five separate locations in Tokyo and Yokohama into a new head office building in Tokyo's Shinagawa Ward. The key phrase for this move was "face to face," and the objective was to further increase operational efficiency and productivity, thereby enhancing our performance. In particular, we expect the improved communication to generate a variety of ripple effects. Since moving to the new building, there is a sense that employees are smiling more. Employees are closer, both physically and psychologically, and that closeness will be the driving force behind the realization of synergies at an accelerated pace.

Q *Mobile Suit Gundam: Senjo-no-Kizuna*, an arcade game machine that showcases synergies, has become a major hit.

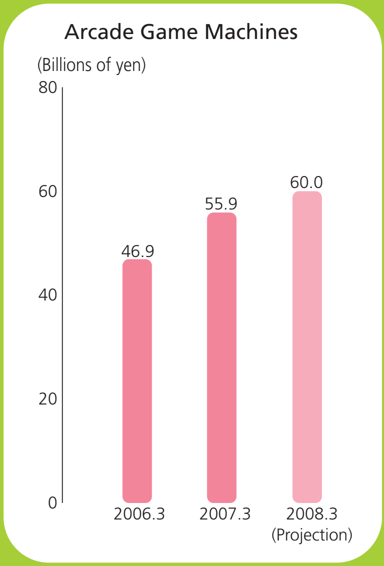
A *Mobile Suit Gundam: Senjo-no-Kizuna* resulted from synergies between Banpresto and NAMCO BANDAI Games. It concentrates the technical capabilities and character merchandising know-how of the Group. In fact, it is an arcade game machine that could only be created by the BANDAI NAMCO Group. Since its launch in October 2006, it has sustained high popularity, and even though more than six months have passed since it was released we continue to receive additional orders from amusement facilities around the country. Also, its utilization rate at amusement facilities remains at a high level. The overwhelming majority of arcade game machines peak shortly after their introduction, so the success of our new machine is very unusual. The ability of *Mobile Suit Gundam: Senjo-no-Kizuna* to sustain its popularity is a result of the way we leverage network game characteristics and implement finely detailed upgrades that incorporate feedback from customers. As a result, we are seeing increases in repeat customers. In the future, we will launch major upgrades at a pace of about once a year, thereby building *Mobile Suit Gundam: Senjo-no-Kizuna* into a long-term success. At the same time, we will consider developing it in overseas markets.

In addition, we are developing other machines that leverage integration synergies, such as character photo seal printing machines and medal game machines. We will bolster these activities in the future, including enhancing links with other SBUs.

Net Sales by Category



Net Sales by Category



INTERVIEW Game Contents

Q **The success of the Game Contents SBU will have a major influence on the ability of the BANDAI NAMCO Group to meet the goals of its medium-term management plan. Targeting the final year of the plan, ending March 2009, what areas will the SBU strive to strengthen?**

A The biggest challenges will be to increase the precision of our strategy of efficiently extending a single piece of content to all fields, including arcade game machines and home-use game software, and to strengthen our earnings foundation. Accordingly, we will further enhance the quality and competitiveness of each game content title. And due to more-advanced game machines and higher-speed, higher-capacity networks, business opportunities in online operations are expanding on a global scale, and in response we will bolster our capabilities in network compatible products.

Moreover, to meet the goals of the medium-term management plan, we believe that we must expand overseas operations. In particular, the rebuilding of home-use game software operations in the Americas, where locally developed game titles faced tough conditions in the year under review, will be a major challenge. In response, we are taking steps to reduce locally developed titles and focus on the development of franchise titles from Japan. In addition, we are reevaluating our system for local development of home-use game software for overseas markets and establishing a system that will consolidate control of overseas bases in Japan, including management. At the same time, instead of development that is based on the framework of "products for Japan" and "products for overseas," we will emphasize cooperation between Japan and overseas bases and implement worldwide development from the planning stage. By conducting development in this manner, we will strive to raise profitability.

Q **Would you explain the SBU's specific strategies for arcade game machines?**

A In Japan, our basic strategy is to bolster video games for frequent game players as well as strengthen casual products for families. Recently, we have seen an increase in large-scale amusement facilities in shopping centers, which have significant customer-drawing abilities. These amusement facilities are attracting many families who have not frequently visited game centers in the past, and we will enhance our casual products for families by aggressively adding features that can be enjoyed by anyone. We will also work to follow up *Mobile Suit Gundam: Senjo-no-Kizuna* with the development of other innovative products that draw on the strengths of the BANDAI NAMCO Group.

Also, our video game machines and prize machines have been well received, but we are not satisfied with our medal game machines. In the fiscal year ending March 2008, we will launch a large-scale medal game machine and work to expand our share of the market for these products.

Q **What is the SBU's strategy for home-use game software?**

A In the year under review, the pace of the adoption of next-generation home-use game consoles was slower than anticipated. However, from the second half of the fiscal year ending March 2008, we expect the penetration of next-generation game consoles to improve and market conditions to turn upward. In line with these market trends, we will build a lineup of titles, including the synergy titles that we have been developing since the management integration. Moreover, we are conducting a full-scale reevaluation of our strategy for overseas operations, where home-use game software operations faced difficult conditions in the year under review. In the final year of the plan, ending March 2009, we think we can record substantial growth.

Share of Domestic Software Unit Sales by Manufacturer (FY2007.3)

Name	% of Total
1 Nintendo Co., Ltd.	33.6
2 NAMCO BANDAI Games Inc.	10.7
3 The Pokémon Company	8.1
4 SQUARE ENIX CO., LTD.	6.9
5 SEGA CORPORATION	6.8
6 KONAMI CORPORATION	6.5
7 CAPCOM CO., LTD.	5.1
8 Sony Computer Entertainment Inc.	3.3
9 KOEI Co., Ltd.	1.6
10 Banpresto Co., Ltd.	1.4

Data from March 27, 2006, to March 25, 2007
Source: *Famitsu Game White Paper 2007*, issued by ENTERBRAIN, INC.

As a strategy, we will bolster multiplatform development of major titles and work to leverage the distinctive characteristics of each platform. Our specific strategy for handheld devices is to offer simple software for casual users on the Nintendo DS and software for teenagers on the PSP. For previous-generation home-use game consoles, we will develop software centered on characters for the PS2. And for next-generation home-use game consoles, we will take on the challenge of providing new types of entertainment that leverage the characteristics of the Wii while launching high-end titles and cultivating advanced development technologies for the PS3 and Xbox360. We are developing abundant variations of software for a wide range of targets, and we will work to build a lineup of titles that meet those diverse needs.

Moreover, based on that strategy, we will allocate our development resources equally among handheld devices, previous-generation home-use game consoles, and next-generation home-use game consoles. Furthermore, to implement this platform-oriented strategy, in April 2007 we reorganized our home-use game software development system, dividing it into developer and publisher divisions and clarifying roles and responsibilities. As a result, developers can focus on the development of high-quality software within budget and delivery constraints and publishers can focus on expanding sales of superior products. This system was made possible by the integration of Bandai and NAMCO, each with its own strengths.

Unit Sales of Home-Use Game Software

Unit Sales by Game Machine

Thousands of Units

	FY2006.3	FY2007.3	FY2008.3 (Projection)
PlayStation 2 (PS2)	16,080	10,670	5,991
Nintendo DS	2,418	4,731	8,101
PlayStation Portable (PSP)	2,896	4,641	2,338
PLAYSTATION 3 (PS3)	—	972	2,859
Nintendo Wii	—	492	4,143
Xbox360	260	237	1,213
Others	5,218	1,609	555
Total	26,872	23,352	25,200

Unit Sales by Region

Thousands of Units

	FY2006.3	FY2007.3	FY2008.3 (Projection)
Japan	13,106	12,215	15,200
Americas	6,402	5,930	4,950
Europe	6,726	4,715	4,650
Asia	638	492	400
Total	26,872	23,352	25,200

Q Finally, what are your aspirations for NAMCO BANDAI Games?

A At NAMCO BANDAI Games, we look forward with anticipation, and we are eager to take on the challenge of future growth. The consolidation of our offices from five separate locations in Tokyo and Yokohama into the new head office building will enable us to maximize the benefits of the management integration. And enhanced communication is driving further integration. For NAMCO BANDAI Games, the greatest benefits from the management integration are yet to come. We are confident that our shareholders and investors can expect great things from NAMCO BANDAI Games, which aims to become the world's premier quality game maker.

Medium-Term Management Plan

Strengthening, Enriching, and Expanding Portfolio Management

In April 2006, we commenced a three-year medium-term management plan with the key theme of "strengthening, enriching, and expanding portfolio management."

We combine a business portfolio, where businesses are developed in a wide range of fields; a content portfolio, with extensive lineups; and an area (regional) portfolio, where operations are developed in regions around the world. Under this original portfolio management strategy, we use three-dimensional, multifaceted combinations of these portfolios and strive to achieve stable, ongoing growth and a strong operational foundation.

Under the medium-term management plan, the key business strategies are promoting the Entertainment Hub Concept and strengthening overseas businesses. In accordance with these strategies, we are working to strengthen, enrich, and expand portfolio management while, at the same time, creating a spiral effect by leveraging synergies among the portfolios, thereby maximizing the Group's growth potential.

Key Focus of Medium-Term Management Plan: Strengthening, Enriching, and Expanding the BANDAI NAMCO Group's Portfolio Management

Management Strategies

Pure Holding Company (NAMCO BANDAI Holdings)

(1) Strengthening corporate governance
(2) Effectively utilizing human resources
(3) Building optimal management system

Business Strategies

Strategic Business Units (SBUs)

(1) Entertainment Hub Concept
  1. Content strategy
  2. Domain strategy
  3. Channel strategy
(2) Strengthening overseas businesses

Management Strategies

1. Strengthening corporate governance

Through the implementation of a range of initiatives, such as bolstering internal control systems, strengthening performance monitoring, and enhancing the corporate brand, we will work to raise management soundness, transparency, and efficiency while building a corporate governance system that will enable rapid information disclosure.

2. Effectively utilizing human resources

Employees are the Company's most important resource and the driver of growth. To provide the workplace environment and the opportunities needed for employees to utilize their abilities, we are taking such steps as promoting the sharing of know-how through personnel exchanges within the Group, bolstering Groupwide employee education programs, and introducing new employment rules.

3. Building optimal management system

Our basic policy for restructuring is to target the most efficient, effective Group management. In accordance with that policy, we have three principal themes.

The first is "cooperation." In fields with mature markets, we will combine overlapping divisions in SBUs, while in markets in which we can expand our share through the use of the Group's combined strength, we will pursue greater efficiency and economies of scale.

The second is "competition." In growth markets, we will compete aggressively, including within the Group, and work to raise the overall value of the Group as a whole while maintaining the current organization.

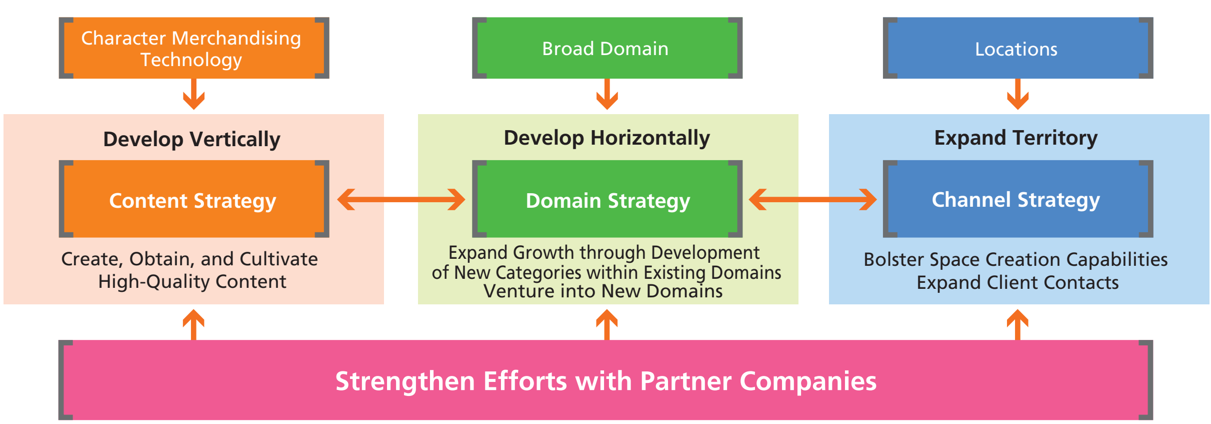
The third is "collaboration." We will integrate the operations of indirect departments, such as accounting, general affairs, human resources, and IT, thereby reducing indirect costs and bolstering our profit structure.

Business Strategies

1. Entertainment Hub Concept

The Entertainment Hub Concept entails a system for developing a comprehensive range of activities, from the creation and acquisition of content to product development and sales. This system is similar to a hub airport. As we implement the content, domain, and channel strategies, we will strengthen links within the Group and develop open relationships for flexible cooperation with outside partners and content creators, thereby enhancing the hub functionality. Under this approach, we will strive to create entirely new businesses, products, and services and to fully utilize the Group's strengths.

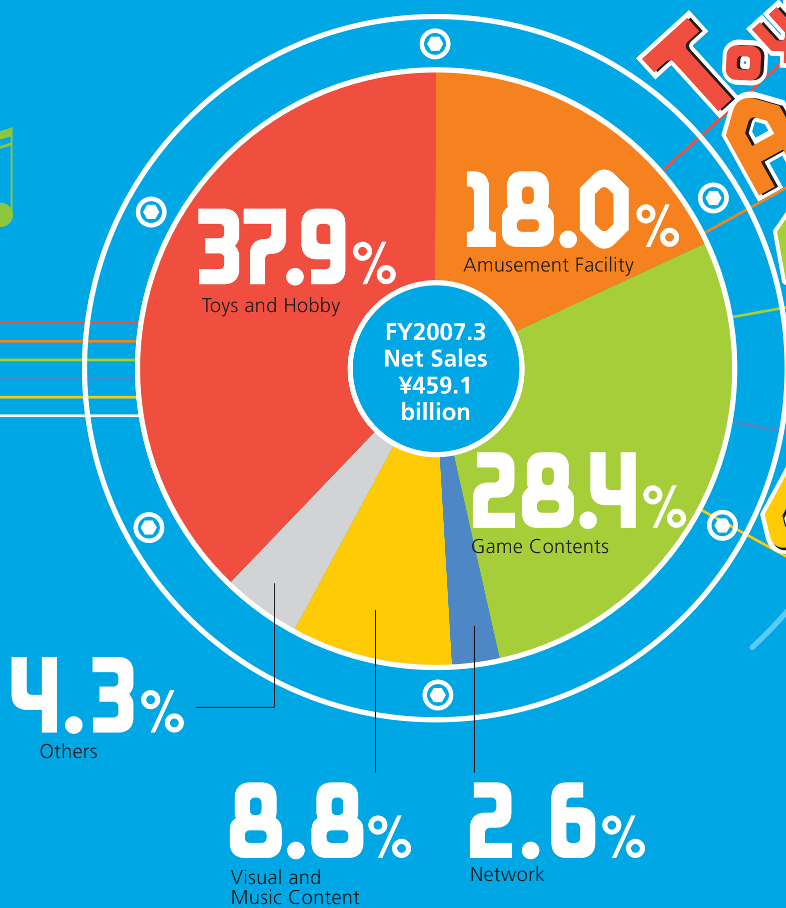
The Entertainment Hub Concept



2. Strengthening overseas businesses

In overseas markets, each SBU will develop its core operations on a regional basis. On the other hand, we will establish close links with regional oversight, making full use of regional characteristics, and bolster portfolio management by region.

Strategic Business Units (SBUs)



Toys and Hobby

Amusement Facility

Game Contents

Network

Visual and Music Content

Affiliated Business Companies

Toys and Hobby SBU

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

Amusement Facility SBU

Core Company
NAMCO LIMITED
President and
Representative Director
Jun Higashi

Planning and managing of a full range of amusement facilities

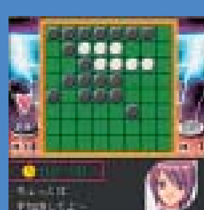
Game Contents SBU

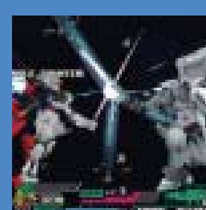
Core Company
NAMCO BANDAI Games Inc.
President and
Representative Director
Shukuo Ishikawa

Manufacturing and marketing of game software for home-use game consoles and handheld devices and of arcade game machines and prizes

Network SBU

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

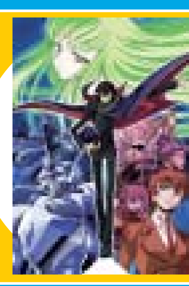




Provision of content for mobile phones and PCs; planning and development of e-commerce businesses

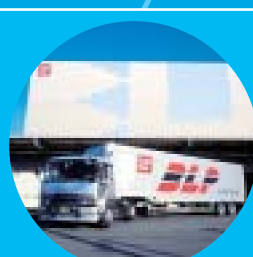
Visual and Music Content SBU

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; distribution of video on demand services

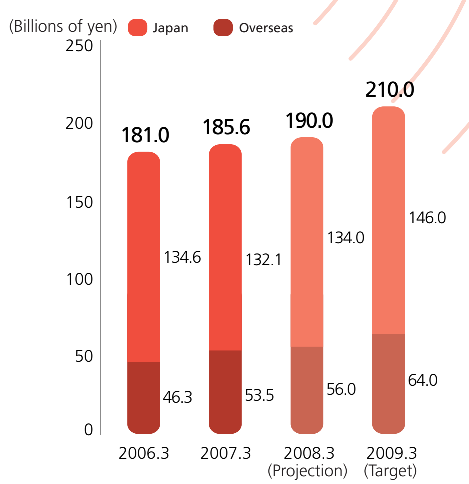
Affiliated Business Companies

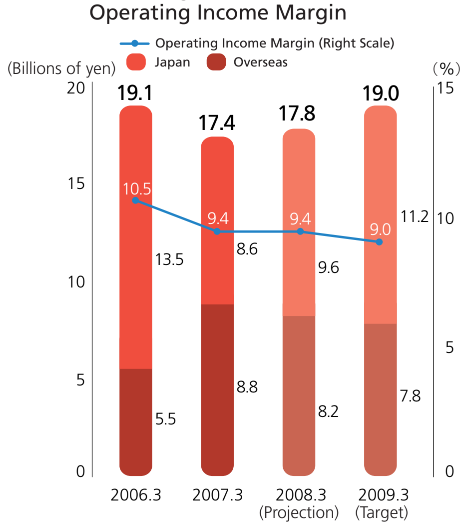


Support for Strategic Business Units in such areas as distribution, logistics, leasing, and printing

Business Strategies by SBU

Toys and Hobby





In the domestic market, we are broadening our target customer groups and advancing into new fields. In overseas markets, we are aggressively expanding our operations.

In the toys and hobby business, our challenges include the shrinking of the domestic market due to the falling birthrate and the diversification of consumer needs. In response to these challenges, the Toys and Hobby SBU is broadening its target customer groups and advancing into new fields. At the same time, in overseas markets we are aggressively expanding our operations. Moreover, to implement strategies more rapidly, we are actively building strategic relationships with external partners.

In Japan, we are working to strengthen established character toys, expand our target customer range, increase the market share of *DATA CARDDASS*, expand operations in new fields of business, and raise efficiency by reevaluating development processes.

In strengthening established character toys, in addition to the popular *Masked Rider Den-o* and *Yes! Precure 5*, we will launch products tied in with the start of broadcasting of the new *Gundam* animation in October 2007. *DATA CARDDASS* faces intensifying competition among card game machines, and in response we are using our wealth of content as a competitive edge to expand our market share. We are working to expand the range of target customers. Specifically, for young boys, in addition to established content for elementary school boys, such as *Dragonball*, we began promoting *Daikaijyu Battle–Ultra Monsters* for preschool boys from May 2007. For girls, we launched *Yes! Pretty Cure 5* in the second half of the fiscal year. Furthermore, we are taking on the challenge of new businesses, such as hair salons and photo studios that we are developing through the extension of the character business.

We will also work to improve our results overseas. To that end, we will strive to increase sales of established characters, centered on *POWER RANGERS*. In addition, we will expand the regions in which popular products are available, such as *BEN10*, which has done well in the United States.

The DATA CARDDASS machine, which combines digital data and a card game, is especially popular among elementary school children.

With cumulative sales totaling more than 380 million units, the *Mobile Suit Gundam* plastic model series is a favorite of customers in a wide range of age groups.

The *POWER RANGERS* series products have been highly popular for more than 30 years in Japan and more than 15 years overseas.

We are developing candy toys based on the *Tamagotchi* characters, which are popular among children.

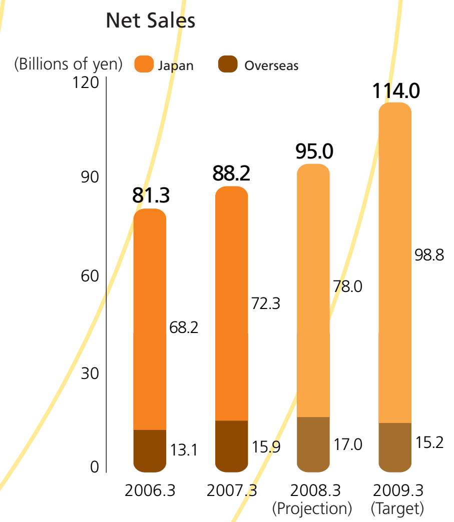
Amusement Facility

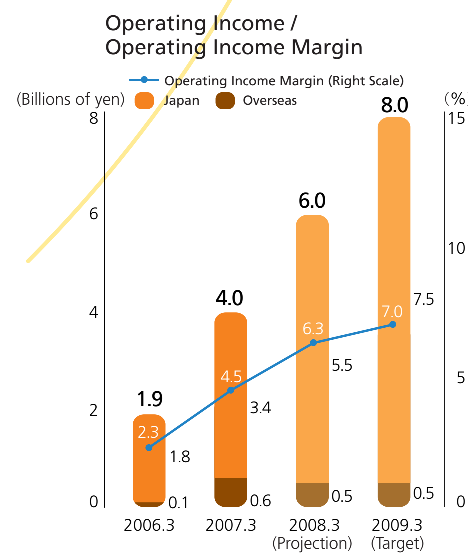
We are providing innovative, high-value-added facilities and services that target a wide range of customer groups.

In the amusement facility business, key challenges include changes in the industry's profit structure, the diversification of customer preferences, and the revision of the consumption tax rate. The Amusement Facility SBU is responding to these challenges by increasing profitability through improvements to the cost structure. In addition, through links with other SBUs, we are bolstering our provision of innovative, high-value-added facilities and services that target a wide range of customer groups. Overseas, we are working aggressively to increase profitability by developing our operations in line with regional characteristics.

In the domestic market, we plan to open 10 amusement facilities per year, principally in shopping centers, which have significant customer-drawing power. Meanwhile, improving the profit margin in amusement facility operations, which have high fixed costs, has become an important issue. One step we are taking to improve profitability is further acceleration of the scrap and build policy. In the fiscal year ending March 2008, we plan to close 22 directly managed facilities. And we expect sales at existing facilities to increase 1% from the previous year. We will aggressively introduce popular, large-scale machines and work to differentiate our operations from those of competitors by leveraging character synergies. Based on the know-how cultivated through *Namco Wonder Park Hero's Base* and *Tamagotchi Park*, we will aggressively develop facilities linked with characters.

In overseas markets, we will aim to increase profits through continued development in line with regional characteristics. In the Americas, we will work to improve profitability by increasing the number of facilities operated on a revenue-sharing basis and implementing cost-cutting measures. In Europe, we will bolster the development of hybrid facilities, such as bowling facilities.

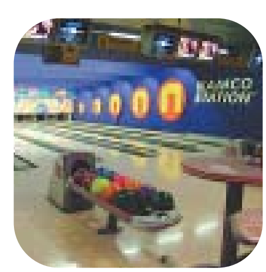




Namco Wonder Park Hero's Base is an amusement facility that integrates amusement and characters and showcases the benefits of the management integration.

Tamagotchi Park is an amusement facility based on the popular *Tamagotchi* characters.

KOCHIKAME Game Park is a character amusement facility that enables customers to experience the world view of *KOCHIKAME*.

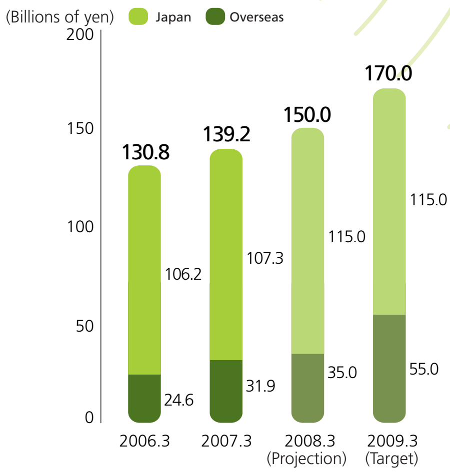


Hybrid bowling facilities are being developed in Europe.

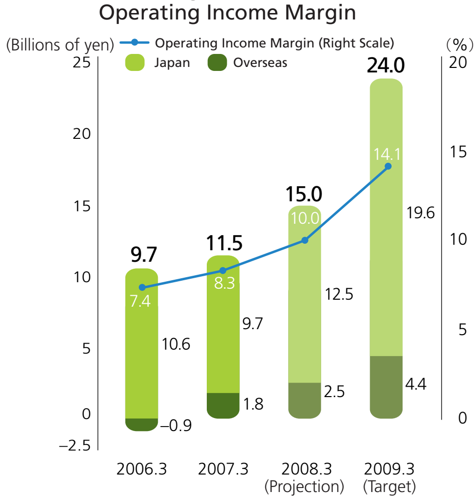
Business Strategies by SBU

Game Contents

Net Sales



Operating Income (Loss) / Operating Income Margin



We are working to increase development efficiency and create a title lineup that is balanced among platforms.

The game industry is in the "between seasons" period following the launch of next-generation game consoles. The industry's key challenges include changes in customer needs and rising content development costs. In the Game Contents SBU, in response to these challenges, we will share know-how and technologies among such fields as arcade game machines, software for home-use game consoles, and game content for mobile phones. In this way, we will reevaluate development processes and build a flexible development system. Through these types of initiatives, we are working to respond rapidly to customer needs by increasing development efficiency and creating a title lineup that is balanced among platforms.

In the domestic market for arcade game machines, we will aggressively introduce new large-scale medal game machines to expand our market share. Also, we will work to follow up the highly popular *Mobile Suit Gundam: Senjo-no-Kizuna* with the development of other innovative products. Meanwhile, in overseas markets, in addition to Europe and the Americas, we will implement dynamic development of content on a worldwide basis, including Asia.

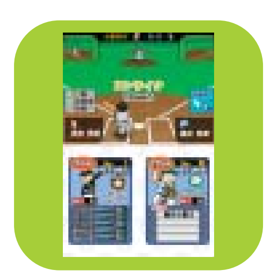
In the domestic market for software for home-use game consoles, we will bolster multiplatform development of major titles and work to leverage the distinctive characteristics of each platform. Overseas, in the Americas, we will consolidate our locally developed titles and move forward in developing a stable profit base and a balanced lineup of titles. In addition, we will work to improve profitability in the global market by conducting worldwide development of franchise titles from Japan. In game content for mobile phones, we will work to further increase the number of domestic subscribers by enhancing content. At the same time, through tie-ups with overseas partners, such as telecommunications carriers, we will bolster our operations abroad.

Note: For more information about the Game Contents SBU, please see page 12.

The *Wangan Midnight* series of arcade game machines, which enables players to experience the world of comics, is an established favorite.

Mobile Suit Gundam: *Senjo-no-Kizuna* was made possible by synergies between Banpresto and NAMCO BANDAI Games.

This software, developed through collaboration with another company, leverages character merchandising know-how.



For handheld devices, we provide a variety of game software that is easy to enjoy.

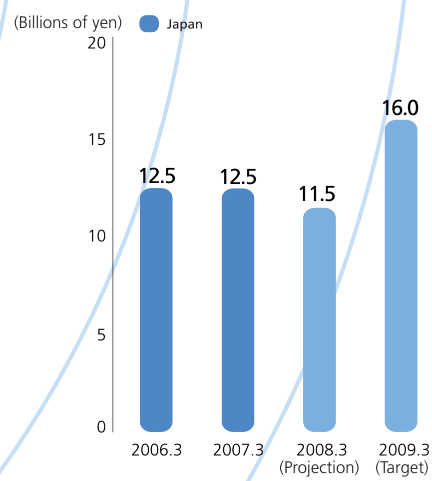
Network

We are moving forward aggressively in planning and developing attractive mobile content while bolstering our B-to-B business through the use of our capabilities in the development and proposal of new, industry-leading technologies.

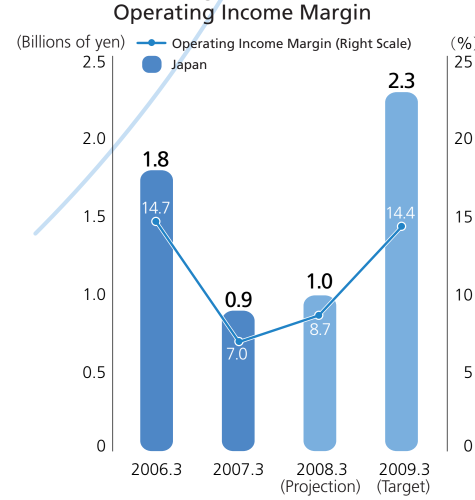
In the network business, key challenges include responding to new technologies and functions in mobile phones, which are advancing rapidly, and to a larger, more sophisticated network environment. In the Network SBU, we are taking various steps to respond to these challenges. In mobile content operations, the SBU's earnings base, we are moving forward aggressively in planning and developing attractive mobile content while bolstering our B-to-B business through the use of our capabilities in the development and proposal of new, industry-leading technologies. To respond to intensifying competition in the industry, we will bolster our earnings base through selection and concentration by reevaluating unprofitable content and improving our business model and open up new fields of business.

We will expand our lineup of popular game content, from high-value-added content based on popular characters to simple content, and implement development targeting a wider range of customers. In standby screen images and ring tones, we will consolidate unprofitable contents. At the same time, we will reevaluate our business model, including our solutions business for corporate customers, such as systems development for mobile sites. Moreover, we will take steps to pursue Group synergies, including the distribution of content through Group companies in Europe and further strengthening of tie-ups, such as the provision of a service linked with the *Mobile Suit Gundam: Senjo-no-Kizuna* arcade game machine.

Net Sales



Operating Income / Operating Income Margin

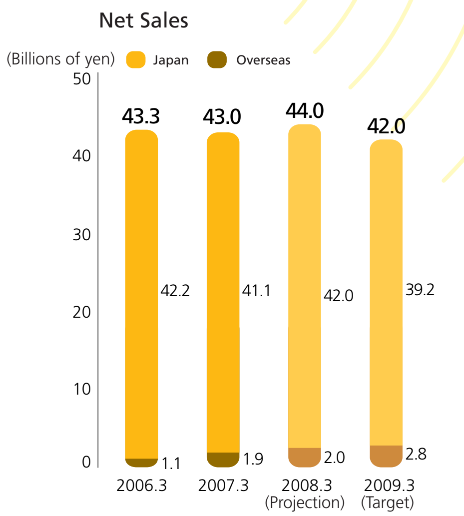


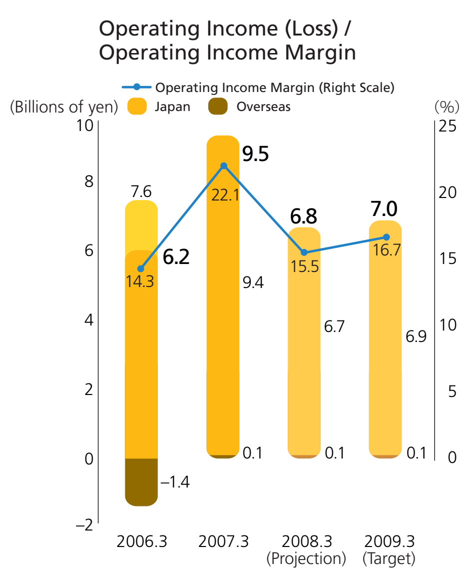
With progress on both graphics and entertainment value, our mobile game content has generated a steady increase in the number of fee-paying subscribers.

Through Internet sales, we are offering unique products for a wide range of customers.

We operate information exchange sites for selected target groups.

Visual and Music Content



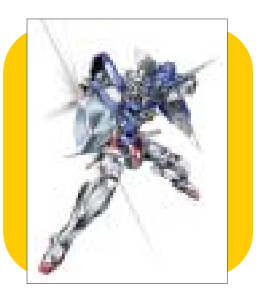


We are increasing business opportunities by striving to create superior content and expanding the scope of our operations to include content development in music and publishing.

In the visual and music content business, key challenges include developing content businesses targeting new media and responding to new, advanced hardware. In the Visual and Music Content SBU, to respond to these challenges, we are striving to create superior content and expanding the scope of our operations to include content development in music and publishing. We are moving rapidly to make full use of our own content on new hardware. At the same time, we are taking steps to build a business model for new media, such as on-demand distribution of content.

Future development efforts will include the development of next-generation media and initiatives to enhance on-demand distribution. We have begun full-fledged development on a global scale of next-generation media. We plan about 30 titles for HD-DVD and Blu-ray. In June 2007, we kicked off those activities when we launched *FREEDOM* simultaneously in Japan and the United States. In on-demand distribution, the number of downloads on the Bandai Channel is increasing steadily, and in the fiscal year ended March 2007 we surpassed 16 million, for an overwhelming number one share of the domestic market for fee-based animation distribution.

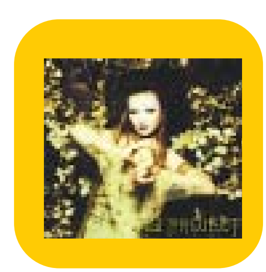
Our content strategy calls for the cross development of visual and music content with publishing operations, including cooperation with Group companies Sunrise Inc., Lantis Co., Ltd., and EMOTION CO., LTD. Moreover, we are also focusing on the creation of new content. In the fiscal year ending March 2008, we are introducing products in a range of genres. These products include *IDOLM@STER XENOGLOSSIA*, a synergy title that animates popular content from arcade game machines; *CODE GEASS: Lelouch of the Rebellion*, introduced through a tie-up with the Kadokawa Group; and *Mobile Suit Gundam 00*, a new animation from Sunrise, a Group company.



This is the latest product in the *Mobile Suit Gundam* series, which has been consistently popular since its first broadcast more than 25 years ago.

An arcade game from NAMCO BANDAI Games was developed into this TV animation.

This original video animation is linked with TV CF. It was launched simultaneously in Japan and the Americas as the Group's first HD-DVD product.



The *ALI PROJECT* best hits album was released by Lantis.

Directors and Corporate Auditors

(As of June 25, 2007)

President and Representative Director
Takeo Takasu

Director
Masahiro Tachibana

Director
Masaatsu Hayakawa

Director (Part-time)
Kazunori Ueno

Director (Part-time)
Jun Higashi

Director (Part-time)
Shukuo Ishikawa

Director (Part-time)
Satoshi Oshita

Director (Part-time)
Kazumi Kawashiro

Director (Outside)
Masatake Yone

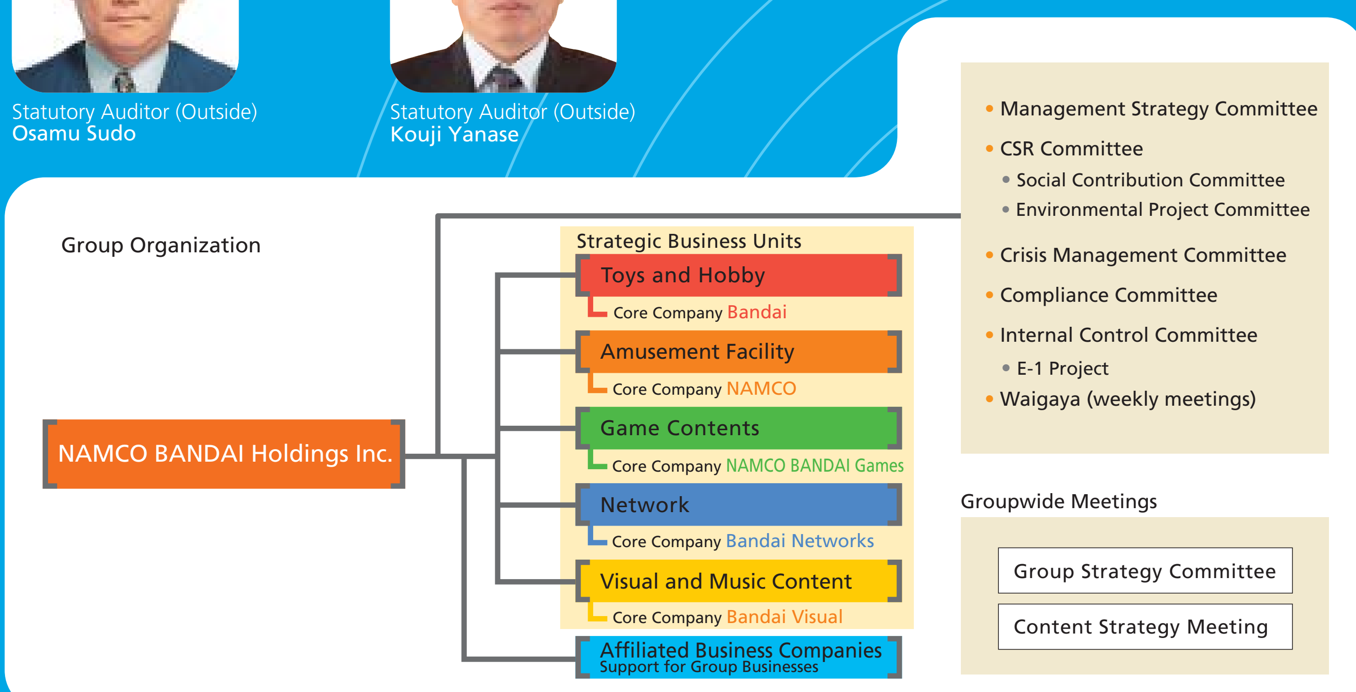
Director (Outside)
Kazuo Ichijo

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

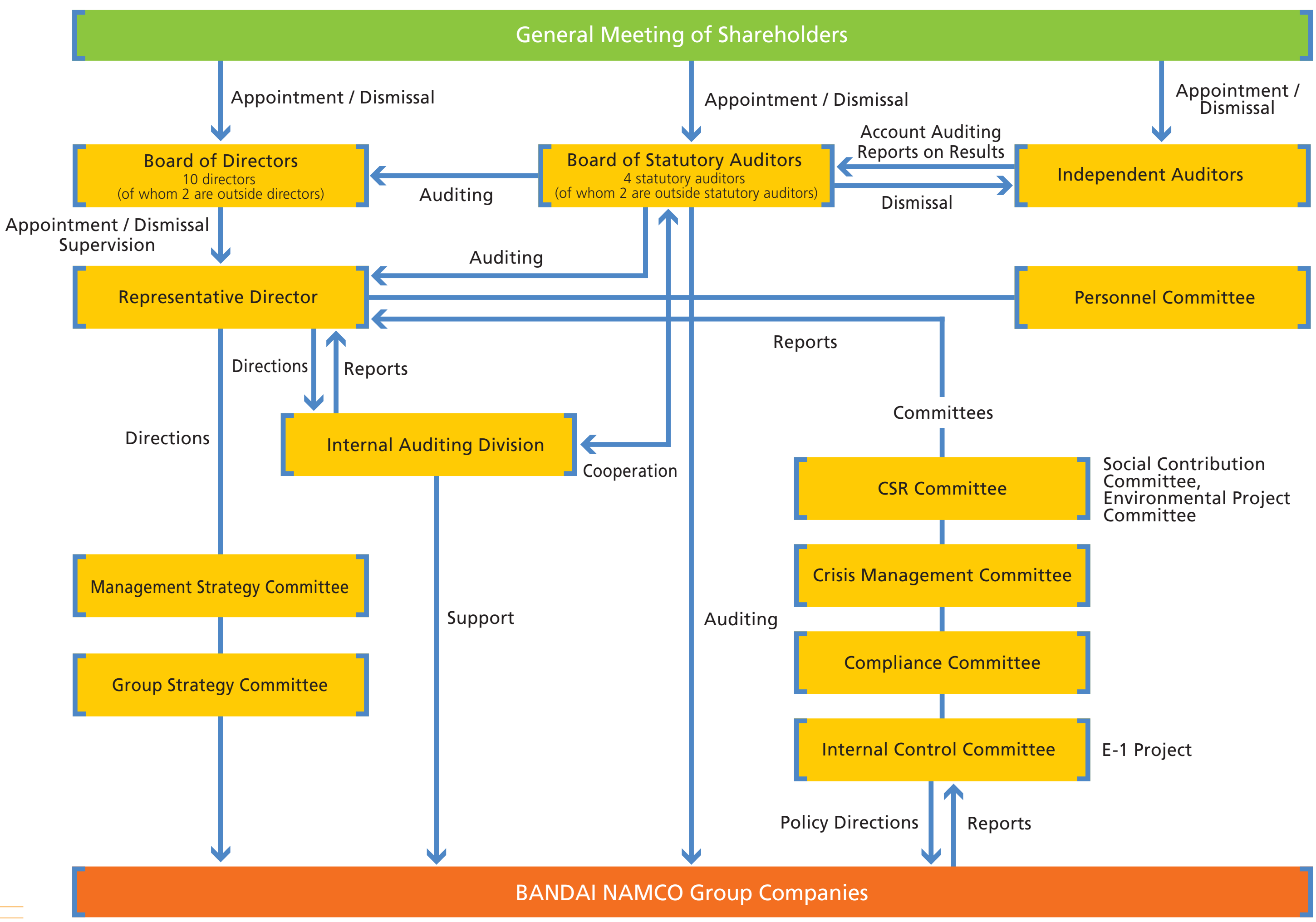
As the "World's Most Inspiring Entertainment Group," BANDAI NAMCO will continue to provide "Dreams, Fun and Inspiration" to people around the world through entertainment based on creativity and boundless enthusiasm. Our highest priority is the provision of benefits to all of the many stakeholders who 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 includes 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 and awareness 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 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 all issues are identified and understood 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	Preliminary investigation in accordance with work authority standards. Discussion and reporting of Group management challenges and overall strategies.	Full-time directors, full-time statutory auditors, others in accordance with agenda items
Group Strategy Committee	Monthly	Reports on BANDAI NAMCO Group business affairs and deliberations on business issues and problems.	Directors, 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 and has established a system that facilitates rapidly 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 the president, meets as needed 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 the affiliated business companies, which principally provide support. In each SBU, operating strategies in Japan and overseas are formulated and implemented, centered on the 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 main theme of the plan is "strengthening, enriching, and expanding the BANDAI NAMCO Group's portfolio management."

The Company, which is a holding company, monitors each SBU; holds meetings of Groupwide committees, such as the Management Strategy Committee, the Group Strategy Committee, and the CSR Committee; and formulates strategies for the Group as a whole.

Internal Control Systems

From the fiscal year ended 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 to ensure 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, consisting of 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 the 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 to ensure 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 fundamental principles, a range of measures are implemented by the Groupwide CSR Committee and its sub-committees—the Social Contribution Committee and the Environmental Project Committee—as well as by the Crisis Management Committee and the Compliance Committee.

1
Legal and ethical responsibilities
(compliance)

2
Environmental and social responsibilities
(safety / quality, environmental conservation, cultural / social support activities)

3
Economic responsibilities

Legal and ethical responsibilities
(compliance)

We have formulated basic compliance standards for Group companies, officers, and employees in Japan and overseas, and we conduct continual monitoring to ensure appropriate observance of legal and ethical standards.

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

Safety / quality initiatives

We follow industry standards 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

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 on those fields.

TOPICS

"Bandai Namco Forest" at Shiga Kogen

"Bandai Namco Forest" at Shiga Kogen

The BANDAI NAMCO Group signed a "forest adoption agreement" with a forest support foundation in Nagano Prefecture. Under the terms of the agreement, the BANDAI NAMCO Group will provide support for forest management activities at the 47-hectare "Bandai Namco Forest" at Shiga Kogen and work to help foster a deeper understanding of forest conservation issues.

Manufacture of safe, reliable products

Dropping products to test for quality

In a range of business fields, we follow all legal and industry quality and safety standards. We have also established our own more-rigorous in-house standards, and we pay careful attention to safety. In implementing quality inspections for toys, for example, we have established more than 300 inspection items and conduct rigorous tests in accordance with the individual characteristics of the products.

Packaging and wrapping initiatives

Packaging materials for amusement machines

We are implementing measures to reduce packaging, such as decreasing packaging space ratios; developing packaging-free products; developing low-environmental-impact product packaging; reducing plastic model runners; and reducing packaging materials for amusement machines.

A vending machine capsule made with biomass chips and a capsule product

Barrier-free entertainment operations

NAMCO's TalkingAid Light

We are using our unique capabilities in entertainment in a range of ways, such as the development of TalkingAid, a portable communications device; the development of a rehabilitation-entertainment machine that is designed to provide fun and physical rehabilitation; and the operation of a day service center that helps senior citizens to remain active in mind and body.

Social contribution activities

Omocha-no-Machi Bandai Museum

We are conducting a variety of activities to promote a deeper understanding of culture, science, and entertainment. Such activities include the Omocha-no-Machi Bandai Museum in Tochigi Prefecture, which has a collection that includes toys from Japan and overseas as well as many items created by the famous inventor Thomas Edison. Also, we provide support for the New Technology Foundation and toy libraries.

Entertainment support activities

Yosakoi Soran Festival

We have signed a sponsorship contract with Toyota Team Kraft, which competes in the Super GT Series, and we have provided support for the Yosakoi Soran Festival in Hokkaido. In these ways, we are working to foster understanding of the Group and to support people who strive to create entertainment.

Wide-ranging environmental impact reduction activities

Bandai's Hobby Center (plastic model plant)

One of BANDAI LOGIPAL's low-emission trucks

In addition to acquiring Green Management Certification, which is given to transportation companies that implement low-environmental-impact operations, we are developing environmentally friendly products, including recycled resins and antibacterial hand towels. Moreover, we are taking steps—such as the use of solar power generation and raw material recycling—to make our plastic model plant in Shizuoka City the first plant in the toy industry to receive green certification.

Overview of Main Group Companies

(As of the end of June 2007)

NAMCO BANDAI Holdings Inc.	Planning and execution of medium- and long-term management strategies; provision of 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 support for North American operating companies
NAMCO Holdings UK LTD.	Execution of European regional strategy; management support for European 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.
Seika Co., Ltd.	Planning, development, and sales of stationery and sundries, etc.
CCP Co., Ltd.	Planning, development, manufacturing, and sales of toys, hobby commodities, and home electric appliances
Seeds Co., Ltd.	Manufacturing of toys, etc.
Plex Co., Ltd.	Planning and designing 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
NAMCO SPA RESORT LTD.	Operation 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 game software, prizes, and arcade machines, etc.
Bec Co., Ltd.	Planning and development of game software
Banpresto Sales Co., Ltd.	Sales of arcade machines and prizes, etc.
Banpresoft Co., Ltd.	Planning and development of game software
NAMCO TALES STUDIO LTD.	Planning, development, and sales of game software
NAMCO TRADING LTD.	Vending machine installation and management; distribution of content for mobile platforms
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 platforms
NAMCO BANDAI Games Europe S.A.S.	Sales and marketing of game software
NAMCO EUROPE LTD.	Sales of arcade machines
NAMCO BANDAI Networks Europe LTD.	Development and distribution of content for mobile platforms

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

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 musical content
EMOTION CO., LTD.	Planning and development of visual products; control and administration of copyrighted music
ANIME CHANNEL CO., LTD.	Operation of comprehensive animation content sites
BANDAI ENTERTAINMENT INC.	Planning, production, sales, and copyright management of visual content
BANDAI VISUAL USA INC.	Operation of visual packaged software

Affiliated Business Companies

BANDAI LOGIPAL INC.	Logistics management, warehousing, and transportation operations
NAMCO BANDAI Business Services Inc.	Leasing, building maintenance operations, insurance agency, real estate management, etc.
Artpresto Co., Ltd.	Planning and designing of various printed materials
NAMCO ECOLOTECH LTD.	Development and sales of environmental equipment
Happinet Corporation*	Wholesale of toys and video game consoles (Tokyo Stock Exchange, First Section)
Sotsu 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

Business Risks

Risk factors related to the BANDAI NAMCO Group's businesses that may 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 9, 2007.

1. Risks associated with core business model

The BANDAI NAMCO Group's businesses are centered on products and services based on content, including various characters. The Group's operating results may 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 multilateral business administration. This portfolio management comprises a business portfolio, in which the Group conducts operations in a diverse array of business domains; a content portfolio, consisting of many different characters and content; and a regional portfolio, where businesses are conducted in various 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. Retainment and development of key personnel

In the fast-changing entertainment industry, it is essential for the Group to retain and develop personnel 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. Furthermore, the Group will actively adopt personnel exchanges with the aim of reinforcing cooperation between each Strategic Business Unit.

4. Risks 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, the launch of next-generation game platforms and the diversification of customer needs lead to market conditions marked by uncertainty. The Group tries to respond quickly to customer needs by putting more emphasis on balanced titles among various platforms.

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 accumulate 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. Risks associated with 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.

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		2002*1	2003*1	2004*1	2005*1	2006 NAMCO BANDAI Holdings Inc. (Consolidated)	2007 NAMCO BANDAI Holdings Inc. (Consolidated)
For the Year:							
Net sales	BANDAI	¥227,930	¥244,950	¥263,175	¥269,946	¥450,829	¥459,133
	NAMCO	¥152,136	¥154,777	¥172,594	¥178,552		
Gross profit	BANDAI	90,866	106,801	116,258	116,801	156,565	168,080
	NAMCO	34,853	37,529	49,088	47,555		
Selling, general and administrative expenses	BANDAI	70,102	80,932	88,607	92,403	120,896	125,856
	NAMCO	28,720	28,059	33,658	32,469		
Operating income	BANDAI	20,764	25,869	27,651	24,398	35,669	42,224
	NAMCO	6,133	9,470	15,430	15,086		
Recurring income*2	BANDAI	21,993	26,435	27,222	25,724	37,122	45,616
	NAMCO	4,664	8,777	14,428	14,589		
Net income	BANDAI	10,644	12,667	14,207	11,225	14,150	24,252
	NAMCO	2,035	4,116	7,546	9,465		
Capital expenditures	BANDAI	7,212	8,593	11,576	11,539	24,020	27,925
	NAMCO	11,943	10,376	14,009	13,155		
Depreciation	BANDAI	6,505	6,885	7,149	7,947	19,144	21,201
	NAMCO	14,085	11,227	11,104	11,173		
Cash flows from operating activities	BANDAI	26,568	28,009	20,033	14,839	31,809	42,493
	NAMCO	15,368	15,890	12,931	3,172		
At Year-End:							
Total assets	BANDAI	¥197,424	¥225,683	¥228,076	¥240,290	¥386,651	¥408,490
	NAMCO	¥144,140	¥143,214	¥148,117	¥154,474		
Current assets	BANDAI	126,966	158,782	163,131	173,402	240,635	257,209
	NAMCO	61,346	68,089	73,614	82,666		
Current liabilities	BANDAI	62,208	67,215	61,319	68,862	107,528	110,829
	NAMCO	29,659	35,920	33,860	33,219		
Total net assets	BANDAI	122,257	130,683	137,739	150,410	252,244	284,254
	NAMCO	97,747	98,400	104,619	110,935		
Per Share Data (yen):							
Net income per share	BANDAI	¥217.62	¥254.09	¥142.28	¥111.13	¥54.39	¥95.73
	NAMCO	¥ 36.95	¥ 72.35	¥133.00	¥ 83.63		
Cash dividends	BANDAI	30.00	40.00	22.50	30.00	12.00*6	28.00
	NAMCO	17.00	30.00	40.00	40.00		
Main Financial Indicators (%):							
Return on equity (ROE)*3, 5	BANDAI	9.9%	11.3%	12.0%	8.9%	5.8%	9.4%
	NAMCO	2.2%	4.3%	7.6%	9.0%		
Return on assets (ROA)*4, 5	BANDAI	10.9	12.5	12.0	11.0	9.6	11.5
	NAMCO	3.3	6.1	9.9	9.6		
Selling, general and administrative expenses to net sales	BANDAI	30.8	33.0	33.7	34.2	26.8	27.4
	NAMCO	18.9	18.1	19.5	18.2		
Operating income to net sales	BANDAI	9.1	10.6	10.5	9.0	7.9	9.2
	NAMCO	4.0	6.1	8.9	8.4		
Net income to net sales	BANDAI	4.7	5.2	5.4	4.2	3.1	5.3
	NAMCO	1.3	2.7	4.4	5.3		
Shareholders' equity ratio	BANDAI	54.4	51.5	53.1	54.8	63.0	67.1
	NAMCO	66.7	67.5	68.7	69.8		
Debt/equity ratio	BANDAI	18.1	31.6	21.1	21.4	13.5	5.1
	NAMCO	18.6	16.3	6.7	6.7		

*1 Figures for FY2002.3 to FY2005.3 are the consolidated figures for Bandai and NAMCO prior to the management integration.
*2 Recurring income is a Japanese accounting term denoting income before extraordinary items.
*3 ROE = Net income / Average total shareholders' equity
*4 ROA = Recurring income / Average total assets
*5 Figures for shareholders' equity and total assets as of March 31, 2006, are used in calculating ROE and ROA 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 2007

In the year under review, despite the fact that global crude oil prices continued to soar, the worldwide economic climate tended toward recovery. Gradual growth also continued in Japan, where corporate earnings continued to improve.

The entertainment industry experienced increasingly intense global competition, due to the diffusion and expansion of networked environments resulting from technological innovation. Furthermore, the field of home video games was "between seasons" as, with the focus of popularity on portable video game consoles, next-generation video game consoles were released.

In this setting, the Group pushed ahead with strengthening, enriching, and expanding its portfolio management, based on the three-year medium-term management plan launched in the fiscal year under review.

In the Toys and Hobby SBU, *DATA CARDDASS* performed well in Japan, while overseas *POWER RANGERS* toys for boys and *Tamagotchi* were popular. In the Amusement Facility SBU in Japan, along with an expansion in sales due to the opening of such new large-scale stores as *NAMCO Wonder Park Hero's Base* (Kawasaki City, Kanagawa Prefecture), which pursued group synergy and got off to a good start, cost reduction was attempted by optimizing the operation of existing stores. In the home video game software field of the Game Contents SBU, in addition to strengthening sales of software for portable video game consoles, software for next-generation video game consoles was released. And, in coin-operated game machines, *Mobile Suit Gundam: Senjo no Kizuna* became extremely popular. In the Network SBU, despite the field of games in mobile content performing well, a reduction in the number of fee-paying subscribers for wallpaper and ring tones had a huge impact and the business struggled. In the Visual and Music Content SBU, Group synergy was displayed in the *Mobile Suit Gundam* series, and new products, such as *CODE GEASS: Lelouch of the Rebellion*, became really popular.

Net Sales

The Company reported consolidated net sales of ¥459,133 million, an increase of 1.8%. Looking at sales by region, sales in the domestic market were ¥367,448 million, down 1.8%. Overseas, sales were ¥53,990 million in the Americas, up 22.4%, and ¥37,763 million in Europe, a gain of 20.9%. Sales in Asia were ¥37,061 million, a rise of 15.4%.

Cost of Sales

Cost of sales was ¥291,053 million, and the ratio of cost of sales to net sales declined to 63.4%, from 65.3% a year earlier. Gross profit was ¥168,080 million, and the gross margin increased to 36.6%, from 34.7% in the previous year.

SG&A Expenses

Selling, general and administrative (SG&A) expenses were ¥125,856 million, up 4.1%, and the ratio of SG&A expenses to net sales increased to 27.4%, from 26.8% in the previous year. Major items included marketing of ¥31,031 million, directors' remuneration and employees' wages of ¥29,426 million, retirement and severance benefits of ¥1,163 million, and research and development of ¥18,004 million.

Operating Income

Operating income was ¥42,224 million, an increase of 18.4%, and the operating income margin increased to 9.2%, from 7.9% in the previous year. By region, operating income declined 11.9% in Japan, to ¥33,128 million; improved from the previous year's operating loss to operating income of ¥3,377 million in the Americas; increased 21.3% in Europe, to ¥5,253 million; and rose 20.2% in Asia, to ¥2,730 million. Eliminations totaled ¥2,264 million.

Other Income (Loss)

Loss on impairment of fixed assets was ¥5,070 million, while interest and dividend income was ¥2,088 million and gain on sales of investment securities was ¥4,827 million. As a result, net other income was ¥1,490 million.

Net Income

Net income was up 71.4%, to ¥24,252 million, and the net margin increased to 5.3%, from 3.1% a year earlier. This was largely attributable to gain on the sale of shares of Tohato Inc. and to impairment loss on fixed assets accompanying the integration of domestic Group company bases, such as *Namco Nanjatown*. Net income per share increased to ¥95.73, from ¥54.39 in the previous year.

Results by Business Segment

	Net sales (Millions of yen)			Operating income (Millions of yen)		
	FY2007.3	FY2006.3	Year on year	FY2007.3	FY2006.3	Year on year
Toys and Hobby	¥185,586	¥181,008	¥4,578	¥17,403	¥19,085	¥(1,682)
Amusement Facility	88,196	81,295	6,901	4,004	1,889	2,115
Game Contents	139,187	130,774	8,413	11,510	9,706	1,804
Network	12,490	12,521	(31)	880	1,836	(956)
Visual and Music Content	43,007	43,328	(321)	9,497	6,187	3,310
Other Businesses	20,901	20,804	97	1,018	1,188	(170)

Note: Due to reorganization accompanying the management integration, the percentages of corporate expenses allocated to the Toys and Hobby, Amusement Facility, and Game Contents SBUs in the fiscal year ended March 2007 have increased in comparison with the previous year.

Toys and Hobby SBU

In Japan, *DATA CARDDASS*, whose development centered on characters from *Dragon Ball Z* and *Tamagotchi,* became popular with boys and girls in the lower grades of elementary schools, and long-established popular character toys for boys, such as *Boukenjar (POWER RANGERS),* showed solid performance. However, girls' toys faced a tough battle amid sluggishness in the entire industry caused by the popularity of portable video game consoles. Overseas, the *Tamagotchi* and *POWER RANGERS* series performed well throughout the world and, in the Americas, character toys for boys of the locally developed character *BEN10* became popular.

As a result, the Toys and Hobby SBU recorded net sales of ¥185.6 billion, an increase of 2.5%, and operating income was ¥17.4 billion, a decline of 8.8%.

Amusement Facility SBU

In Japan, there was an increase in the number of store visits by families due to the popularity of such card games as *DATA CARDDASS* and crane game machines. In addition, *Mobile Suit Gundam: Senjo no Kizuna*, introduced sequentially from October 2006, became extremely popular, mainly among core users. As a result, sales at existing stores were 101.1% compared with the previous fiscal year. New large-scale stores also contributed to sales, for example, a good start was made by *NAMCO Wonder Park Hero's Base* (Kawasaki City, Kanagawa Prefecture), which pursued Group synergy. In addition, cost reduction was implemented by optimizing the operation of existing stores.

Overseas, development was promoted according to regional characteristics. In Europe, hybrid facilities, such as bowling alleys, were developed, mainly in the U.K., and performance was good. In the Americas, various measures were taken in an effort to improve profitability, such as expanding revenue-sharing locations by working with major mass retailers and withdrawing from stores with low profitability.

As a result, the Amusement Facility SBU recorded net sales of ¥88,196 million, an increase of 8.5%, and operating income of ¥4,004 million, up 112.0%. At the end of the fiscal year, we had a total of 1,664 facilities, an increase of 19 from a year earlier. By type, we had 453 directly managed facilities, 1,202 revenue-sharing facilities, 6 theme parks, and 3 spa facilities.

Game Contents SBU

Among home video game software, attention focused on portable video game consoles with the popularity, both domestically and overseas, of the *Tekken: Dark Resurrection* for the PlayStation Portable and the *Tamagotchi Connection: Corner Shop* for the Nintendo DS. Also, *Dragon Ball Z: Sparking NEO* for the PlayStation 2 and Wii performed well both domestically and overseas, while *Mobile Suit Gundam: SEED Destiny Rengo vs. Z.A.F.T.Ⅱ Plus* and *Tales of Destiny* for the PlayStation 2 performed well in Japan. In addition, a multiplatform strategy was pushed ahead with the release of software for next-generation game machines; however, overall performance was steady due to the scheduled release of some products being changed from the fiscal year under review to the following fiscal year and a slump in local titles in America. In coin-operated game machines, the cockpit-style game machine *Mobile Suit Gundam: Senjo no Kizuna*, which brings together the Group's know-how to enable online play throughout Japan, became popular domestically and synergy effects were displayed. Also, the expansion of new game contents for mobile devices, such as mobile phones, resulted in a steady growth in the number of fee-paying subscribers.

As a result, the Game Contents SBU recorded net sales of ¥139,187 million, an increase of 6.4%, and operating income of ¥11,510 million, up 18.6%.

Network SBU

In the mobile content business, the field of games performed well due to the popularity of high-value-added content, such as *Mobile Suit Gundam: Senjo no Kizuna* content for mobile phones originated from the coin-operated game machine, and the comprehensive mini game site, *Simple 100 Series*. However, a reduction in the number of fee-paying subscribers for wallpaper and ring tones had a huge impact and the business struggled.

Also, the provision of new technology for mobile phones, such as the *3D Engine*, and solutions services for corporations, including system development for mobile sites, showed solid performance.

As a result, the Network SBU recorded net sales of ¥12,490 million, a decline of 0.2%, and operating income was ¥880 million, down 52.1%.

Visual and Music Content SBU

The *Mobile Suit Gundam* series performed extremely well, particularly the DVD-BOX of the TV animation and new original video animations, and Group synergy was displayed. Also, among visual software packages, in addition to such popular series as *Ghost in the Shell: STAND ALONE COMPLEX Solid State Society*, new works, such as the TV animation *CODE GEASS: Lelouch of the Rebellion* and the original animation *FREEDOM*, were also popular. In addition, DVD-video sales to rental outlets contributed to performance, and the music software package related to the TV animation *The Melancholy of Haruhi Suzumiya* by Lantis Co., Ltd., who joined the Group during the fiscal year, also performed well.

As a result, the Visual and Music Content SBU recorded net sales of ¥43,007 million, a decrease of 0.7%, and operating income of ¥9,497 million, up 53.5%.

Other Businesses

Other Businesses consist of companies that provide support to the Group's SBUs through operations that include logistics, leasing, and building management. During the fiscal year under review, the business remained focused in its efforts at efficient operations of these Group support services.

As a result, Other Businesses recorded net sales of ¥20,901 million, up 0.5%, and operating income of ¥1,018 million, down 14.3%.

■ Results by Geographic Segment

	Net sales (Millions of yen)			Operating income (Millions of yen)		
	FY2007.3	FY2006.3	Year on year	FY2007.3	FY2006.3	Year on year
Japan	¥367,448	¥374,320	¥(6,872)	¥33,128	¥37,614	¥(4,486)
Americas	53,990	44,104	9,886	3,377	(3,284)	6,661
Europe	37,763	31,244	6,519	5,253	4,330	923
Asia	37,061	32,112	4,949	2,730	2,271	459

Note: Due to reorganization accompanying the management integration, the percentage of corporate overhead expenses allocated to Japan in the fiscal year ended March 2007 has increased in comparison with the previous year.

Japan

In the Toys and Hobby SBU, *DATA CARDDASS* was popular with boys and girls in the lower grades of elementary schools and long-established popular character toys for boys, such as *Boukenjar (POWER RANGERS)*, performed strongly; however, competition proved intense for girls' toys.

In the Amusement Facility SBU, due to the popularity of card game and crane game machines, as well as *Mobile Suit Gundam: Senjo no Kizuna*, sales at existing stores were 101.1% compared with the previous fiscal year. Also, along with the contribution to sales by new large-scale stores, cost reduction was implemented by optimizing the operation of existing stores.

In the Game Contents SBU, among home video game software, in addition to releasing titles for next-generation game consoles, a multiplatform strategy was pushed forward with attention also given to software for portable game machines and existing game machines, and there was a trend toward recovery. However, a change in the scheduled release of some products from the fiscal year under review to the following fiscal year had an impact, and performance did not reach that of the previous fiscal year. The coin-operated game machines, centering on sales of *Mobile Suit Gundam: Senjo no Kizuna*, performed well.

In the Network SBU, despite the field of games in mobile content performing well, a reduction in the number of fee-paying subscribers for wallpaper and ring tones had a huge impact and the business struggled.

In the Visual and Music Content SBU, Group synergy effects were displayed through the *Mobile Suit Gundam* series, and new works, such as *CODE GEASS: Lelouch of the Rebellion*, were also popular.

As a result, net sales in Japan totaled ¥367,448 million, a decrease of 1.8%, and operating income was ¥33,128 million, down 11.9%.

Americas

In the Toys and Hobby SBU, the *POWER RANGERS* and *BEN10* character toys for boys and *Tamagotchi* were popular. In the Amusement Facility SBU, various measures were taken in an effort to improve profitability, such as expanding revenue-sharing locations by working with major mass retailers and withdrawing from stores with low profitability. In the Visual and Music Content SBU, efforts were made to increase profitability by reviewing marketing. In the Game Contents SBU, despite some home video game software hits, such as *Tekken: Dark Resurrection* for the PlayStation Portable and *Naruto: Ultimate Ninja* for the PlayStation 2, the business struggled due to a slump in local titles. Game contents for mobile devices, such as mobile phones, performed well due to an expansion in new content.

As a result of these factors, we recorded net sales of ¥53,990 million in the Americas, up 22.4%, and operating income of ¥3,377 million, a substantial improvement from the previous year's operating loss of ¥3,284 million.

Europe

In the Toys and Hobby SBU, *Tamagotchi* and *POWER RANGERS* boys' character toys were popular. In the Amusement Facility SBU, stores integrated with such facilities as bowling alleys were developed. In the Game Contents SBU, with regard to home video game software for the PlayStation 2, such as *Dragon Ball Z Budokai Tenkaichi 2* and *Tekken 5 Platinum*, were popular.

As a result, net sales in Europe were ¥37,763 million, up 20.9%, and operating income was ¥5,253 million, a gain of 21.3%.

Asia

The Toys and Hobby SBU reported good performance for boys' toys in the *POWER RANGERS* series and plastic models in the *Mobile Suit GUNDAM* series. In the Amusement Facility Business, initiatives surrounding prize games and Group products continued to do well.

As a result, net sales in Asia were ¥37,061 million, up 15.4%, and operating income was ¥2,730 million, an increase of 20.2%.

■ Financial Position

Total assets were up 5.6% at year-end, to ¥408,490 million. This gain was attributable to higher accounts receivable stemming from favorable sales in the Americas and to increased inventories, such as work in process for home-use game software.

Total liabilities were down 7.6%, to ¥124,236 million. This decline was primarily a result of the repayment of short-term borrowings.

Net assets, including minority interests, were up 12.6%, to ¥284,254 million, due mainly to net income of ¥24,252 million and to proceeds from disposal of treasury stock of ¥8,095 million. As a result, the shareholders' equity ratio increased to 67.1%, from 63.0% a year earlier.

In addition, the current ratio* was 232.1%, compared with 223.8% a year earlier, and the quick ratio* was 184.4%, compared with 173.0% at the end of the previous fiscal year. The interest coverage ratio* was 180.1 times, compared with 90.4 times a year earlier.

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

■ Cash Flows

Cash and cash equivalents at the end of the fiscal year totaled ¥124,156 million, an increase of 9.7%.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥42,493 million, up 33.6%. This gain was due primarily to ¥43,714 million in income before income taxes and minority interests.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥15,253 million, down 37.5%. We recorded a ¥6,165 million gain on the sale of investment securities in Tohato Inc. Nonetheless, purchases of property, plant and equipment and of intangible assets totaled ¥14,521 million and purchases of investment securities in Kadokawa Group Holdings Inc., Toei Co., Ltd., and others were ¥7,595 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥18,856 million, a decline of 5.6%. This decline was due to a decrease of ¥13,113 million in short-term borrowings; ¥5,000 million in repayment of bonds; ¥2,434 million in repayment of other long-term borrowings; and ¥6,073 million in dividends paid. Proceeds from disposal of treasury stock amounted to ¥8,084 million.

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

The Company positions the return of profits to shareholders as one of its highest management priorities. The fundamental policy is to maintain a stable dividend and increase corporate value while becoming an even more competitive Group and preserving a sound financial position. In concrete terms, the Company plans to maintain the consolidated dividend payout ratio at a level of 30%, based on stable annual dividend payments of ¥24 per share. The Company plans to use retained earnings for more efficient asset management as well as actively investing in areas that will boost corporate value going forward, including the development of new business fields and M&A.

In accordance with the Company's basic policy, per-share dividends for the year were increased by ¥4.00 per share, to ¥28.00, comprising the base component of ¥24.00 per share—¥12.00 for both interim and year-end dividends—and a performance-linked component of ¥4.00. The consolidated dividend payout ratio was 29.2%.

In the fiscal year ending March 2008, we plan to pay a base component of ¥24.00 per share—¥12.00 each for interim and year-end dividends—in accordance with our basic policy on the distribution of profits. The decision on year-end dividends will be made in consideration of our consolidated performance for the year.

■ Targets and Management Indicators

The Group has adopted return on assets (ROA) and return on equity (ROE) as medium-term management performance indicators. The Group's aim is to create a robust and stable management base over the medium term by ensuring all assets are always utilized to maximum efficiency and by effectively using equity. For this purpose, the Company has decided on a basic policy for the application of cash. Specifically, with regard to reserve funds after the deduction of working capital and outlays for forward capital investments related to operations, the Company considers the acquisition of treasury stock for the provision of a return to shareholders and other purposes, after taking into account an overall assessment of expected earnings for the current and next term as well as capital expenditure items.

The Group aims to attain consolidated ROA of 13.5% and consolidated ROE of 10.0% in the fiscal year ending March 2009, which is the final fiscal year of the medium-term management plan launched in April 2006, and will work to enhance management efficiency in parallel with business expansion.

Outlook for the Fiscal Year Ending March 2008

Although the economic climate is expected to continue to experience gradual overall growth due to improved corporate earnings and increased capital expenditure, there is concern about the continuing rise in crude oil prices and climbing interest rates. In the entertainment business environment surrounding the Group, amid a continuing consumer trend toward increased diversification, it is expected that the game industry in particular will undergo huge changes caused by future trends in portable game consoles and next-generation game consoles, and it is forecast that the outlook will continue to be unclear.

In this setting, the Group will push ahead with strengthening, enriching, and expanding its portfolio management, based on the three-year medium-term management plan launched in April 2006.

In the Toys and Hobby SBU, in Japan, new contents will be added to the popular *DATA CARDDASS* with the aim of further widening its target market. Also, in addition to such long-established popular boys' character series as *Juken Sentai Gekiranger* and *Masked Rider Den-O*, products for girls, which struggled in the fiscal year under review, will be stepped up, with the focus on *YES! Pretty Cure 5*. Overseas, as well as continuing to focus on *POWER RANGERS* character toys for boys and *Tamagotchi*, we will expand the *BEN10* region, which is mainly popular in America.

In the Amusement Facility SBU, we will endeavor to draw a wide range of customers with our ever-attractive game machines and by holding various events. Moreover, as well as enlarging the scope of sales by opening large-scale stores, we will expand profits by sharing administration know-how for low cost operations.

In the Game Contents SBU, amid extremely uncertain circumstances in the "between seasons" home video game software industry, we will continue to develop software for each game console in a balanced manner according to our multiplatform strategy. We aim to enlarge our share of the coin-operated game machine market by releasing popular titles, such as *WANGAN MIDNIGHT MAXIMUM TUNE 3*, as well as investing in large-scale medal machines.

In the Network SBU, we plan to strengthen our profit base by developing varied, profit-oriented content. We will also continue to focus attention on the provision of new technology for mobile phone handsets and solutions for corporations, such as system development for mobile sites.

In the Visual and Music Content SBU, amid predictions of increasing demand for next-generation disk-related products, we will focus on the development of compatible products. In Japan, we plan to release approximately 30 items, including *AKIRA* and *Mobile Police Patlabor Theatrical Version* in each format (HD-DVD and Blu-ray). Also, overseas, we will develop and release products consecutively, beginning with *FREEDOM*.

As a result of these factors, for the fiscal year ending March 2008 we are forecasting net sales of ¥480.0 billion, a year-on-year increase of 4.5%; operating income of ¥45.0 billion, a gain of 6.6%; and net income of ¥26.5 billion, a rise of 9.3%.

Fiscal Year Ending March 2008 (Consolidated Plan)

Business Segments (Millions of yen)

	Net sales	Operating income
Toys and Hobby	¥190,000	¥17,800
Amusement Facility	95,000	6,000
Game Contents	150,000	15,000
Network	11,500	1,000
Visual and Music Content	44,000	6,800
Other	19,500	800
Eliminations and corporate	(30,000)	(2,400)
Total	¥480,000	¥45,000

Geographic Segments (Millions of yen)

	Net sales (after eliminations)	Operating income
Japan	¥370,000	¥36,200
Americas	56,000	2,500
Europe	40,000	6,000
Asia	14,000	2,800
Eliminations and corporate	—	(2,500)
Total	¥480,000	¥45,000

Forward-Looking Statements

Forecasts for the fiscal year ending March 2008 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.

Consolidated Balance Sheets

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
As of March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (note 3)
	2006	2007	2007
Assets			
Current assets:			
Cash and time deposits (note 4)	¥ 109,514	¥113,711	$ 963,244
Short-term investments (notes 4 and 5)	5,547	12,191	103,270
Trade receivables (note 6)	70,911	78,430	664,380
Allowance for doubtful receivables	(1,506)	(1,948)	(16,501)
Inventories (note 7)	27,530	32,291	273,537
Deferred tax assets (note 12)	7,038	5,718	48,437
Other current assets	21,601	16,816	142,447
Total current assets	240,635	257,209	2,178,814
Investments and other assets:			
Investment securities (note 5)	22,522	28,817	244,108
Guarantee money deposited	24,916	21,023	178,086
Deferred tax assets (note 12)	3,901	4,142	35,087
Other investments and assets	4,822	4,171	35,332
Allowance for doubtful receivables	(1,212)	(1,296)	(10,978)
Total investments and other assets	54,949	56,857	481,635
Property, plant and equipment:			
Buildings and structures	32,150	30,286	256,552
Amusement facilities and machines	87,048	85,262	722,253
Land	22,094	20,598	174,485
Other property, plant and equipment	55,141	65,094	551,411
Total	196,433	201,240	1,704,701
Less accumulated depreciation	(122,360)	(126,284)	(1,069,750)
Net property, plant and equipment	74,073	74,956	634,951
Intangible assets:			
Goodwill	9,917	9,739	82,499
Other intangible assets	7,077	9,729	82,414
Total intangible assets	16,994	19,468	164,913
Total assets	¥ 386,651	¥ 408,490	$ 3,460,313

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (note 3)
	2006	2007	2007
Liabilities and net assets			
Current liabilities:			
Short-term borrowings (note 9)	¥ 19,888	¥ 12,170	$ 103,092
Trade payables (note 10)	40,561	47,097	398,958
Accrued expenses	32,362	31,869	269,962
Accrued income taxes (note 12)	6,827	10,875	92,122
Other current liabilities (note 12)	7,890	8,818	74,697
Total current liabilities	107,528	110,829	938,831
Long-term liabilities:			
Long-term debt (note 9)	12,542	1,133	9,598
Accrued retirement and severance benefits (note 11)	2,970	2,749	23,287
Deferred tax liabilities (note 12)	7,283	5,786	49,013
Other long-term liabilities	4,084	3,739	31,673
Total long-term liabilities	26,879	13,407	113,571
Total liabilities	134,407	124,236	1,052,402
Net assets:			
Common stock (notes 17 and 18)			
Authorized 1,000,000,000 shares;			
issued 260,580,191 shares	10,000	10,000	84,710
Additional paid-in capital (note 18)	95,772	97,142	822,889
Retained earnings (note 15)	164,504	182,389	1,545,015
Treasury stock, at cost; 7,616,892 shares in 2006 and 2,731,047 shares in 2007 (note 17)	(11,156)	(3,952)	(33,477)
Subtotal	259,120	285,579	2,419,137
Other securities valuation difference (notes 5 and 12)	4,145	4,101	34,740
Deferred gains or losses on hedges, net of taxes	—	92	779
Land revaluation difference (notes 12 and 16)	(21,460)	(21,286)	(180,313)
Translation adjustment	1,802	5,684	48,146
Subtotal	(15,513)	(11,409)	(96,648)
Stock subscription rights	—	577	4,888
Minority interests	8,637	9,507	80,534
Total net assets	252,244	284,254	2,407,911
Contingencies (note 21)			
Total liabilities and net assets	¥386,651	¥408,490	$3,460,313

Consolidated Statements of Income

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (note 3)
	2006	2007	2007
Net sales	¥450,829	¥459,133	$3,889,310
Cost of sales	294,264	291,053	2,465,506
Gross profit	156,565	168,080	1,423,804
Selling, general and administrative expenses (note 13)	120,896	125,856	1,066,125
Operating income	35,669	42,224	357,679
Other income (loss):			
Interest and dividend income	960	2,088	17,687
Interest expense	(292)	(237)	(2,008)
Gain (loss) on sales of investment securities	3,073	4,827	40,889
Loss on valuation of investment securities	(260)	(701)	(5,938)
Gain (loss) on sales and disposal of property, plant and equipment	(68)	(267)	(2,262)
Loss on impairment of fixed assets (note 8)	(3,001)	(5,070)	(42,948)
Other	(511)	850	7,202
	(99)	1,490	12,622
Income before income taxes and minority interests	35,570	43,714	370,301
Income taxes (note 12)	19,282	17,570	148,835
Minority interests	2,138	1,892	16,026
Net income	¥ 14,150	¥ 24,252	$ 205,438

	Yen		U.S. dollars (note 3)
Data per common share (note 14):			
Net assets at March 31	¥961.36	¥1,063.29	$9.01
Net income:			
Basic	54.39	95.73	0.81
Diluted	54.37	95.67	0.81
Dividend applicable to period (note 15)	12.00	28.00	0.24

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (note 3)
	2006	2007	2007
Common stock (notes 17 and 18):			
Balance at beginning of year	¥ 10,000	¥ 10,000	$ 84,710
Balance at end of year	10,000	10,000	84,710
Additional paid-in capital (note 18):			
Balance at beginning of year	92,034	95,772	811,283
Retirement of treasury stock	—	868	7,353
Purchase of treasury stock from consolidated subsidiaries	—	502	4,253
Exercise of stock options	397	—	—
Issuance of stock	3,341	—	—
Balance at end of year	95,772	97,142	822,889
Retained earnings (note 15):			
Balance at beginning of year	158,182	164,504	1,393,511
Net income	14,150	24,252	205,438
Increase in retained earnings due to the deconsolidation of subsidiaries	29	—	—
Effect from newly consolidated subsidiaries	—	31	263
Decrease in retained earnings from merger of consolidated subsidiaries	—	(29)	(246)
Effect from the reduction of investments reported under the equity method	—	295	2,499
Effect from the increase of investments reported under the equity method	15	—	—
Reversal of land revaluation difference	303	(173)	(1,465)
Cash dividends	(4,416)	(6,073)	(51,444)
Cash payment for share transfer	(3,013)	—	—
Bonuses to directors and corporate auditors	(559)	(418)	(3,541)
Decrease in retained earnings due to the deconsolidation of subsidiaries	(187)	—	—
Balance at end of year	164,504	182,389	1,545,015
Treasury stock (note 17):			
Balance at beginning of year	(591)	(11,156)	(94,502)
Net change during year	(10,565)	7,204	61,025
Balance at end of year	(11,156)	(3,952)	(33,477)
Other securities valuation difference (notes 5 and 12):			
Balance at beginning of year	2,932	4,145	35,112
Net change during year, net of tax	1,213	(44)	(372)
Balance at end of year	4,145	4,101	34,740
Deferred gains or losses on hedges, net of tax			
Balance at beginning of year	—	—	—
Net change during year	—	92	779
Balance at end of year	—	92	779
Land revaluation difference (notes 12 and 16):			
Balance at beginning of year	(21,163)	(21,460)	(181,787)
Net change during year, net of tax	(297)	174	1,474
Balance at end of year	(21,460)	(21,286)	(180,313)
Translation adjustment:			
Balance at beginning of year	(1,870)	1,802	15,265
Net change during year	3,672	3,882	32,881
Balance at end of year	1,802	5,684	48,146
Stock subscription rights			
Balance at beginning of year	—	—	—
Net change during year	—	577	4,888
Balance at end of year	—	577	4,888
Minority interests			
Balance at beginning of year	21,820	8,637	73,164
Net change during year	(13,183)	870	7,370
Balance at end of year	8,637	9,507	80,534
Total net assets at end of year	¥252,244	¥284,254	$2,407,911

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (note 3)
	2006	2007	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 35,570	¥ 43,714	$ 370,301
Depreciation	19,144	21,201	179,593
Loss on impairment of fixed assets	3,001	5,070	42,948
Loss (gain) on sales and disposal of property, plant and equipment	68	267	2,262
Loss on disposal of amusement facilities and machines	1,348	1,129	9,564
Gain (loss) on sales of investment securities	(3,073)	(4,827)	(40,889)
Loss on valuation of investment securities	260	701	5,938
Decrease (increase) in trade receivables	4,455	(3,111)	(26,353)
Decrease (increase) in inventories	5,842	(3,637)	(30,809)
Acquisition of amusement facilities and machines	(10,892)	(10,601)	(89,801)
Increase (decrease) in trade payables	(2,679)	3,465	29,352
Other	(5,091)	951	8,055
Subtotal	47,953	54,322	460,161
Interest and dividends received	1,349	2,078	17,603
Interest paid	(352)	(236)	(1,999)
Income taxes paid	(17,141)	(13,671)	(115,807)
Net cash provided by operating activities	31,809	42,493	359,958
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	(351)	133	1,127
Purchases of property, plant and equipment	(9,924)	(9,731)	(82,431)
Sales of property, plant and equipment	4,388	568	4,812
Purchases of intangible assets	(3,204)	(4,790)	(40,576)
Purchases of investment securities	(2,064)	(7,595)	(64,337)
Sales of investment securities	783	6,165	52,224
Acquisition of shares in consolidated subsidiaries, net of cash acquired	(18,033)	(1,103)	(9,343)
Sales of shares in consolidated subsidiaries	349	1	8
Purchase of subsidiary shares affecting the scope of consolidation	(1,781)	(417)	(3,532)
Sales of subsidiary shares affecting the scope of consolidation	5,439	445	3,770
Payment of guarantee money deposited	(883)	(2,578)	(21,838)
Collection of guarantee money deposited	1,964	1,556	13,181
Other	(1,090)	2,093	17,727
Net cash used in investing activities	(24,407)	(15,253)	(129,208)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	10,848	(13,113)	(111,080)
Proceeds from long-term debt	575	—	—
Repayment of long-term debt	(13,399)	(7,434)	(62,973)
Proceeds from issuance of stock	397	—	—
Proceeds from capital paid by minority interests	20	—	—
Decrease (increase) in treasury stock	(10,551)	8,084	68,479
Dividends paid	(4,416)	(6,073)	(51,444)
Dividends paid to minority interests	(426)	(320)	(2,711)
Cash payments for share transfer	(3,013)	—	—
Net cash used in financing activities	(19,965)	(18,856)	(159,729)
Effect of exchange rate changes on cash and cash equivalents	1,676	2,550	21,601
Net increase (decrease) in cash and cash equivalents	(10,887)	10,934	92,622
Cash and cash equivalents at beginning of year	124,924	113,186	958,797
Increase in cash and cash equivalents due to consolidation of additional subsidiaries	10	15	127
Increase in cash and cash equivalents due to merger of consolidated subsidiaries	—	21	178
Decrease in cash and cash equivalents due to the deconsolidation of consolidated subsidiaries	(861)	—	—
Cash and cash equivalents at end of year (note 4)	¥113,186	¥124,156	$1,051,724

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

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.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the presentation used for the year ended March 31, 2007.

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) 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).

(c) 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 "Translation adjustment" and "Minority interests" in "Net assets".

(d) 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.

(e) 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 "Net assets" 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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 1-5 years.

Goodwill 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.

(k) 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.

(l) 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 they are exposed in the course of their 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.

(m) Provision for Directors' Bonus:

Provision for directors' bonus in the current fiscal year that is attributable to the current accounting period is booked, based on the amount expected to be payable, by the Company and its domestic consolidated subsidiaries against the bonus payment.

The "Accounting Standard for Directors' Bonus" (The Accounting Standards Board of Japan (ASBJ) Statement No. 4 Accounting Standard, November 29, 2005) became effective from April 1, 2006, resulting in operating income and income before income taxes and minority interests to be reduced by ¥658 million ($5,574 thousand).

(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 foreign 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 projected 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 (9 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 to 11 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

Finance 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, foreign consolidated subsidiaries account for finance leases as ordinary purchase or sale transactions in accordance with local accounting principles.

(p) 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.

(q) 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 in issuance of common stock.

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

(r) Presentation of Net Assets

The "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (The Accounting Standards Board of Japan (ASBJ) Statement No. 5 Accounting Standard, December 9, 2005) and "Guidance on the Accounting Standard for Presentation of Net Assets in the Balance Sheet" (The Accounting Standards Board of Japan (ASBJ) Guidance No. 8 Guidance on Accounting Standard, December 9, 2005) became effective from April 1, 2006.

Under the New Accounting Standards, the following items are presented differently compared to the previous presentation. The net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, companies were required to present unrealized gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects. Stock subscription rights and minority interests are required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, companies were required to present stock subscription rights and minority interests in the current liabilities section and between the non-current liabilities and shareholders' equity sections, respectively.

Total shareholders' equity prior to the adoption of the New Accounting Standards would have benn ¥274,077 million ($2,321,703 thousand).

(s) Stock Option

The "Accounting Standard for Share-based Payment" (The Accounting Standards Board of Japan (ASBJ) Statement No. 8 Accounting Standard, December 27, 2005) and the "Guidance on the Accounting Standard for Share-based Payment" (The Accounting Standards Board of Japan (ASBJ) Guidance No. 11 Guidance on Accounting Standard, May 31, 2006) became effective from April 1, 2006, resulting in operating income and income before income taxes and minority interests to be reduced by ¥577 million ($4,888 thousand).

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, 2007 have been translated into U.S. dollars at the rate of ¥118.05=US$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2007.

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

Reconciliations of cash and cash equivalents at March 31, 2006 and 2007 between the balance sheets and the statements of cash flows are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cash and time deposits	¥109,514	¥113,711	$ 963,244
Short-term investments	5,547	12,191	103,270
Time deposits with maturities in excess of three months	(1,875)	(1,746)	(14,790)
Cash and cash equivalents per consolidated statement of cash flows	¥113,186	¥124,156	$1,051,724

Cash and time deposits of ¥54 million and ¥54 million ($457 thousand) are pledged as collateral for short-term borrowings of ¥29 million and ¥23 million ($195 thousand) at March 31, 2006 and 2007, respectively.

5 Short-Term Investments and Investment Securities

Short-term investments and investment securities at March 31, 2006 and 2007 are summarized as follows:

Held-to-maturity securities at March 31, 2006 and 2007 include marketable governmental bond securities with a carrying amount of ¥10 million and ¥6,017 million ($50,970 thousand), respectively, which approximates market value.

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Held-to-maturity securities	¥ 47	¥ 6,054	$ 51,283
Other securities–marketable	11,548	17,878	151,444
Other securities–non-marketable	7,190	8,019	67,929
Investments in unconsolidated subsidiaries and affiliated companies	9,284	9,057	76,722
Total of short-term investments and investment securities	¥28,069	¥41,008	$347,378

The original cost, carrying amount (market value) and gross unrealized holding gain (loss) for marketable other securities at March 31, 2006 and 2007 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

	Millions of yen			
	2007			
	Original Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Carrying Amount (Market Value)
Other securities–marketable:				
Equity securities	¥9,376	¥8,259	¥(120)	¥17,515
Debt securities	100	—	(2)	98
Other	223	46	(4)	265
Total	¥9,699	¥8,305	¥(126)	¥17,878

	Thousands of U.S. dollars			
	2007			
	Original Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Carrying Amount (Market Value)
Other securities–marketable:				
Equity securities	$79,424	$69,962	$(1,017)	$148,369
Debt securities	847	—	(17)	830
Other	1,889	389	(33)	2,245
Total	$82,160	$70,351	$(1,067)	$151,444

Proceeds and gross realized gains and losses from the sale of other securities in the years ended March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Proceeds from the sales of other securities	¥783	¥534	$4,524
Gross realized gains from the sales of other securities	489	499	4,227
Gross realized losses from the sales of other securities	—	(1)	(8)

The following is a summary of non-marketable securities at March 31, 2006 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
	Carrying Amount	Carrying Amount	Carrying Amount
Other securities–non-marketable:			
Unlisted stock securities	¥1,579	¥1,763	$14,934
Non-listed equity securities, money market fund, etc.	5,047	5,706	48,336
Other	564	550	4,659
Total	¥7,190	¥8,019	$67,929

Other securities with specified maturity dates and held-to-maturity securities at March 31, 2006 and 2007 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

	Millions of yen		
	2007		
Due:	Within One Year	After 1 through 5 Years	After 5 through 10 Years
Debt securities:			
Governmental bond securities	¥5,997	¥20	¥—
Corporate bond securities	—	—	37
Total	¥5,997	¥20	¥37

	Thousands of U.S. dollars		
	2007		
Due:	Within One Year	After 1 through 5 Years	After 5 through 10 Years
Debt securities:			
Governmental bond securities	$50,801	$169	$ —
Corporate bond securities	—	—	313
Total	$50,801	$169	$313

6 Trade Receivables

Trade receivables at March 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Notes receivable	¥ 8,218	¥ 8,337	$ 70,623
Accounts receivable–trade	62,693	70,093	593,757
Total	¥70,911	¥78,430	$664,380

At March 31, 2007, the Company had ¥684 million ($5,794 thousand) of notes receivable which had matured and was in the process of collection. March 31, 2007 was a public holiday and this amount was uncollected and therefore was included in notes receivable as of March 31, 2007.

7 Inventories

Inventories at March 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Finished goods	¥ 9,743	¥12,049	$102,067
Work in process	14,618	17,334	146,836
Raw materials and supplies	3,169	2,908	24,634
Total	¥27,530	¥32,291	$273,537

8 Loss on Impairment of Fixed Assets

Based on foreseeable losses and excluding the significant idle assets, assets scheduled for disposal and leased assets, groupings are conducted according to management accounting classifications based on strategic business units. Assets are spread across Japan and abroad, and therefore assets in the amusement facility business are grouped mainly by geographical region.

The book values of the following assets, which exclude reusable assets, were reduced to the collectible amount and the amount of reduction was recorded as an impairment loss in other loss.

Location	Items	Classification	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars 2007
Minato-ku, Tokyo	—	Goodwill	¥1,619	¥ —	$ —
Matsudo-shi, Chiba	Cultural facility	Buildings and structures, etc.	825	—	—
Ota-ku, Tokyo	Parking	Land	531	—	—
Taito-ku, Tokyo	Software for Internet content business	Other intangible assets	26	—	—
Toshima-ku, Tokyo (Note 1)	Amusement facility (Theme park)	Amusement facilities and machines, etc.	—	1,544	13,079
Sapporo City, Hokkaido (Note 2)	Amusement facility	Amusement facilities and machines, etc.	—	161	1,364
Hakodate City, Hokkaido (Note 3)	Amusement facility (Tourist hotel)	Buildings & structures, land	—	1,338	11,334
Yokohama City, Kanagawa (Note 4)	LAN entertainment business	Other intangible assets, other investments and assets, etc.	—	220	1,864
Ota-ku, Tokyo (Note 5)	Management, sales, production control, R&D	Buildings & structures, land	—	1,160	9,826
Shimotsuga-gun, Tochigi (Note 6)	Idle assets, assets scheduled for disposal	Buildings & structures, land, etc.	—	486	4,117
Ibaragi City , Osaka (Note 7)	Assets for lease	Buildings & structures, land, etc.	—	161	1,364
Total			¥3,001	¥5,070	$42,948

Notes:
1. The Company separately classified the grouping of this asset and recorded an impairment loss since management changed the objective of the asset from generating income from sales to advertising. Furthermore, the asset was categorized differently in the investment decision process since the group contained facilities that aimed to generate income. The value of the asset was determined to have no value.
2. The fair value of this asset was determined to be significantly impaired due to the decision to close the facility and accordingly, the asset was separated from its group and an impairment loss was recorded. The asset was determined to have no value.
3. A loss was recorded because it was determined that the carrying book value of the fixed asset would not be recoverable due to the decline in business profits. Fair value was measured to be the net selling price which was assessed based on real estate appraisals.
4. Assets used for unprofitable businesses which are slated to be disposed have been written down and a loss has been recorded. The recoverable amount was determined to have no value.
5. Assets that have no foreseeable use in the future due to the integration of business units or a relocation of a subsidiary were written down and an impairment loss recorded. The fair value of real estate assets was measured to be the net selling price which was assessed based on real estate appraisals.
6. Assets that have no foreseeable use in the future due to integration of business units were written down and an impairment loss was recorded. The recoverable value of the real estate assets was measured to be the net selling price which was assessed based on real estate appraisals and other market information. The fair value of the other assets were determine to have no value.
7. Assets planned to be disposed of and leased assets that have no foreseeable use in the future were written down and an impairment loss recorded. The recoverable amount of the assets to be disposed of was assessed based on liquidation value. The fair value of the leased assets was calculated based on market land prices provided by the government (in the Rosenka report) and lease income for the remaining period of the agreement.

9 Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2006 and 2007 are summarized as follows:

	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars 2007
Bank borrowings	¥12,661	¥ 760	$ 6,438
Long-term debt due within one year	7,227	11,410	96,654
Total	¥19,888	¥12,170	$103,092

The weighted average interest rates on bank borrowings outstanding at March 31, 2006 and 2007 were 0.61% and 4.13%, respectively.

	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars 2007
Loans, principally from banks, maturing in installments through March 31, 2012; the weighted average interest rates of current installments at March 31, 2007 was 1.09% and non-current installments at March 31, 2007 was 1.41%	¥ 4,769	¥ 2,543	$ 21,542
0.60% debentures, due March 28, 2007	5,000	—	—
0.69% debentures, due March 28, 2008	10,000	10,000	84,710
Total long-term debt	19,769	12,543	106,252
Less current installments	(7,227)	(11,410)	(96,654)
Total	¥12,542	¥ 1,133	$ 9,598

The aggregate annual maturities of long-term debt outstanding at March 31, 2007 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥11,410	$ 96,654
2009	596	5,049
2010	346	2,931
2011	96	813
2012	95	805
Total	¥12,543	$106,252

10 Trade Payables

Trade payables at March 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Notes payable	¥ 7,998	¥ 9,079	$ 76,908
Accounts payable–trade	32,563	38,018	322,050
Total	¥40,561	¥47,097	$398,958

At March 31, 2007, the Company had ¥1,891 million ($16,019 thousand) of notes payable that had matured and was in the process of payment. March 31, 2007 was a public holiday and this amount was unpaid and therefore was included in notes payable as of March 31, 2007.

11 Retirement and Severance Benefits

The plan's funded status and amount recognized in the accompanying consolidated balance sheet at March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Employee retirement and severance benefits:			
Projected benefit obligations	¥ 14,275	¥ 15,381	$ 130,292
Plan assets at fair value	(11,232)	(12,811)	(108,522)
Projected benefit obligation in excess of plan assets	3,043	2,570	21,770
Unrecognized loss	(1,180)	(525)	(4,447)
Unrecognized prior service cost	10	41	347
Net retirement and severance benefits recognized on the balance sheet	1,873	2,086	17,670
Prepaid pension cost	192	137	1,161
Accrued retirement and severance benefits	2,065	2,223	18,831
Officers' retirement severance benefits:			
Accrued retirement and severance benefits	905	526	4,456
Total accrued retirement and severance benefits	¥ 2,970	¥ 2,749	$ 23,287

Notes:
1. In addition to the above plan assets, plan assets of ¥1,099 million and ¥1,192 million ($10,097 thousand) at March 31, 2006 and 2007, respectively, 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 years ended March 31, 2006 and 2007 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Service cost for benefits earned–net of employee contributions	¥1,415	¥1,545	$13,087
Interest cost on projected benefit obligation	252	272	2,304
Expected return on plan assets	(188)	(245)	(2,075)
Amortization of unrecognized actuarial gain or loss	291	197	1,669
Amortization of prior service cost	18	16	136
Net periodic cost	¥1,788	¥1,785	$15,121

Notes:
1. In addition to the net periodic cost of employee retirement and severance benefits, additional retirement payments of ¥175 million and ¥110 million ($932 thousand) are charged to expense in the years ended March 31, 2006 and 2007, respectively, and are 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 and ¥102 million ($864 thousand) are charged to "Cost of sales" and "Selling, general and administrative expenses" in the years ended March 31, 2006 and 2007, respectively.
3. The defined contribution amount for certain foreign 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 and 2007 are as follows:

	2006	2007
Method of the benefit attribution	"Benefit/year-of-service" approach	"Benefit/year-of-service" approach
Discount rate	1.3%~2.0%	1.3%~2.0%
Expected rate of return on plan assets	2.0%~3.0%	1.5%~3.0%
Period of amortization of unrecognized prior service cost	10 years	10~11 years
Period of amortization of unrecognized actuarial gain or loss	10~17 years (from the year following the year incurred)	9~17 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 and 2007.

Income tax expenses reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2007 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Current	¥14,468	¥17,823	$150,978
Deferred	4,814	(253)	(2,143)
Total	¥19,282	¥17,570	$148,835

Reconciliation of the normal tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2006 and 2007 is as follows:

	2006	2007
Normal tax rate	40.6%	40.6%
Increase in valuation allowance related to deferred tax assets	11.3	1.6
Entertainment expenses not deductible for tax purposes	1.2	1.0
Amortization of goodwill	0.9	1.7
Corporate inhabitant tax on per capita basis	0.7	0.6
Reversal of deferred tax liabilities for retained earnings of foreign consolidated subsidiaries	—	(5.1)
Other	(0.5)	(0.2)
Effective tax rate	54.2%	40.2%

Significant components of deferred tax assets and liabilities at March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Land revaluation difference	¥ 9,323	¥ 9,186	$ 77,814
Excess depreciation of fixed assets	3,387	4,589	38,873
Losses carried forward	3,261	3,387	28,691
Loss on valuation of advance payments	1,892	1,270	10,758
Inventory valuation losses	1,785	1,626	13,774
Accrued employee bonuses	1,526	1,348	11,419
Allowance for doubtful receivables	1,357	321	2,719
Loss on impairment of fixed assets	655	1,890	16,010
Accrued enterprise taxes, etc.	845	1,066	9,030
Retirement and severance benefit accruals	776	824	6,980
Excess amortization of deferred assets	764	—	—
Research and development costs	497	443	3,753
Other	4,452	5,058	42,847
Total gross deferred tax assets	30,520	31,008	262,668
Valuation allowance	(17,973)	(19,514)	(165,303)
Total deferred tax assets	12,547	11,494	97,365
Deferred tax liabilities:			
Retained earnings of foreign consolidated subsidiaries	(4,511)	(3,652)	(30,936)
Other securities valuation difference	(3,388)	(3,325)	(28,166)
Inventory revaluation	(1,199)	(867)	(7,344)
Land revaluation difference	(891)	(784)	(6,641)
Reserve for deferred income tax	(164)	(147)	(1,245)
Other	(39)	(104)	(881)
Total gross deferred tax liabilities	(10,192)	(8,879)	(75,213)
Net deferred tax assets	¥ 2,355	¥ 2,615	$ 22,152

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

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Current assets–Deferred tax assets	¥ 7,038	¥ 5,718	$ 48,437
Investments and other assets–Deferred tax assets	3,901	4,142	35,087
Current liabilities–Other (deferred tax liabilities)	(1,301)	(1,459)	(12,359)
Long-term liabilities–Deferred tax liabilities	(7,283)	(5,786)	(49,013)
Total	¥ 2,355	¥ 2,615	$ 22,152

13 Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Marketing	¥ 31,056	¥ 31,031	$ 262,863
Directors' remuneration and employees' wages	28,220	29,426	249,267
Retirement and severance benefits	1,125	1,163	9,852
Provision for directors' bonus	—	658	5,574
Director retirement benefits	187	138	1,169
Research and development	20,240	18,004	152,512
Allowance for doubtful receivables, investments and other assets	798	398	3,371
Other	39,270	45,038	381,517
Total selling, general and administrative expenses	¥120,896	¥125,856	$1,066,125

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 years ended March 31, 2006 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Net income	¥14,150	¥24,252	$205,438
Unappropriated bonuses to directors and corporate auditors	(418)	—	—
Net income available to common stock	13,732	24,252	205,438
Effect of dilutive securities:			
Stock options in certain consolidated subsidiary	(5)	—	—
Net income for diluted EPS calculation	¥13,727	¥24,252	$205,438

		Thousands of shares	
Average number of common shares outstanding	252,488	253,331	253,331
Effect of dilutive securities:			
Stock options	8	183	183
Average number of common shares for diluted EPS calculation	252,496	253,514	253,514

	Yen		U.S. dollars
Net income per common share:			
Basic	¥54.39	¥95.73	$0.81
Diluted	54.37	95.67	0.81

15 Retained Earnings and Dividends

In Japan, in the event a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside 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 and ¥1,645 million ($13,935 thousand) at March 31, 2006 and 2007, respectively. 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, 2007 were cash dividends of ¥4,127 million ($34,960 thousand). In addition, a mid-year dividend may be paid based on approval by the Board of Directors, which is subject to limitations. The mid-year dividend in 2007 was ¥3,127 million ($26,489 thousand).

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 "Net assets".

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 Agency. 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.

The land carrying amount was revalued in fiscal 2002.

17 Common Stock and Treasury Stock

The changes in the number of common stock and treasury stock for the year ended March 31, 2007 were as follows:

Common stock (number of shares)	
March 31, 2006 and 2007	260,580,191

Treasury stock (number of shares)	
March 31, 2006	7,616,892
Repurchase of fractional shares	6,191
Increase in the shareholder ratio for affiliates to which the equity method applies	17
Treasury stock acquired by affiliated companies to which the equity method applies	8,069
Sale of fractional shares	(122)
Sale of treasury stock through private placements	(4,900,000)
March 31, 2007	2,731,047

18 Stock Option Plan

The following is the stock option plan at March 31, 2007.

Resolution date of general shareholders' meeting	June 26, 2006	June 26, 2006	June 26, 2006
Position and number of beneficiaries	Directors of the Company (8)	Directors of subsidiaries (14)	Employees of the Company (21) and subsidiaries (573)
Type and number of shares (Note 1)	Common stock 126,300	Common stock 149,700	Common stock 1,817,000
Amount to be paid upon exercise of stock subscription rights (yen)	1	1	1,754
Grant date	July 18, 2006	July 18, 2006	July 18, 2006
Conditions for exercising rights	(Note 2)	(Note 3)	(Note 4)
Required tenure	Not specified	Not specified	From July 18, 2006 to July 9, 2008
Applicable period for exercising rights	From July 10, 2009 to June 30, 2014	From July 10, 2009 to June 30, 2014	From July 10, 2008 to June 30, 2010
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
Fair market price for stock options (yen) (Note 5)	1,550.90	1,550.90	219.07

Notes:
1. As to the method for estimating the number of effective rights of stock options, since it is difficult to rationally estimate the number of expired options at a future date, the number of previously expired options was therefore used.
2. If, after subscription rights are allocated, the Company's stock price growth rate up to the start of the period for exercising those rights does not exceed the TOPIX (Tokyo Stock Price Index) growth rate, those subscription rights cannot be exercised. The Company's stock price growth rate shall be calculated as the average closing price for common shares of the Company on the Tokyo Stock Exchange on each of the days within the previous three months prior to the month in which the starting date for the period for exercising the subscription rights falls (except if there is no trading) divided by the average closing price for common shares of the Company on the Tokyo Stock Exchange on each of the days within three months prior to the month in which the allotment date falls (except if there is no trading). The TOPIX growth rate is calculated in the same way as the Company's stock price growth rate.
3. The annual target of business performance and evaluation period (3 years from the time of the issuance of rights to the time it is possible to exercise those rights) shall be determined, with the sales and operating income, etc. of the strategic business unit—to which the subsidiary officer who is the target of the allotment belongs (hereinafter referred to as "Subscription Right Holder") at the time of issuance of the subscription rights—used as the evaluation index, and the ratio of achievement of that target shall be measured for each fiscal year during that evaluation period. If the ratio of achievement at the end of the evaluation period is above 50% on average during the evaluation period, those rights may be exercised. However, even in that case, the number of shares that can be acquired by exercising those rights shall be based on a ratio equivalent to the average ratio of achievement (maximum of 100%).
4. (i) Any person receiving an allotment of subscription rights (hereinafter referred to as "Holder(s) of Subscription Rights") must be an employee of the Company or of its Group Companies at the time those rights are issued.
   (ii) Regardless of the regulation in (i), if the Holder of Subscription Rights leaves the Company due to his or her own personal reasons, that person may only possess and exercise the corresponding rights up to 6 months from the time of leaving. However, he or she may not possess and exercise the corresponding rights beyond the period for exercising those rights. In addition, if that person leaves upon the Company's request or for any other reason that the Company accepts, those rights and the period for exercising those rights shall remain unchanged.
5. Black-Scholes Model is used for estimating fair market price for stock options.

Stock options granted at April 18, 2007 are as follows:

Resolution date of general shareholders' meeting	June 26, 2006
Position and number of beneficiaries	Employees of subsidiaries (231)
Type and number of shares	Common stock 583,000
Amount to be paid upon exercise of stock subscription rights (yen)	1,895
Conditions for exercise of stock subscription rights	(Note 1)
Applicable period for exercising rights	From April 1, 2009 to June 30, 2010
Items relating to the transfer of stock subscription rights	(Note 2)

Notes:
1. (i) Any person receiving an allotment of subscription rights (hereinafter referred to as "Holder(s) of Subscription Rights") must be an employee of the Company or of its Group Companies at the time those rights are issued.
   (ii) Regardless of the regulation in (i), if the Holder of Subscription Rights leaves the Company due to his or her own personal reasons, that person may only possess and exercise the corresponding rights up to 6 months from the time of leaving. However, he or she may not possess and exercise the corresponding rights beyond the period for exercising those rights. In addition, if that person leaves upon the Company's request or for any other reason that the Company accepts, those rights and the period for exercising those rights shall remain unchanged.
2. Approval of the directors of NAMCO BANDAI Holdings Inc. is required for the transfer of stock subscription rights.

The ordinary general meeting of shareholders of NAMCO BANDAI Holdings Inc. held on June 25, 2007 approved the adoption of the following stock option plan.

Position of beneficiaries	Directors of the Company	Directors of subsidiaries
Type and number of shares	Common stock upper limit of 115,000 per year	Common stock upper limit of 315,000 per year
Amount to be paid upon exercise of stock subscription rights (yen)	1	1
Conditions for exercise of stock subscription rights	(Note 1)	(Note 2)
Applicable period for exercising rights	From July 10, 2010 to June 30, 2015	From July 10, 2010 to June 30, 2015
Items relating to the transfer of stock subscription rights	(Note 3)	(Note 3)

Notes:
1. If, after subscription rights are allocated, the Company's stock price growth rate up to the start of the period for exercising those rights does not exceed the TOPIX (Tokyo Stock Price Index) growth rate, those subscription rights cannot be exercised. The Company's stock price growth rate shall be calculated as the average closing price for common shares of the Company on the Tokyo Stock Exchange on each of the days within the previous three months prior to the month in which the starting date for the period for exercising the subscription rights falls (except if there is no trading) divided by the average closing price for common shares of the Company on the Tokyo Stock Exchange on each of the days within three months prior to the month in which the allotment date falls (except if there is no trading). The TOPIX growth rate is calculated in the same way as the Company's stock price growth rate.
2. The annual target of business performance and evaluation period (3 years from the time of the issuance of rights to the time it is possible to exercise those rights) shall be determined, with the sales and operating income, etc. of the strategic business unit—to which the subsidiary officer who is the target of the allotment belongs (hereinafter referred to as "Subscription Right Holder") at the time of issuance of the subscription rights—used as the evaluation index, and the ratio of achievement of that target shall be measured for each fiscal year during that evaluation period. If the ratio of achievement at the end of the evaluation period is above 50% on average during the evaluation period, those rights may be exercised. However, even in that case, the number of shares that can be acquired by exercising those rights shall be based on a ratio equivalent to the average ratio of achievement (maximum of 100%).
3. Approval of the directors of NAMCO BANDAI Holdings Inc. is required for the transfer of stock subscription rights.

19 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. Title does not transfer for any of the Company's leases.

The original cost and accumulated depreciation of assets under such finance leases at March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Original cost at inception of leases	¥1,239	¥1,308	$11,080
Less accumulated depreciation	(522)	(649)	(5,498)
Assets under finance lease, net	¥ 717	¥ 659	$ 5,582

Future minimum payments due under finance leases as of March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥237	¥250	$2,118
Due after one year	480	409	3,465
Total	¥717	¥659	$5,583

The lease expense and depreciation expense for such finance leases for the years ended March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Lease expense	¥239	¥259	$2,194
Depreciation expense	239	259	2,194

(2) Operating leases

Future minimum payments required under operating leases at March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥1,798	¥ 2,147	$18,187
Due after one year	6,380	8,057	68,251
Total	¥8,178	¥10,204	$86,438

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 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Acquisition cost	¥1,497	¥1,426	$12,080
Less accumulated depreciation	(879)	(714)	(6,048)
Assets under finance leases, net	¥ 618	¥ 712	$ 6,032

Future minimum payments due under finance leases at March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥294	¥267	$2,262
Due after one year	409	555	4,701
Total	¥703	¥822	$6,963

Lease income and depreciation expense for finance leases for the years ended March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Lease income	¥357	¥283	$2,397
Depreciation expense	320	238	2,016

20 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 and 2007 are set forth as follows. The contracted 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			2007			2007		
	Contract Amount	Estimated Fair Value	Unrealized Gain (Loss)	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	¥1,308	¥1,329	¥ (21)	$11,080	$11,258	$ (178)
Yen	590	547	43	965	937	28	8,175	7,937	238
Won	178	185	(7)	115	118	(3)	974	1,000	(26)
Purchased:									
U.S. dollars	2,396	2,497	101	3,288	3,165	(123)	27,853	26,811	(1,042)
Total	—	—	¥143	—	—	¥(119)	—	—	$(1,008)

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.

21 Commitments and Contingent Liabilities

Contingent liabilities as of March 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Guarantee for lease agreement made by a business partner of a foreign consolidated subsidiary	¥86	¥86	$729

22 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	¥80,770	¥128,448	¥12,196	¥42,280	¥10,661	¥450,829	¥ —	¥450,829
Intersegment transactions	4,534	525	2,326	325	1,048	10,143	18,901	(18,901)	—
Subtotal	181,008	81,295	130,774	12,521	43,328	20,804	469,730	(18,901)	450,829
Cost of sales and operating expenses	161,923	79,406	121,068	10,685	37,141	19,616	429,839	(14,679)	415,160
Operating income	¥ 19,085	¥ 1,889	¥ 9,706	¥ 1,836	¥ 6,187	¥ 1,188	¥ 39,891	¥ (4,222)	¥ 35,669
Assets, Depreciation, Impairment losses and Capital expenditures:									
Assets	¥136,692	¥60,181	¥113,800	¥10,578	¥36,928	¥20,742	¥378,921	¥ 7,730	¥386,651
Depreciation	5,055	9,293	2,240	151	527	1,184	18,450	694	19,144
Loss on impairment of fixed assets	825	—	557	1,619	—	—	3,001	—	3,001
Capital expenditures	8,457	11,168	1,458	253	1,595	510	23,441	579	24,020

Millions of yen

2007	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	¥179,474	¥87,863	¥127,389	¥12,082	¥41,955	¥10,370	¥459,133	¥ —-	¥459,133
Intersegment transactions	6,112	333	11,798	408	1,052	10,531	30,234	(30,234)	—
Subtotal	185,586	88,196	139,187	12,490	43,007	20,901	489,367	(30,234)	459,133
Cost of sales and operating expenses	168,183	84,192	127,677	11,610	33,510	19,883	445,055	(28,146)	416,909
Operating income	¥ 17,403	¥ 4,004	¥ 11,510	¥ 880	¥ 9,497	¥ 1,018	¥ 44,312	¥ (2,088)	¥ 42,224
Assets, Depreciation, Impairment losses and Capital expenditures:									
Assets	¥151,547	¥65,144	¥119,103	¥11,191	¥42,268	¥23,571	¥412,824	¥ (4,334)	¥408,490
Depreciation	8,054	8,707	4,423	173	664	1,640	23,661	(159)	23,502
Loss on impairment of fixed assets	486	3,753	670	—	—	208	5,117	(47)	5,070
Capital expenditures	9,063	10,679	4,220	157	1,437	2,369	27,925	—	27,925

	Thousands of U.S. dollars								
	2007								
	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	$1,520,322	$744,287	$1,079,111	$102,346	$355,400	$ 87,844	$3,889,310	$ —	$3,889,310
Intersegment transactions	51,775	2,821	99,941	3,456	8,911	89,208	256,112	(256,112)	—
Subtotal	1,572,097	747,108	1,179,052	105,802	364,311	177,052	4,145,422	(256,112)	3,889,310
Cost of sales and operating expenses	1,424,676	713,189	1,081,550	98,348	283,863	168,430	3,770,056	(238,425)	3,531,631
Operating income	$ 147,421	$ 33,919	$ 97,502	$ 7,454	$ 80,448	$ 8,622	$ 375,366	$ (17,687)	$ 357,679
Assets, Depreciation, Impairment losses and Capital expenditures:									
Assets	$1,283,753	$551,834	$1,008,920	$ 94,799	$358,052	$199,669	$3,497,027	$ (36,714)	$3,460,313
Depreciation	68,225	73,757	37,467	1,465	5,625	13,892	200,431	(1,347)	199,084
Loss on impairment of fixed assets	4,117	31,791	5,676	—	—	1,762	43,346	(398)	42,948
Capital expenditures	76,773	90,462	35,748	1,330	12,173	20,068	236,554	—	236,554

Notes:

1. The industry segments used above are those used for internal management purposes.
   (Changes in accounting policy)
   As part of the group restructuring plan, a reorganization was implemented, splitting off the Amusement Facility Management Business from NAMCO Limited (currently NAMCO BANDAI Games Inc.) and newly establishing NAMCO LIMITED on March 31, 2006. Under this reorganization, the structure of each Group's strategic business unit has been more clearly defined and in order to present details of the Group's products and services more appropriately, NAMCO LIMITED's welfare and senior citizens facilities business and all the operations of Yunokawa Kanko Hotel Co., Ltd. have been moved from "Other" to "Amusement Facility Business". In addition NAMCO BANDAI Games Inc.'s incubation business was transferred from "Other" to "Game Contents Business".
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, development and sales of environmental devices.
3. Unallocatable operating expense included in the "Eliminations and Corporate" column under "Operating expenses" was ¥5,812 million and ¥2,539 million ($21,508 thousand) for the years ended March 31, 2006 and 2007, respectively. 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.) in 2006 and the Company and NAMCO BANDAI Holdings (USA) Inc. in 2007.
4. Assets included in the "Eliminations and Corporate" column under "Assets" approximated ¥24,800 million and ¥34,674 million ($293,723 thousand) as of March 31, 2006 and 2007, respectively. The significant assets included in the amounts were surplus operating funds (cash and time deposits) of the Company, long-term investment funds (investment securities) and assets held by the administrative sections.
5. Depreciation includes depreciation on goodwill, but does not includes extraordinary depreciation on fixed assets.

6. As described in the "Summary of Significant Accounting Policies (m), (r) and (s), the "Accounting Standard for Directors' Bonus" (The Accounting Standards Board of Japan (ASBJ) Statement No. 4 Accounting Standard, November 29, 2005) and the "Accounting Standard for Share-based Payment" (The Accounting Standards Board of Japan (ASBJ) Statement No. 8 Accounting Standard, December 27, 2005) and the "Guidance on the Accounting Standard for Share-based Payment" (The Accounting Standards Board of Japan (ASBJ) Guidance No. 11 Guidance on Accounting Standard, May 31, 2006) were adopted from fiscal 2007.

The adoption of the new accounting standards had the following effect on operating income by each segment.

	Millions of yen								
	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and Corporate	Consolidated
Directors' bonus	(177)	(48)	(99)	—	(162)	(61)	(547)	(111)	(658)
Stock options	(100)	(32)	(100)	—	—	—	(232)	(345)	(577)
Operating income	(277)	(80)	(199)	—	(162)	(61)	(779)	(456)	(1,235)

	Thousands of U.S. dollars								
	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and Corporate	Consolidated
Directors' bonus	(1,499)	(407)	(839)	—	(1,372)	(517)	(4,634)	(940)	(5,574)
Stock options	(847)	(271)	(847)	—	—	—	(1,965)	(2,923)	(4,888)
Operating income	(2,346)	(678)	(1,686)	—	(1,372)	(517)	(6,599)	(3,863)	(10,462)

7. In prior years, Data Carddass hardware and software were depreciated based on a useful life of 5 years, in fiscal 2007, the useful life for hardware and software was changed to 3 years and 1 year, respectively.

The change in accounting estimate caused operating loss to increase by ¥561 million ($4,752 thousand) and operating income decreased by the same corresponding amount in Toys and Hobby Business segment.

The information for the year ended March 31, 2006 was based on the previous business segment classification.

	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

(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

Millions of yen

	2007						
	Japan	Americas	Europe	Asia, Excluding Japan	Subtotal	Eliminations and Corporate	Consolidated
Net sales and Operating income:							
Sales to external customers	¥356,249	¥52,316	¥37,763	¥12,805	¥459,133	¥ —-	¥459,133
Intersegment transactions	11,199	1,674	—	24,256	37,129	(37,129)	—
Subtotal	367,448	53,990	37,763	37,061	496,262	(37,129)	459,133
Cost of sales and operating expenses	334,320	50,613	32,510	34,331	451,774	(34,865)	416,909
Operating income	¥ 33,128	¥ 3,377	¥ 5,253	¥ 2,730	¥ 44,488	¥ (2,264)	¥ 42,224
Assets	¥310,464	¥37,370	¥45,764	¥21,239	¥414,837	¥ (6,347)	¥408,490

Thousands of U.S. dollars

	2007						
	Japan	Americas	Europe	Asia, Excluding Japan	Subtotal	Eliminations and Corporate	Consolidated
Net sales and Operating income:							
Sales to external customers	$3,017,781	$443,168	$319,890	$108,471	$3,889,310	$ —	$3,889,310
Intersegment transactions	94,868	14,180	—	205,471	314,519	(314,519)	—
Subtotal	3,112,649	457,348	319,890	313,942	4,203,829	(314,519)	3,889,310
Cost of sales and operating expenses	2,832,021	428,742	275,392	290,817	3,826,972	(295,341)	3,531,631
Operating income	$ 280,628	$ 28,606	$ 44,498	$ 23,125	$ 376,857	$ (19,178)	$ 357,679
Assets	$2,629,936	$316,561	$387,666	$179,915	$3,514,079	$ (53,765)	$3,460,313

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, 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 and ¥2,539 million ($21,508 thousand) for the years ended March 31, 2006 and 2007, respectively. 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.) in 2006 and the Company and NAMCO BANDAI Holdings (USA) Inc. in 2007.
3. Assets included in the "Eliminations and Corporate" column under "Assets" approximated ¥24,800 million and ¥34,674 million ($293,723 thousand) as of March 31, 2006 and 2007, respectively. The significant assets included in the amounts were surplus operating funds (cash and time deposits) of the Company, long-term investment funds (investment securities) and assets held by the administrative sections.
4. As described in the "Summary of Significant Accounting Policies (m), (r) and (s), the "Accounting Standard for Directors' Bonus" (The Accounting Standards Board of Japan (ASBJ) Statement No. 4 Accounting Standard, November 29, 2005) and the "Accounting Standard for Share-based Payment" (The Accounting Standards Board of Japan (ASBJ) Statement No. 8 Accounting Standard, December 27, 2005) and the "Guidance on the Accounting Standard for Share-based Payment" (The Accounting Standards Board of Japan (ASBJ) Guidance No. 11 Guidance on Accounting Standard, May 31, 2006) were adopted from fiscal 2007.
   The adoption of the new accounting standards had the following effect on operating income by each segment.

	Millions of yen						
	Japan	Americas	Europe	Asia, Excluding Japan	Subtotal	Eliminations and Corporate	Consolidated
Directors' bonus	(547)	—	—	—	(547)	(111)	(658)
Stock options	(232)	—	—	—	(232)	(345)	(577)
Operating income	(779)	—	—	—	(779)	(456)	(1,235)

	Thousands of U.S. dollars						
	Japan	Americas	Europe	Asia, Excluding Japan	Subtotal	Eliminations and Corporate	Consolidated
Directors' bonus	(4,634)	—	—	—	(4,634)	(940)	(5,574)
Stock options	(1,965)	—	—	—	(1,965)	(2,923)	(4,888)
Operating income	(6,599)	—	—	—	(6,599)	(3,863)	(10,462)

5. In prior years, Data Carddass hardware and software were depreciated based on a useful life of 5 years, in fiscal 2007, the useful life for hardware and software was changed to 3 years and 1 year, respectively.
   The change in accounting estimate caused operating loss to increase by ¥561 million ($4,752 thousand) and operating income decreased by the same corresponding amount in Japan geographic segment.

(3) Foreign sales

	Millions of yen							
	2006				2007			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Foreign sales	¥43,406	¥31,537	¥10,844	¥ 85,787	¥53,719	¥41,267	¥17,814	¥112,800
Consolidated sales				450,829				459,133
Share of sales to customers outside Japan	9.6%	7.0%	2.4%	19.0%	11.7%	9.0%	3.9%	24.6%

	Thousands of U.S. dollars			
	2007			
	Americas	Europe	Asia	Total
Foreign sales	$455,053	$349,572	$150,902	$ 955,527
Consolidated sales				3,889,310
Share of sales to customers outside Japan	11.7%	9.0%	3.9%	24.6%

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 region 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, 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

23 Significant Subsequent Events

1. Acquisition of Treasury Stock

At the Board of Directors' Meeting of April 18, 2007, the Company decided to purchase treasury stock as follows, based on Article 156 of the Corporation Law and Article 165, Paragraph 3 of the same law:

(1) Reason for acquisition:
In order to implement a flexible capital policy that utilizes assets effectively and responds to changes in business conditions

(2) Type of share to be acquired:
Common stock of the Company

(3) Total number of shares to be acquired:
5,000,000 shares (maximum)

(4) Total amount of shares to be acquired:
¥10,000 million (maximum)

(5) Acquisition method:
Repurchase on the Tokyo Stock Exchange market

(6) Period of acquisition:
From May 10, 2007 to September 30, 2007
Furthermore, the Company repurchased 4,980,000 shares (¥9,960 million) by June 12, 2007 with no planned future repurchases.

2. Retirement of Treasury Stock

On June 20, 2007, based on Article 178 of the Corporation Law, the Company's Board of Directors approved and executed the retirement of treasury stock, which is summarized as follows:

(1) Reason for retirement:
In order to improve capital efficiency and increase shareholder value

(2) Retirement method:
Charged to additional paid-in capital

(3) Type of shares retired:
Common stock of the Company

(4) Number of shares retired:
4,500,000 shares

(5) Date of retirement:
June 20, 2007

24 Additional Information

1. Change in Useful Life for Fixed Assets

Previously, Data Carddass hardware and software were depreciated based on a useful life of 5 years however product cycles were shortened due to escalating competition, and accordingly the useful life for hardware and software was changed to 3 years and 1 year, respectively, from fiscal 2007.

Due to this change, depreciation of ¥561 million ($4,752 thousand) was added to "Selling, general and administrative expenses" and an "Extraordinary depreciation of fixed assets" of ¥246 million ($2,084 thousand) for fiscal 2006 was added to other loss. For fiscal 2007, operating income decreased by ¥561 million ($4,752 thousand) and income before income taxes and minority interests decreased by ¥807 million ($6,836 thousand).

2. Litigation

On October 5, 2006, a lawsuit for damages in the commercial business has been filed against the Company and its consolidated subsidiaries in the U.S.A. by Game Ballers, Inc. in California, U.S.A. The matter is currently under dispute and in arbitration.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of NAMCO BANDAI Holdings Inc. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, 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 audits.

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

In our opinion, the 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2 to the consolidated financial statements, effective from the year ended March 31, 2007, NAMCO BANDAI Holdings Inc. and consolidated domestic subsidiaries applied Accounting Standard for Directors' Bonuses.

(2) As discussed in Note 2 to the consolidated financial statements, effective from the year ended March 31, 2007, NAMCO BANDAI Holdings Inc. and consolidated domestic subsidiaries applied Accounting Standard for Shared-Based Payments.

(3) As discussed in Note 23 to the consolidated financial statements, the Board of Directors approved the purchase of treasury stock on April 18, 2007. Furthermore, the Board of Directors approved the retirement of treasury stock on June 20, 2007, which the Company concurrently retired on the same day.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 25, 2007

Corporate Data

(As of March 31, 2007)

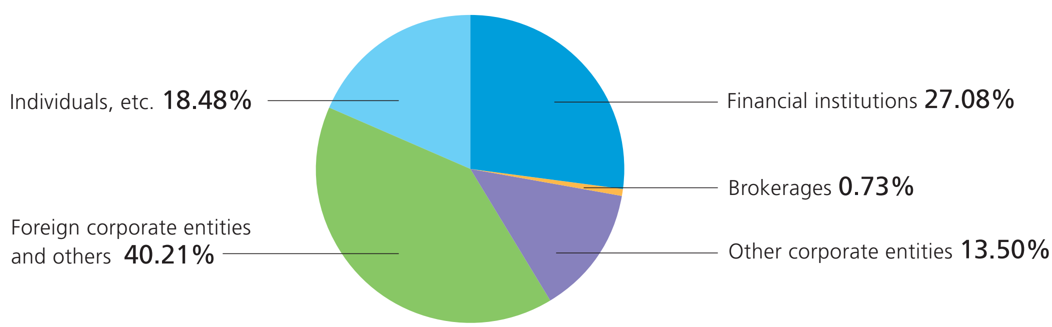
Corporate Name:	NAMCO BANDAI Holdings Inc.
Head Office:	9th Floor, Taiyo Seimei Shinagawa Building, 2-16-2, Konan, Minato-ku, Tokyo 108-0075, Japan URL: www.bandainamco.co.jp
Capital:	¥10 billion
Stock Exchange Listing:	Tokyo Stock Exchange, First Section (Code number: 7832)
Main Business:	Planning and 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: ....29,693 Number of Shares per Trading Unit: ....100 shares

Note: From May 10, 2007, to June 12, 2007, the Company acquired 4,980,000 shares of its own stock.
On June 20, 2007, 4,500,000 shares of treasury stock were cancelled.

Major Shareholders:

Name	% of Total
Japan Trustee Services Bank, Ltd. (Trust Account)	5.7
The Master Trust Bank of Japan, Ltd. (Trust Account)	5.7
Masaya Nakamura	5.5
MAL Ltd.	4.0
State Street Bank and Trust Company	3.4
Morgan Stanley & Co. Incorporated	3.2
The Silchester International Investors International Value Equity Trust	3.2
Sanka Ltd.	2.8
Japan Trustee Services Bank, Ltd. (Trust Account 4)	2.2
Northern Trust Company (AVFC) Re U.S. Tax Exempted Pension Funds	1.9

Ownership Breakdown:



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