Annual Report 2012

NAMCO BANDAI HOLDINGS INC.

The BANDAI NAMCO Group develops entertainment-related products and services in a wide range of fields, including toys, arcade game machines, home video game software, visual software, network content, and amusement facilities. In April 2012, we started a Mid-term Plan that includes the vision of "Empower, Gain Momentum, Accelerate Evolution." Aiming to be No. 1 with strong conviction, we are committed to being the "Leading Innovator in Global Entertainment" and recording strong growth.

Our Mission Statement

DREAMS, FUN AND INSPIRATION

Through our entertainment products and services, BANDAI NAMCO will continue to provide "Dreams, Fun and Inspiration" to people around the world, based on our boundless creativity and enthusiasm.

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Forward-Looking Statements

The forward-looking statements in this annual report are based on the information available to management as of August 2012 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 the BANDAI NAMCO Group's operating environment, market trends, and exchange rate fluctuations.

Notes

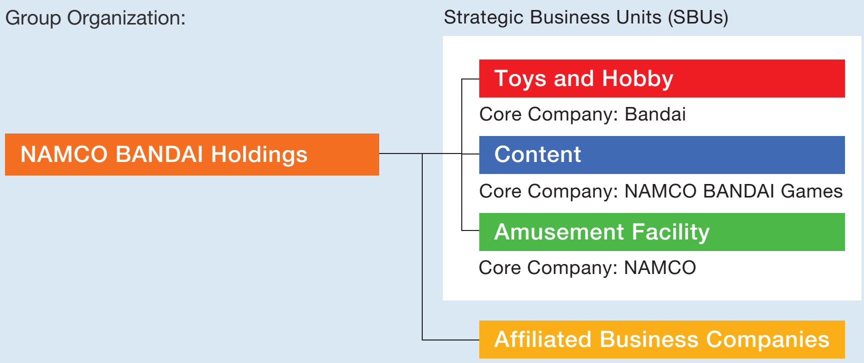
1. All figures in this report are rounded to the nearest unit.
2. FY 2012.3 and the year under review represent the one-year period ended March 31, 2012.
3. Figures in this annual report are as of August 2012.

Our Vision

THE LEADING INNOVATOR IN GLOBAL ENTERTAINMENT

As an entertainment leader across the ages, BANDAI NAMCO is constantly exploring new areas and heights in entertainment. We aim to be loved by people who have fun and will earn their trust as the "Leading Innovator in Global Entertainment."

Group Organization:



THE STRENGTHS OF THE BANDAI NAMCO GROUP

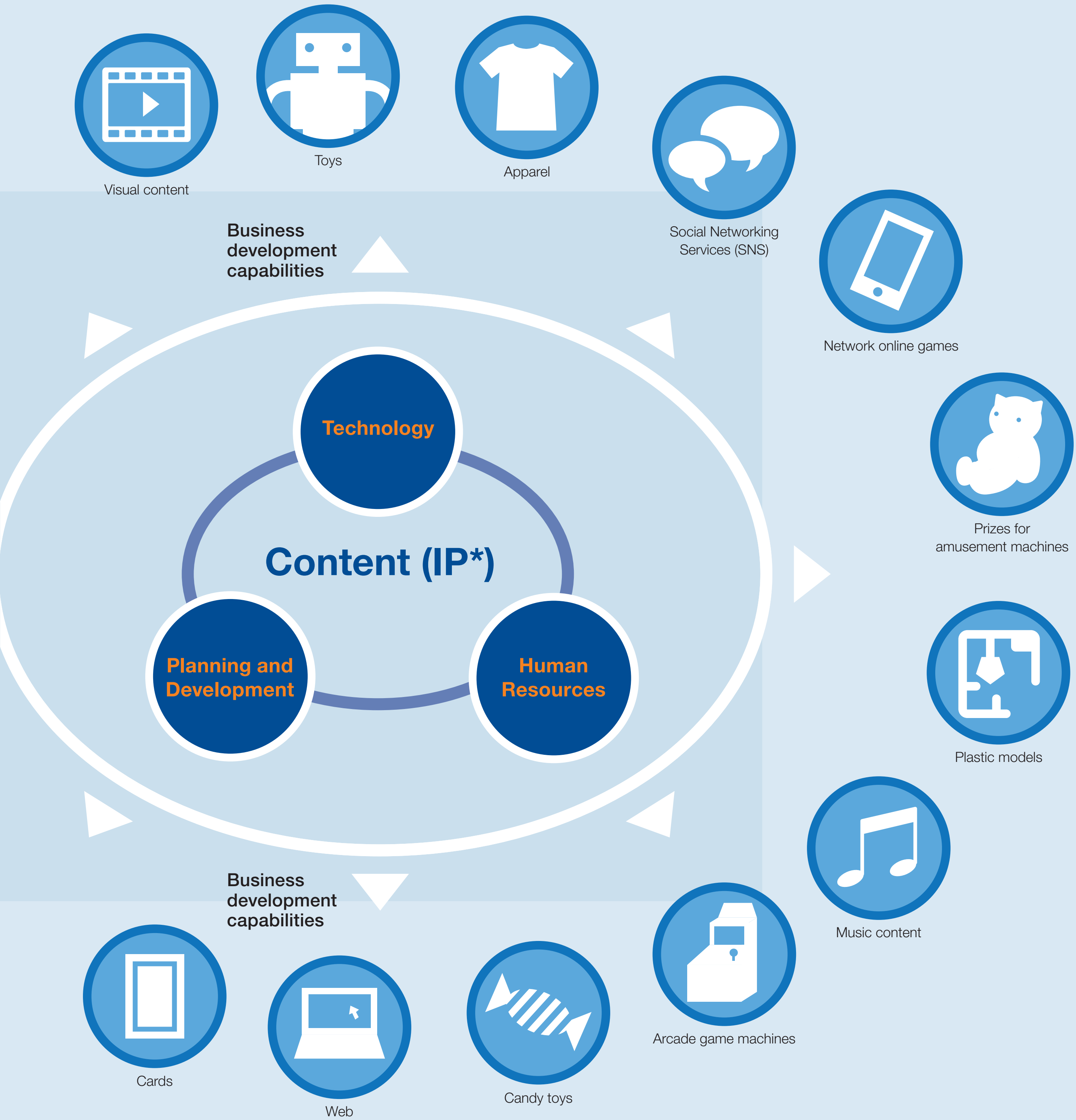
In a wide range of business areas, the BANDAI NAMCO Group is conducting speedy development of its IP (characters and other intellectual property), which has fans around the world. The full potential of our IP is brought out by our advanced planning and development capabilities, our high levels of technical skill, and our employees, who are passionate about entertainment. Leveraging these distinctive strengths of the Group, we will strive to realize sustained growth in the years ahead.

Game software

Distribution of video on demand (VOD) content

Vending machine capsule toys

Amusement facilities



* IP: Characters and other intellectual property

LOOKING BACK AT PREVIOUS MID-TERM PLANS

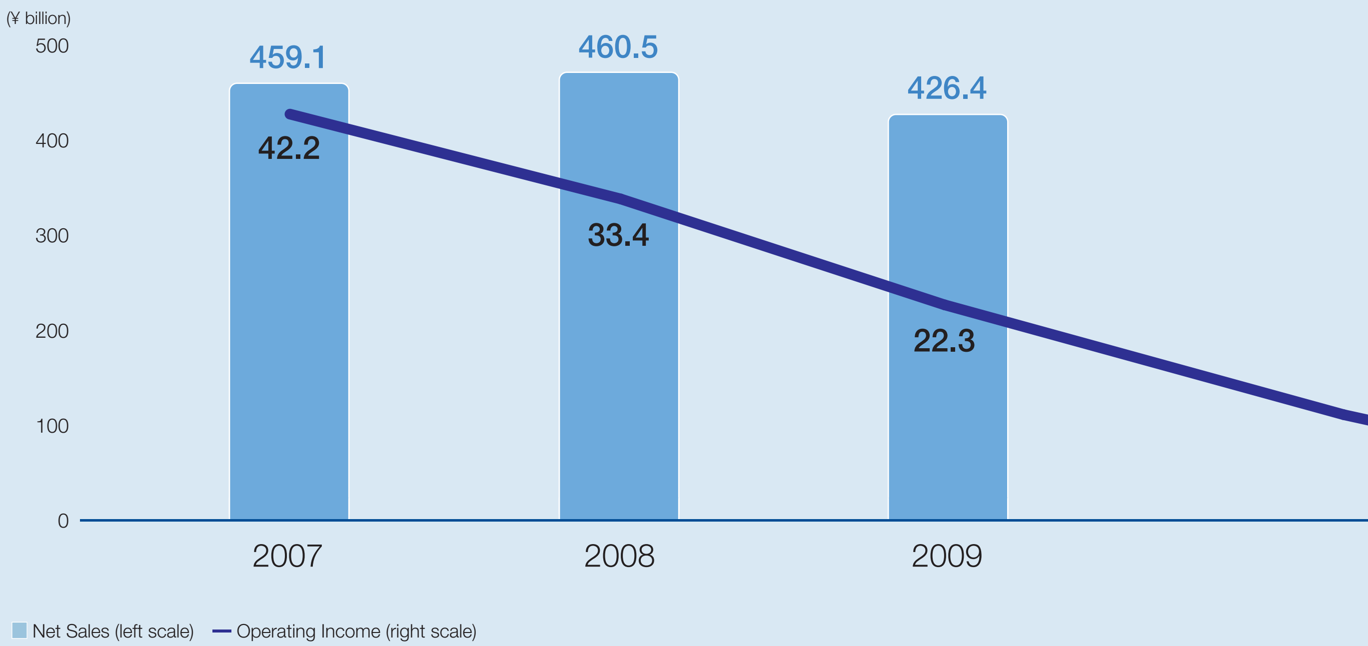
Mid-term Plan

2006.4 – 2009.3

Bolster Management Foundations

▶ Leveraging Synergies

- Organizational restructuring
- Bolstering financial position
- Integrating human resources and corporate cultures



With the objective of achieving further progress in the entertainment industry, the BANDAI NAMCO Group was established in 2005 through the management integration of Bandai and NAMCO. Under the Mid-term Plan that began in April 2006, we took steps to “bolster management foundations,” such as strengthening our organizations and systems. Under the Mid-term Plan that began in April 2009, our objective was “preparing a global growth foundation” to support global expansion. However, we suffered a major setback in the first year of the plan, principally in the Content Business, and we recorded a substantial loss.

In response to these challenging circumstances, we implemented the Restart Plan. The objectives of the Restart Plan are to transform ourselves into a speedy Group, improve our profitability, and strengthen our financial standing. As a result of these initiatives, our results are recovering. Nonetheless, our performance has not yet returned to the level that was recorded in FY 2007.3, when we generated operating income of ¥42.2 billion, which remains the highest level achieved since the management integration.

Mid-term Plan

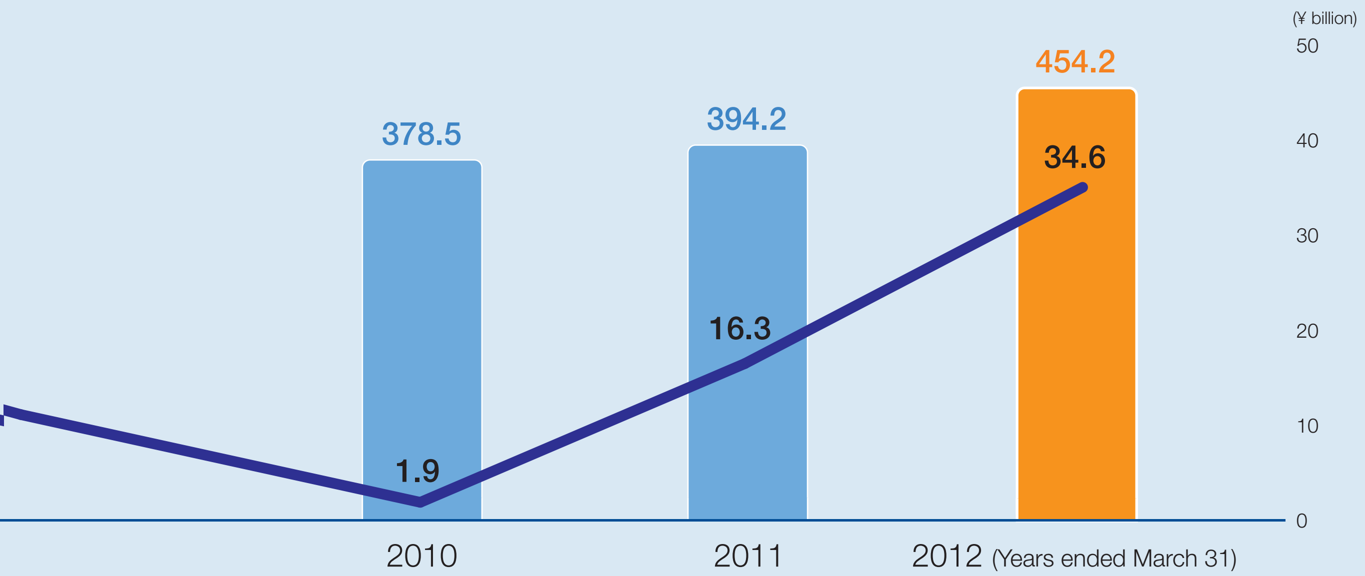
2009.4 – 2012.3

Preparing a Global Growth Foundation

▶ Globalization

- Up-front investment of management resources in growth fields
- Bolstering profitability of businesses that support up-front investment

Implementing the BANDAI NAMCO Group Restart Plan



NEW MID-TERM PLAN

2012.4 - 2015.3

Mid-term Plan of BANDAI NAMCO Group

From April 2012 to March 2015

The BANDAI NAMCO Group's mission is to provide "Dreams, Fun and Inspiration" to people around the world, and our vision is to be the "Leading Innovator in Global Entertainment." With those aims, we launched the new Mid-term Plan. Under the Mid-term Plan that started in April 2012, we are aiming at recording growth in both Japan and overseas by adhering to our vision of "Empower, Gain Momentum, Accelerate Evolution" in all aspects of our businesses, including our products and services, business model, operations, and numerical targets.

Mid-term Vision

Strive to achieve record profit

Operating income:

¥42.5 billion

Implement a growth strategy

Net sales:

¥480 billion

Enhance our business model to maximize our IP value

BANDAI NAMCO ID members

Acquire **30** million

Consolidated Financial Highlights

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
For the Years Ended March 31

FY 2012.3

• Net sales

Up 15.2% YOY ¥454.2 billion

• Net income

Up 944.6% YOY ¥19.3 billion

• Gross profit

Up 20.1% YOY ¥167.5 billion

• Return on equity (ROE)

FY 2011.3 0.8% 9.1%

• Operating income

Up 111.8% YOY ¥34.6 billion

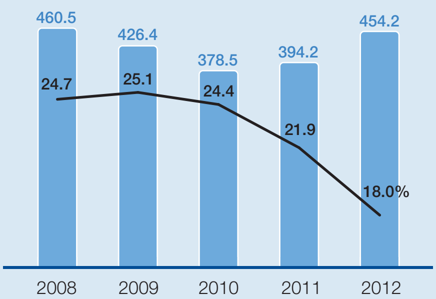
• Operating income margin

FY 2011.3 4.1% 7.6%

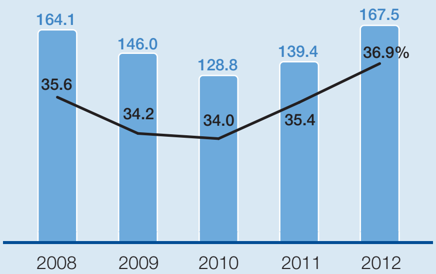
• Return on assets (ROA)

FY 2011.3 5.2% 10.7%

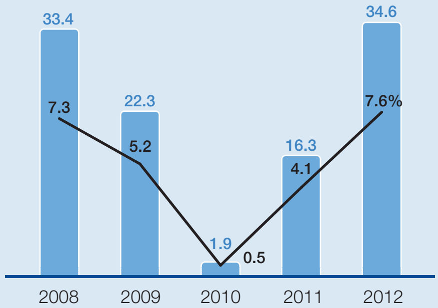
Net Sales (¥ billion) /
Overseas Sales Proportion (%)



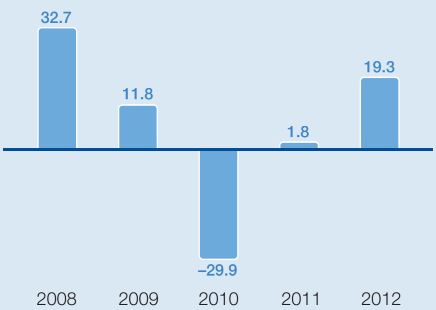
Gross Profit (¥ billion) /
Gross Profit Margin (%)



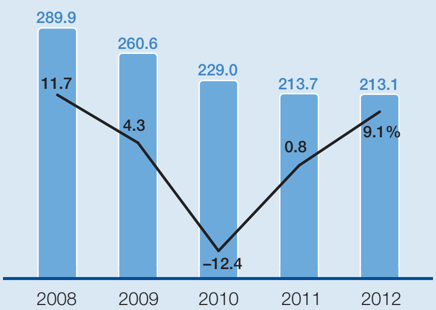
Operating Income (¥ billion) /
Operating Income Margin (%)



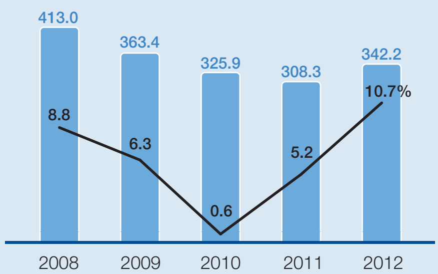
Net Income (Loss) (¥ billion)



Total Net Assets (¥ billion) / ROE (%)



Total Assets (¥ billion) / ROA (%)



- Cash flows from operating activities

Up 73.4% YOY

¥39.1 billion

- Sales of Major Characters (Group total)

Mobile Suit Gundam series	¥44.7 billion
KAMEN RIDER series	¥31.9 billion
ONE PIECE	¥28.8 billion
POWER RANGERS series	¥20.2 billion

- Cash dividends per share

Up ¥2 YOY

¥26

- Unit sales of video game software

Home: 31 titles 14,327 thousand

Portable: 58 titles 9,003 thousand

Note: After elimination of localized versions

- Net income per share (Basic)

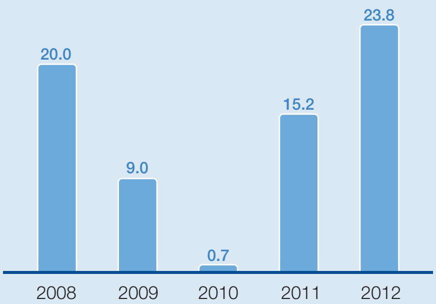
Up ¥77.91 YOY

¥85.62

- Sales of existing amusement facilities in Japan

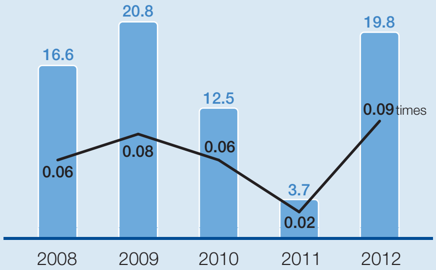
YOY 100.1%

Free Cash Flows* (¥ billion)



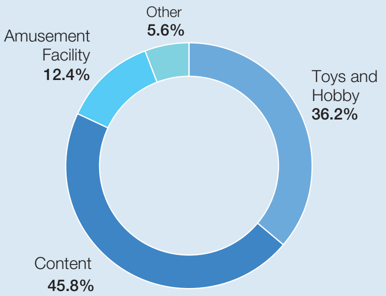
* Free cash flows = Net cash provided by operating activities + Net cash used in investing activities

Interest-Bearing Debt (¥ billion) / Debt/Equity Ratio* (times)



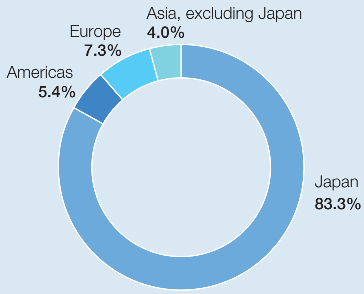
* Debt/equity ratio = Interest-bearing debt / Total shareholders' equity

Net Sales by Segment (2012)



Note: Percentage figures are calculated based on sales before elimination of internal transactions.

Reference: Contributions to Net Sales by Geographic Region (2012)



Note: Percentage figures are calculated based on external sales. Figures are estimates based on management accounting.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

As of June 18, 2012

DIRECTORS

1. President and CEO, Representative Director
Shukuo Ishikawa

2. Executive Vice President, Representative Director
Kazunori Ueno
(President and Representative Director, Bandai Co., Ltd.)

3. Director
Shuji Ohtsu

4. Director
Yuji Asako

5. Director (Part-time)
Satoshi Oshita
(President and Representative Director, NAMCO BANDAI Games Inc.)

6. Director (Part-time)
Masahiro Tachibana
(President and Representative Director, NAMCO LIMITED)

7. Director (Outside)
Manabu Tazaki

8. Director (Outside)
Nobuo Sayama

9. Director (Outside)
Tomohisa Tabuchi

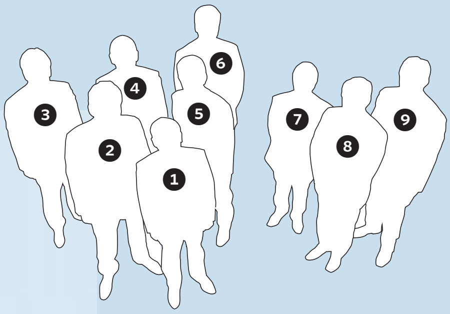
CORPORATE AUDITORS

Statutory Auditor (Full-time)
Koichiro Honma

Statutory Auditor (Full-time, Outside)
Katsuhiko Kohtari

Statutory Auditor (Outside)
Osamu Sudoh

Statutory Auditor (Outside)
Kouji Yanase



"Empower, Gain Momentum, Accelerate Evolution"

Formulation of a Solid New Mid-term Plan
We will aim to be No. 1 with strong conviction.

The new Mid-term Plan that we launched in April 2012 includes a mid-term vision of "Empower, Gain Momentum, Accelerate Evolution." These words incorporate our strong determination to strive to be No. 1 as we respond to change and as our operations, results, and employees continue to thrive over the next three years. In this way, the BANDAI NAMCO Group will aim for sustained growth over the next 10, 50, and even 100 years. Moving forward, we will do our utmost to achieve global growth and become the "Leading Innovator in Global Entertainment."

Shukuo Ishikawa
President and CEO, Representative Director
NAMCO BANDAI Holdings Inc.

Kazunori Ueno
Executive Vice President, Representative Director
NAMCO BANDAI Holdings Inc.

Change in Our Management System

Further strengthening management by shifting to a system of two representative directors

In April 2012, NAMCO BANDAI Holdings shifted from the previous management system, under which Shukuo Ishikawa was the sole representative director, to a new system with two representative directors. Kazunori Ueno (President and Representative Director, Bandai Co., Ltd.), who had been part-time director, has now become executive vice president, representative director of NAMCO BANDAI Holdings.

The purpose of this change was to strengthen the links between domestic and overseas operations. Kazunori Ueno, who has led the growth of the Toys and Hobby SBU and participated in Group management as a director of NAMCO BANDAI Holdings, is an ideal person to help lead the Group. Shukuo Ishikawa, as CEO, will be responsible for overall Group management. The two representative directors will cooperate closely, continually sharing information about important issues and working together to implement the Mid-term Plan.

Evaluation of Results

Substantial increase in sales and profits in FY 2012.3 due to strong performance in domestic market

In FY 2012.3, the final year of the previous Mid-term Plan, we recorded a substantial increase in sales and profits. Consolidated net sales were up 15.2%, to ¥454,211 million, and operating income increased 111.8%, to ¥34,607 million. Net income rose 944.6%, to ¥19,304 million. We substantially exceeded the plan that we had formulated at the beginning of the year, which called for net sales of ¥400,000 million and operating income of ¥16,500 million.

These results are attributable to the creation of a virtuous cycle within the Group that facilitates the repeated generation of hit products. This cycle was fostered by the success of the Restart Plan, which was launched in April 2010 and has enhanced our ability to respond rapidly to changes in the front-line operating environment in each of our business areas. Another factor has been the concentration of our know-how in the development of products and services. However, looking at domestic and overseas operations, domestic operations recorded extremely favorable results, but we recorded losses in the U.S. and Europe, and overseas operations are still in the process of recovering. We are pleased with our overall results, but on the other hand we recognize that our challenges have once again come to the fore.

(For further information about results, please see the Financial Review section on page 33.)

Review of the Previous Mid-term Plan (April 2009 to March 2012)

Despite significant challenges in the first year of the previous Mid-term Plan, results have improved under the Restart Plan.

Under the previous Mid-term Plan (April 2009 to March 2012), which was commenced in April 2009, we worked to prepare a foundation for global growth. However, in the first year of that plan we failed to respond adequately to changes in consumer preferences and in the operating environment, centered on the Content SBU, and we recorded a substantial loss. In response to these difficult circumstances, we implemented the Restart Plan in 2010 to reinforce our foundation. With the objectives of transforming ourselves into a speedy Group, improving our profitability, and strengthening our financial standing, we moved rapidly to implement a range of initiatives, and over the past two years our results have improved significantly.

Overseas development is a key mid-term challenge

Looking at results under the previous Mid-term Plan, in the Toys and Hobby SBU, we reinforced business development activities for established characters by forging links among operations. In addition, by expanding our targeted customer groups, we were able to make significant progress with our domestic No. 1 strategy. On the other hand, overseas, where we initially were aiming for growth, we faced tough sailing under the previous plan, especially in the U.S. and Europe. In the Content SBU, the Restart Plan took effect. We created hit products that met the needs of the domestic market and started to generate stable earnings. Overall, however, we are still in the process of recovery, including overseas business development activities for home video game software operations. In the Amusement Facility SBU, we implemented strategies by customer segment. Facilities that are differentiated from those of competitors turned in solid results, and a range of efficiency improvement measures led to higher earnings.

Overall, all of our SBUs achieved a certain degree of results in Japan, but on the other hand they all faced challenging conditions overseas. In addition, the Restart Plan is having a positive effect, but the Content SBU has not yet demonstrated its true strengths.

With the management integration in 2005, Bandai and NAMCO brought together a wide range of business areas, IP (characters and other intellectual property) with fans around the world, technical capabilities cultivated through planning and development, and employees who are passionate about "Dreams, Fun and Inspiration." However, we have not yet made full use of these strengths. In the fiscal year under review, the driving force behind the recovery in our results was our ability to reevaluate our situation and to begin to fully leverage our strengths in an autonomous and spontaneous manner. With the Mid-term Plan, which is the third plan since the management integration, I believe that we have finally established a system that will enable us to fully utilize our true strengths.

Start of the Mid-term Plan (April 2012 to March 2015)

Aiming to be No. 1 with strong conviction, guided by our mid-term vision of "Empower, Gain Momentum, Accelerate Evolution"

In formulating the Mid-term Plan, which was launched in April 2012, we benefited from the participation of a wide range of employees who work on the front lines. In this way, everyone in the Group can implement the plan with a sense of unified purpose. By enhancing the plan in line with the thoughts of employees and senior managers, I think that we were able to create a solid Mid-term Plan that reflects the distinctive characteristics of the Company and its operating environment.

The Mid-term Plan includes the mid-term vision of "Empower, Gain Momentum, Accelerate Evolution." This vision encapsulates how we will "empower" ourselves to achieve record-high income, "gain momentum" to reach record-high sales, and "accelerate evolution" with our IP value model. We will strive to achieve sustained growth over the next 10, 50, and even 100 years. On that basis, our vision incorporates our commitment to continuing to respond to change and working to be No. 1 as we strive for continual improvement in our businesses, results, and employees. Of course, for the BANDAI NAMCO Group, our goals extend far beyond the next three years. The Mid-term Plan is just a transit point on the path to our major objectives. Looking ahead 10 years, or 50 years, I believe that the Group must achieve this Mid-term Plan in order to develop the strength needed to record continued growth as we compete in the global marketplace.

Focus Strategies of the Mid-term Plan

Implementing separate strategies for Japan, where we aim to be No. 1; the U.S. and Europe, where we will work to return to profitability; and Asia, where we will strengthen and cultivate our operations

Under the Mid-term Plan, we will promote five Focus Strategies. These consist of three Business Area Strategies, which will be applied separately to each respective business, and two Functional Strategies, which will be applied commonly across all businesses.

Focus Strategies under the Mid-term Plan

Business Area Strategies		Toys and Hobby SBU	Content SBU	Amusement Facility SBU
BASIC BUSINESS AREAS Achieve profitable expansion in basic business areas	Japan	Toys and Hobby [Japan]	Content [Japan] Arcade games / Network / Visual & Music	Amusement Facility [Japan]
PROFIT RECOVERING AREAS Achieve recovery in low-profit and loss-making businesses	U.S. & EU	Toys and Hobby [U.S. & EU]	Video Game Software [Worldwide]	
NEW GROWTH AREAS Create and develop new growth areas	Asia	Toys and Hobby [Asia]	Arcade Games [Asia]	Amusement Facility [Asia]

Functional Strategies	
GROUPWIDE NETWORK STRATEGY	HUMAN RESOURCES STRATEGY

Numerical targets for the fiscal year ending March 31, 2015

Net Sales	Operating Income	ROE
¥480 billion	¥42.5 billion	10%

We have divided our business operations into three areas and will implement an appropriate strategy for each area.

The first Business Area Strategy involves Basic Business Areas. These are areas, particularly in Japan, in which we have already secured a certain level of stable market share and profit. Moving forward, we will aim to be No. 1 in each of these Basic Business Areas through growth with a focus on profitability.

The second Business Area Strategy involves Profit Recovering Areas. These areas, principally in the U.S. and Europe, are currently facing difficult conditions but nonetheless have substantial growth potential. Through a change in strategy, we will strive to reinforce the foundation for a recovery in profits and to return to profitability.

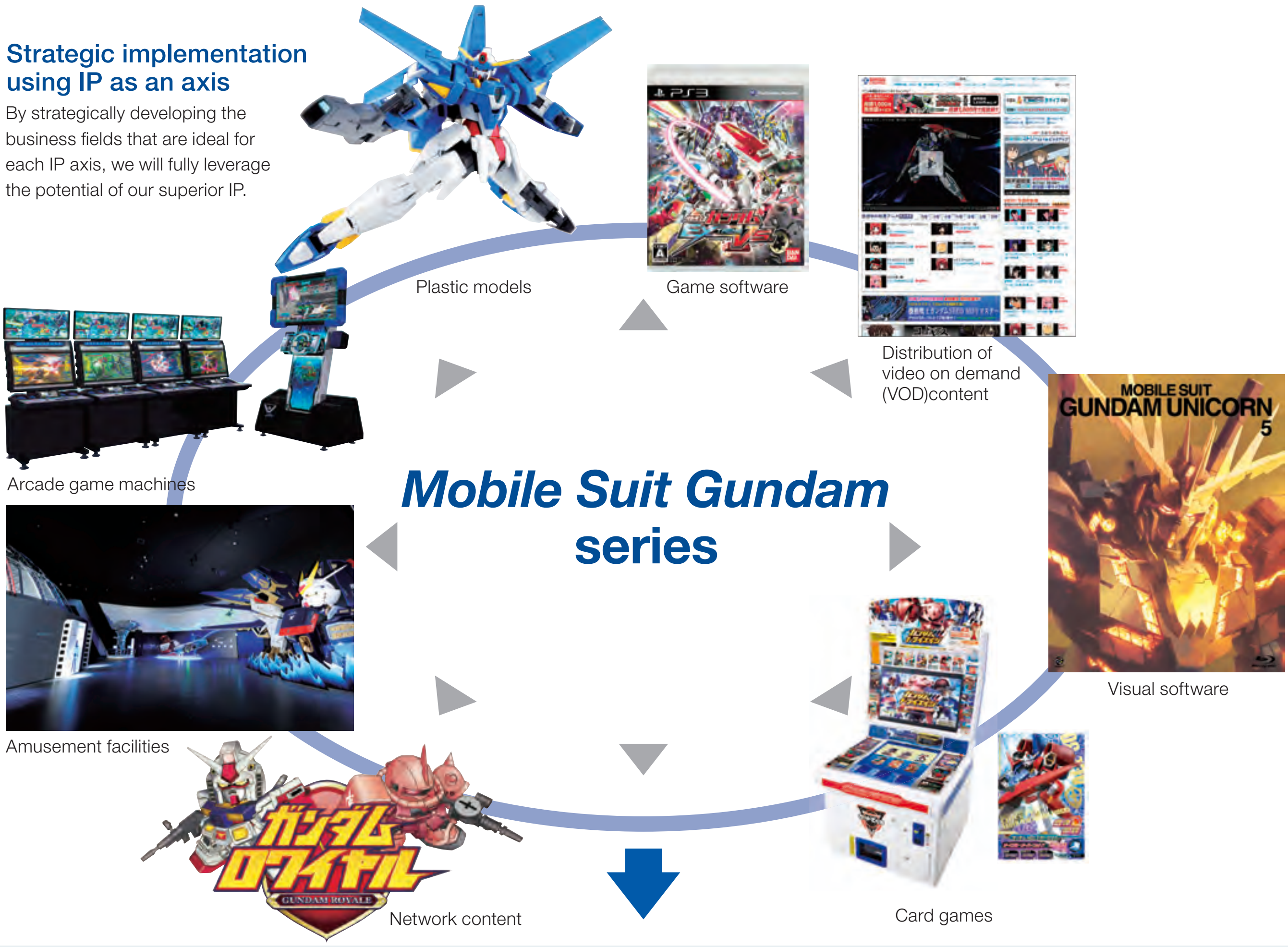
The third Business Area Strategy is New Growth Areas, mainly in Asia. By conducting business development that leverages the distinctive strengths of the BANDAI NAMCO Group, we will aim to record growth, with new businesses and regions serving as growth pillars. Moving forward, we will take aggressive steps in Asia, targeting future growth.

Accelerating our strategies using IP as an axis across business areas

In advancing our business strategies, the most important thing is the implementation of strategies using IP as an axis. Rather than simply implementing a separate strategy for each content outlet, we will implement strategic outlet development using IP as an axis, thereby laying the groundwork for substantial profits. We will strive to accelerate that approach in all SBUs. Moving forward, we will take into consideration not only the business area viewpoint but also other elements, such as timing, region, and target age group. In this way, we are implementing a rigorous focus in maximizing IP value. Our greatest asset is our strong, extensive IP portfolio. The extent to which we can draw out the potential of our IP will be the key to our ability to follow the vision of “Empower, Gain Momentum, Accelerate Evolution” and achieve the goals of the Mid-term Plan.

Strategic implementation using IP as an axis

By strategically developing the business fields that are ideal for each IP axis, we will fully leverage the potential of our superior IP.



Business Development in an Optimal Region

Focus Strategy 1 Basic Business Areas

Building solid positions and aiming to be No. 1 in Japan in all businesses

The BANDAI NAMCO Group has established a certain degree of market share in Japan, and now we will work to reinforce this platform as a stable source of earnings for the Group. To that end, we will strive to further expand our market share and earnings in each category.

In the **Toys and Hobby SBU**, we will bolster our strategy of establishing a dominant No. 1 position in domestic operations and will aim to secure the No. 1 share in all categories. We will work to expand and maintain sales of products for preschool children. To that end, we will implement a model leveraging links among established character operations, such as the *Kamen Rider* series and the *PRETTY CURE!* series. We will also cultivate IP with media tie-ins. Our share in the market for products for elementary school boys is expanding favorably, and we will continue to introduce new IP in this market. We will also introduce strategic products for girls, infants, and older consumers. In these ways, we will strengthen and expand our operations.

In the **Content SBU**, we will strive to be No. 1 in each field of business. In arcade game machines, we will utilize a range of methods of selling machines, such as a revenue-sharing system. Moreover, we will strengthen the links with amusement facilities. Through these initiatives, we will strive to expand our share in the domestic market.

In social games, we will rapidly launch content that leverages the different strengths of three companies. NAMCO BANDAI Games Inc., will conduct joint development with platform providers, and NAMCO BANDAI Online Inc., will conduct independent development and operations. BNDeNA Inc., is a joint venture with a platform provider. With consideration for rapidly changing market trends, we will continue to adapt to changing circumstances and will strive to earn stable profits.

In visual and music content, we will endeavor to expand our share. With a focus on the *Mobile Suit Gundam* series, we will launch products for each generation of customers.

In the **Amusement Facility SBU**, we will leverage the Group's distinctive strengths and aim for a No. 1 share. We will move forward with sales activities coordinated by customer segment, stepping up our efforts to introduce facilities and services for specific target groups, such as families as well as students and older consumers. In addition, we will leverage the know-how that we have cultivated to develop facilities with new value that utilizes IP. Other initiatives will include enhancing our operations at facilities and our supply chains, standardizing services, and implementing efficient store management.

Example of model leveraging links with Toys and Hobby SBU operations

Focus Strategy 2 Profit Recovering Areas

Eliminating losses and restoring profitability in the U.S. and Europe

Domestic operations are generating favorable results, but business development in the U.S. and Europe has been a major challenge since the previous Mid-term Plan. To record growth over the medium to long term, we must succeed in generating growth in the U.S. and Europe. We took steps to strengthen our foundation as one facet of the Restart Plan and are starting to see the results of those initiatives. In the future, we will do our utmost to restore profitability and stability in our Toys and Hobby operations in the U.S. and Europe and in home video game operations around the world.

In the U.S. and Europe, the **Toys and Hobby SBU** will advance a strategy of integrated brand management. For core IP, such as the *POWER RANGERS* series, we will transition to an integrated brand management system in the U.S. and Europe. Specifically, planning and marketing functions will be consolidated in the U.S., thereby increasing efficiency and maximizing IP value. First, we will work to expand sales in the boys category and also implement the principles of selection and concentration for IP in other categories. In this way, we will launch new products and strengthen our operations. In the Toys and Hobby SBU, our top priority since the previous Mid-term Plan has been to rebuild and strengthen the *POWER RANGERS* series. With characters that are popular around the world, the series has high potential, and we will work to further strengthen our *POWER RANGERS* business development activities in the years ahead.

In the **Content SBU's** home video game software operations, the effects of the Restart Plan and the organizational shift to an IP axis have generated hit products in Japan, and we are starting to see an improvement in earnings. In FY 2010.3, about half of the titles that we sold were unprofitable. By consolidating the development function in Japan and applying the principles of selection and concentration to our lineup of titles, for the year under review this percentage reached an appropriate level for this entertainment field, where it is necessary to take on challenges.

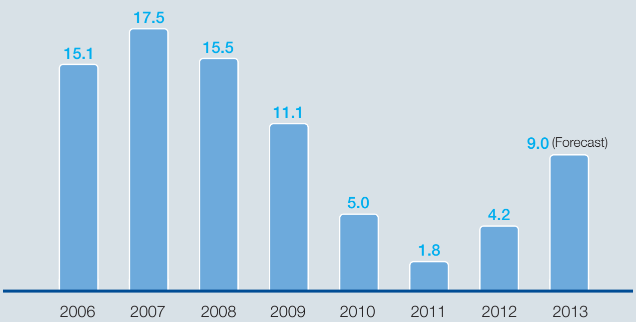
In this setting, we have completed the first phase of measures to build a stronger foundation in the U.S. and Europe. These measures included organizational restructuring in the U.S. and the consolidation of our sales bases in Europe. In this way, our overseas bases have been reorganized into an optimal system, with a focus on sales and marketing.

In development, the development department of NAMCO BANDAI Games, which had about 1,000 employees, was spun off into a separate company to establish NAMCO BANDAI Studios Inc. This step was taken to further advance awareness of the concept of the multiple content outlet strategy from the user's perspective, with an IP axis. We believe that employee motivation will be enhanced by the establishment of a new development environment through the clarification of responsibility and authority and the introduction of development-focused systems and frameworks. In this way, we will pursue higher quality and efficiency and at the same time aim to be an organization that generates new IP that will become pillars of the Group's future operations.

In regard to our lineup of titles, we will work to implement balanced business development with a strict focus on franchise titles that have strong track records. In addition, we will take steps to increase efficiency and profitability through links with a variety of content outlets. Furthermore, we will provide products and services in a variety of formats to meet diversifying user needs, such as hybrid packs combining games and visual products and the implementation of download sales following the launch of packaged software.

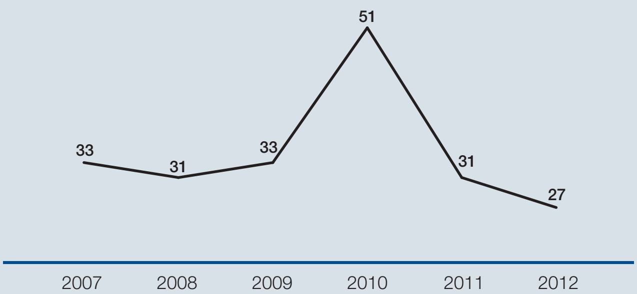
Providing home video game software in a variety of formats, such as online games with no basic charges for home-use console machines

Toys and Hobby SBU's sales of *POWER RANGERS* series products in the U.S. and Europe (¥ billion)



Note: For the fiscal year ended March 31

Percentage of unprofitable titles in home video game software (%)



Note: For the fiscal year ended March 31

Focus Strategy 3 New Growth Areas

Aiming for new growth in Asia, where we can utilize links with operations in Japan

In Asian markets, which are highly receptive to IP that is popular in Japan, it is possible to develop our businesses horizontally with Japan. Moving forward, in the Asian region, where we can develop our businesses horizontally with Japan, we will strengthen our business development activities in each operational area, working to develop them into the Group's future earnings pillars.

The **Toys and Hobby SBU** will move ahead with a strategy of conducting Japan-originated business activities simultaneously in Asia. In addition to strengthening existing IP, we will reinforce links between Japan and Asia in hobby operations, such as plastic models, and in collectible toys operations, such as toys for older consumers. Furthermore, on the official GUNDAM.INFO web site, we will provide information in multiple languages, and we will utilize events to further strengthen the provision of information linked with Japan. In April 2012, we began Internet sales in Hong Kong, and in the future we will gradually expand the areas covered by these operations.

In the **Content SBU's** arcade game machines, we will take an aggressive approach in not only Asia but also emerging countries in other regions. We will take steps to strengthen our business development, such as developing and launching machines for which local needs are high. One example is redemption machines, machines that disburse tickets in accordance with game results.

The **Amusement Facility SBU** will utilize IP in undertaking full-fledged overseas facility development, centered on Asian markets. We have already conducted test development in China using IP from Japan. In consideration of the results of this verification testing, we will establish character-themed amusement facilities in Asia.

GUNDAM.INFO

Official shopping site in Hong Kong

Focus Strategy 4 Groupwide Network Strategy

Aiming to establish a new business model through the acquisition of 30 million BANDAI NAMCO ID members

The Groupwide Network Strategy is one of the Groupwide Functional Strategies. Under this strategy, we will establish a system in which a single BANDAI NAMCO ID links the wide range of web sites and network services offered by the entire BANDAI NAMCO Group. In this way, we will expand user touchpoints with our products and services and increase convenience for users. Furthermore, using links with existing media and services, we will use this system as a marketing tool for the direct dissemination of information to users. We aim to obtain 30 million IDs during the three-year period covered by the Mid-term Plan and to establish a business model utilizing a network that leverages BANDAI NAMCO's distinctive strengths.

Focus Strategy 5 Human Resources Strategy

We will aggressively discover and develop the human resources who will take a central role in the Group's future.

The Human Resources Strategy, which is one of the Groupwide Functional Strategies, will be the engine that drives a variety of the Group's strategic initiatives. The Group's key human resources concepts are autonomous, global, and productive. "Autonomous" refers to people who can lead the Group with passion and a strong sense of responsibility. "Global" indicates people who can open up new spheres of borderless activity without being limited by national borders or business fields. "Productive" refers to people who can incorporate resources from inside and outside the Group and aggressively create hits. In accordance with this approach, we will continue to step up the hiring of new graduates around the world and implement strategic human resources transfers among SBUs and regions. In addition, we will implement training programs to develop candidates for senior management positions. In these ways, we will aggressively discover and develop the human resources who will take a central role in the Group's future.

Shareholder Return

For FY 2012.3, performance-based dividend of ¥2 per share added to the base level of stable dividends

The Company considers the return of profits to shareholders to be one of its most important management issues. Our basic policy for the payment of dividends is to continue to pay dividends and raise enterprise value while further strengthening the Group's competitiveness and maintaining a sound financial position. The Company is maintaining the consolidated dividend payout ratio at a level of 30%, based on stable annual dividend payments of ¥24 per share. In FY 2012.3, we paid a dividend of ¥26 per share, comprising a stable base portion of ¥24 per share and a performance-based portion of ¥2 per share.

Aiming to increase capital efficiency, after appropriation of dividends from the consolidated net income for the period, the Company may attribute a portion of the remaining balance to the acquisition of its own shares, with comprehensive consideration of aspects such as the level of cash held, operating performance, share price trend, and plans for large-scale investments.
In FY 2012.3, in accordance with a resolution of the Board of Directors, the Company acquired 16,806,264 shares of treasury stock at a total cost of ¥16,561 million.

For the fiscal years ended March 31	2008	2009	2010	2011	2012
Cash Dividends per Share (Yen)	24	24	24	24	26
Dividend Payout Ratio (%)	18.7	50.1	—	311.3	30.4

To efficiently advance the reinforcement of our global management foundation, we will also consider M&A transactions and up-front investment, such as development investment.
We will actively consider M&A transactions in the entertainment field when we believe that mutual synergies can be expected, following a careful evaluation of investment conditions.

In Closing

Leveraging our true strengths and continuing to "Empower, Gain Momentum, Accelerate Evolution"

The BANDAI NAMCO Group was established in 2005 with the objective of achieving further progress in the entertainment industry. However, we have not been able to realize growth that is in line with the expectations of our stakeholders. I believe that we have finally established a foundation that will enable us to fully leverage our true strengths under the Mid-term Plan that started in April 2012. First, we will do our utmost to achieve the goals for FY 2013.3. Also, without being overly focused on the plan's final year, we will aim to achieve record-high sales and profit as rapidly as possible and link those results to growth for the Group over the medium to long term.

Even with businesses that are No. 1 in Japan, we will not slacken our resolve. Rather, we will maintain a sense of urgency as we aim to achieve a dominant No. 1 position. In businesses that are not yet No. 1, we will work resolutely to take on the challenges that we face. In the U.S. and Europe, where our operations are in the process of recovery, we will strive to establish a foundation for a return to profitability as rapidly as possible. In Asia, which has strong growth potential, we will move aggressively. It has been more than six years since the management integration, and we have established a system that can dynamically utilize our business fields, IP, technical capabilities, and the passion of our employees in a speedy manner. This Mid-term Plan has been positioned as the first step in displaying the true strengths of the BANDAI NAMCO Group. Targeting our mid-term vision of "Empower, Gain Momentum, Accelerate Evolution," we will continue responding to change and working to achieve continuous progress. Our operating environment is changing at a dramatic pace, but there will be no change in the important role that entertainment plays in people's lives. We have a sense of pride and responsibility about our mission—providing Dreams, Fun and Inspiration—and moving forward we will continue to provide high-quality entertainment to people around the world.

I would like to ask our shareholders, investors, and other stakeholders for their continued support and guidance as the BANDAI NAMCO Group continues to "Empower, Gain Momentum, Accelerate Evolution" in the years ahead.

August 2012

TOYS AND HOBBY

Business Performance

For the fiscal years ended March 31	2010	2011	2012	% change	Forecasts for 2013	Targets for 2015
	Millions of yen					
Net sales	¥148,844	¥158,374	**¥177,994**	12.4%	¥170,000	¥220,000
Segment income	10,787	13,813	**16,113**	16.7%	15,000	22,000
Segment income margin	7.2%	8.7%	**9.1%**	—	8.8%	10.0%

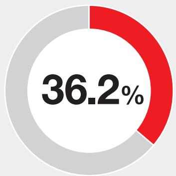
Sales of Major Characters (Group total)

For the fiscal years ended March 31	2010	2011	2012
	Billions of yen		
Mobile Suit Gundam series	¥34.6	¥38.2	**¥44.7**
Kamen Rider series	20.0	26.4	**31.9**
ONE PIECE	4.3	15.5	**28.8**

Sales of Major Characters (Toys and Hobby in Japan)

For the fiscal years ended March 31	2010	2011	2012
	Billions of yen		
Kamen Rider series	¥17.5	¥23.0	**¥28.3**
Mobile Suit Gundam series	14.4	13.4	**15.6**
Super Sentai (POWER RANGERS) series	10.5	9.2	**13.0**

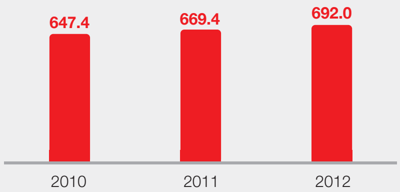
Sales Ratio in the Fiscal Year Ended March 31, 2012



Note: The percentage figure is calculated based on sales before elimination of internal transactions.

MARKET DATA

Size of Japan's Toy Market (¥ billion)



Source: Survey by the Japan Toy Association

Results in FY 2012.3: Key Points

Japan: Results were favorable, centered on established character toys and card games

- Toys in the *Kamen Rider* series and the *Super Sentai (POWER RANGERS)* series earned extremely high popularity through business development activities linking categories.
- A substantial contribution to results was made by card games, including digital card games, such as *DRAGON BALL HEROES*, and trading card games, such as *Battle Spirits*.
- New business development initiatives included a *Little Battle eXperience* series plastic model that earned strong popularity, centered on elementary school boys. Collectible toys for adults also recorded favorable results.

Overseas: The *POWER RANGERS* series turned in solid results, but overall conditions were challenging

- In the U.S., *POWER RANGERS SAMURAI,* the first new product in the *POWER RANGERS* series in two years, recorded strong results.
- In Europe, we developed products in new categories, such as toys for girls and toys for infants. However, sales did not reach the levels of the previous fiscal year, in which results were solid, especially for popular character toys.
- In Asia, results were favorable, centered on products utilizing characters that are popular in Japan.

These long-established characters for boys have been popular for many years.

This plastic model of the *Mobile Suit Gundam* series has sold more than 400 million units.

Girls' toys from the *PRETTY CURE!* series, which is in its ninth year and has earned sustained popularity.

With the launch of appealing IPs, card games have proven popular with a wide range of customers.

MID-TERM VISION

True Globalization

Become “the premier company” in the character business by extending our strength globally

Kazunori Ueno

Executive Vice President and Representative Director, NAMCO BANDAI Holdings Inc.
President and Representative Director, Bandai Co., Ltd.

In the domestic market, which the Toys and Hobby SBU has positioned as a Basic Business Area, we will aggressively implement our “overwhelming No. 1 strategy.” We aim to achieve a No. 1 share in all categories and will strive to secure stable revenues and profits from this Basic Business Area.

In the U.S. and Europe, which are positioned as Profit Recovering Areas, we will shake off market conditions, which remain challenging, and advance our strategy of integrated brand management in the U.S. and Europe. To make maximum use of our know-how in the character business—one of our strengths—we integrated the development and marketing for mainstay characters, shifting to a unified system in the U.S. We will establish a system for product development and resource allocation from a worldwide perspective, working to expand our IP and geographic scope over the mid-term. In FY 2013.3, we will step up our initiatives, with our top priority on guiding the growth of the *POWER RANGERS* series, which has gotten off to a solid start. In Asia, which has been positioned as a New Growth Area, the markets are highly receptive to Japan-originated content, and accordingly we will move ahead with our strategy of conducting Japan-originated business activities simultaneously in Asia.

Overview of Focus Strategies

- **Basic Business Areas: Become overwhelming No. 1 in Japan**
  We will strive to achieve a No. 1 share in all categories by strengthening the development of our long-established characters and expanding target customer age groups.

- **Profit Recovering Areas: Carry out integrated brand management in the U.S. and Europe**
  To rebuild operations in the U.S. and Europe, we will integrate brand management by consolidating development and marketing functions in the U.S., thereby increasing efficiency and maximizing IP value. We will work to expand our market share, centered on the category of action figures in boy’s toys. In other categories, we will implement the principles of selection and concentration in IP in preparation for the launch and strengthening of products.

- **New Growth Areas: Conduct Japan-originated business activities simultaneously in Asia**
  In Asian markets, we will strengthen linked development of content that is popular in Japan, treat Japan and Asia as a single unified market, and conduct tightly integrated business activities, from the provision of information to the sale of products. In particular, we will strengthen links between Japan and Asia in hobby operations, such as plastic models, and in collectible toys operations, such as products for adults.

- **Enhance competitiveness through value chain reform**
  As a measure to link different regions, in development and production we will reform our value chain to enable faster responses and the manufacturing of products at more competitive prices.

Toys from the *POWER RANGERS* series, which have been popular in the U.S. and Europe.

The *Tamagotchi* series of established products for girls.

We are actively developing the market for infants’ products, such as the *Baby Labo* series.

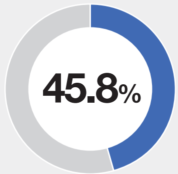
The *Little Battle eXperience* series, which was introduced in 2011, has earned a growing share of the market for toys for elementary school boys.

CONTENT

Business Performance

For the fiscal years ended March 31	Millions of yen 2010	2011	2012	% change	Forecasts for 2013	Targets for 2015
Net sales	¥167,471	¥179,917	**¥225,504**	25.3%	¥239,000	¥220,000
Segment income (loss)	(7,761)	3,092	**17,003**	449.9%	22,500	20,000
Segment income margin	—%	1.7%	**7.5%**	—	9.4%	9.1%

Sales Ratio in the Fiscal Year Ended March 31, 2012



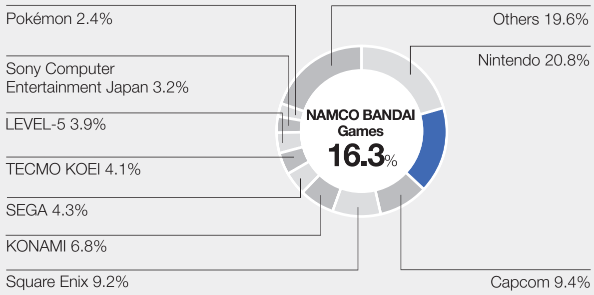
Note: The percentage figure is calculated based on sales before elimination of internal transactions.

Net Sales Breakdown

For the fiscal years ended March 31	Billions of yen 2010	2011	2012
Arcade game machines	¥ 44.0	¥ 56.0	**¥ 73.4**
Home video game software	77.0	81.2	**86.0**
Network content	19.1	18.4	**33.6**
Others, elimination	27.3	24.3	**32.5**
Total	¥167.4	¥179.9	**¥225.5**

MARKET DATA

Share of Unit Sales by Domestic Game Companies (2011)



Source: *Famitsu Game White Paper 2012,* Published by ENTERBRAIN, INC. (Period: December 27, 2010, to December 25, 2011)

Results in FY 2012.3: Key Points

Domestic operations all recorded favorable results, but overseas conditions were challenging, despite efforts to reinforce our foundation.

Arcade game machines:

- Contributions to results were made by the latest machines in popular series, such as *WANGAN MIDNIGHT MAXIMUM TUNE 4,* by repeat sales of established prize machines, and by sales of prizes.

Home video game software:

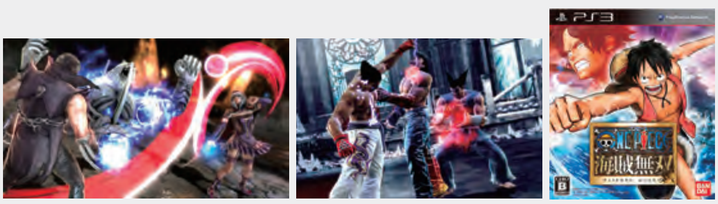
- *DARK SOULS* was popular in the U.S. and Europe, and in Japan popular games included *Tales of XILLIA*, *ONE PIECE Kaizoku Musou,* and *AKB1/48 Idol to Guam de Koishitara*.

Network content:

- Favorable results were recorded by social games, such as the *Mobile Suit Gundam* series and *ONE PIECE Grand Collection*.

Visual and music content:

- *Mobile Suit Gundam UC (Unicorn)* and *TIGER & BUNNY* visual packaged software earned solid popularity.



Game software
Targeting a wide range of customers, we offer a well-balanced lineup of software for multiple platforms.

Arcade game machines
Our business in this field centers on machines that can only be enjoyed at amusement facilities.

MID-TERM VISION

Become the No. 1 Content Company in Japan and Borderless Development

We will offer our customers any genre of content, such as games, visual content, and music content, and we will also deliver them overseas

Satoshi Oshita

Director, NAMCO BANDAI Holdings Inc.
President and Representative Director, NAMCO BANDAI Games Inc.

The Content SBU has positioned the domestic market as a Basic Business Area. We will endeavor to implement the concept of “reconstruct existing business: strategy of achieving No. 1 share” in arcade game machines, in network content, and in visual content where we have a strong base.

In home video game software, which is positioned as a Profit Recovering Area, we are seeing improvement as a result of measures to increase efficiency. In the future, by advancing the strategy of maximizing business integration using IP as an axis, we will bolster the development of strategic IP outlets. In addition, we will accelerate the creation of original IP. Responding rapidly to customer needs, we will strive to further increase content value.

In the Asian market, which is positioned as a growth field, we will strengthen business development of arcade game machines and, in addition, will aggressively approach emerging country markets.

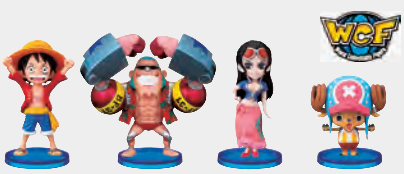
The key to growth in the Content SBU is the maximization of IP value. We have begun to establish a model for the maximization of IP value through the development of IP axis that provide seamless combinations of multiple outlets, which we are advancing under the Restart Plan. In the future, working together with Toys and Hobby and Amusement Facility SBUs, we will further accelerate the borderless development of IP.

Overview of Focus Strategies

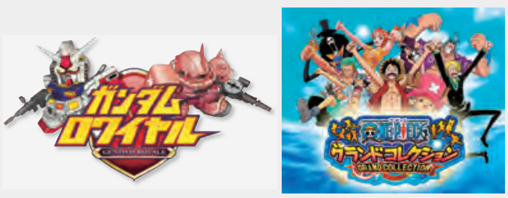
- **Basic Business Areas: Reconstruct existing business: Strategy of achieving No. 1 share**
  In the domestic market, we aim to establish dominant No. 1 positions in major product categories. In arcade game machines, we will utilize diversified methods of selling machines, such as a revenue-sharing system. In addition, we will strengthen the link with amusement facilities. In visual and music content, we will work to expand our share in the animation market and will aggressively develop new IP. In network content, we will expand the scope of our IP lineup and make stable operations a key focus.

- **Profit Recovering Areas: Maximize business integration using IP as an axis**
  We will be providing content to various exits using IP as an axis and strategically transmit IP to new regions and exits where we can demonstrate our strengths. With the newly established NAMCO BANDAI Studios, we will step up initiatives to increase our development capabilities, technical capabilities, and speed, and we will further accelerate the creation of original IP.

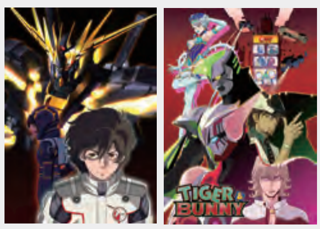
- **Functional Strategy: Groupwide Network Strategy: Form a network strategy scheme**
  As a Groupwide project, we will establish a system under which a single BANDAI NAMCO ID links the wide range of web sites and network services offered by the entire BANDAI NAMCO Group. Using links with existing media and services, we will use this system as a marketing tool for the direct dissemination of information to users.



Prizes for amusement machines
We are aggressively using popular IP.



Network content
We are conducting the stable development of social games and online games as a new IP outlet.



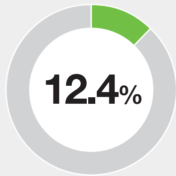
Motion pictures
We offer superior products in a range of formats, such as theatrical release, packaged media, and online distribution.

AMUSEMENT FACILITY

Business Performance

For the fiscal years ended March 31	2010	2011	2012	% change	Forecasts for 2013	Targets for 2015
	Millions of yen					
Net sales	¥65,363	¥62,338	**¥61,033**	–2.1%	¥60,000	¥70,000
Segment income	285	1,779	**2,381**	33.8%	1,500	3,500
Segment income margin	0.4%	2.9%	**3.9%**	—	2.5%	5.0%

Sales Ratio in the Fiscal Year Ended March 31, 2012



Note: The percentage figure is calculated based on sales before elimination of internal transactions.

Total Number of Amusement Facilities (March 31, 2012)

Facilities

Region	Regional total	Number of which that are: Directly managed facilities	Revenue-sharing facilities*	Others
Japan	227	211	14	2
North America	995	22	973	0
Europe	13	12	1	0
Asia	30	10	20	0
Total	1,265	255	1,008	2

* Revenue-sharing facilities: Revenues from the operation of arcade game machines are shared with operators.

MARKET DATA

Size of Japan's Amusement Facility Market
(¥ billion)

Source: *Leisure White Paper 2011,* Japan Productivity Center

Results in FY 2012.3: Key Points

Favorable results were recorded by differentiated facilities that utilize characters, and sales at existing facilities in Japan rose 0.1%.

- In an uncertain market environment in Japan, existing facility sales were favorable, rising 0.1%. In particular, popularity was earned by differentiated facilities in shopping centers at which customers can experience the distinctive worlds of characters.
- As we stepped up our specialization in core operations with the objective of raising profitability, we transferred certain operations.
- Overseas, in a difficult market environment, sales declined in the U.S. and Europe. However, through the application of the principles of selection and concentration in our facilities, we made favorable progress with profits.

NAMCO Namjatown offers a range of entertainment, including attractions, food, and character events.

A movable amusement facility, installed for limited periods of time, with a theme of characters

MID-TERM VISION

Become an Overwhelming Leader in the Market

Strive to obtain 300% customer satisfaction and 30% market share

Masahiro Tachibana

Director, NAMCO BANDAI Holdings Inc.
President and Representative Director, NAMCO LIMITED

In the Amusement Facility SBU, our basic policy is to further extend our strengths in the domestic market and to stabilize revenues and profits in the U.S. and European markets. Accordingly, in the domestic market, in sales we will develop facilities and services that reflect an accurate grasp of customer preferences in each target group. In facility management, we will enhance our operations at facilities and our supply chains and work to improve service and increase efficiency. In addition, under the concept of differentiated facility development, we will continue to implement package facility initiatives utilizing the BANDAI NAMCO Group's unique characters. We will also offer character-based events. In addition, we will take steps to further enhance facility content and formulate plans in line with the worlds of characters and the preferences of customers. Through these initiatives, we will work to stabilize profit.

In addition, in Asia, which is a new growth area, we have positioned Japan and other Asian countries as a single, integrated market. On that basis, we will take steps to introduce Japanese know-how and expand operations, such as developing character-based facilities.

Overview of Focus Strategies

- **Basic Business Areas: Advance marketing by customer segment**
  In domestic operations, we will aim for an overwhelming No. 1 share and move ahead with sales activities by target customer segments. We will step up our efforts to introduce facilities and services for specific target groups, such as families as well as students and senior citizens.

- **Basic Business Areas: Establish chain store management**
  Facility management initiatives will include enhancing our operations at facilities and our supply chains, standardizing services, and implementing efficient store management.

- **New Growth Areas: Develop models to utilize IP at facilities**
  Using our know-how in the area of character merchandising, we will differentiate our facilities through the creation of added value. We will start developing a new type of facility by integrating our expertise in the operation of character-based facilities and theme parks.

- **New Growth Areas: Explore overseas markets**
  In Asian markets, we will step up links with Japan and undertake full-fledged facility development using IP. We have already opened an *Ultraman* facility in China and verified the response of customers. Over the medium term, we will build facilities in Asia using IP that is popular in local markets.


Amusement facilities that enable customers to experience the worldview of characters


The Group is developing a variety of facilities for a wide range of age groups.

This long-established amusement facility was opened in 1853 in Asakusa, in the Shitamachi region of Tokyo.

The BANDAI NAMCO Group's CSR Initiatives

The BANDAI NAMCO Group aims to provide "Dreams, Fun and Inspiration" and promote CSR management. To that end, we have created the "CSR Concept" and the "CSR Initiatives," which incorporate three types of social responsibilities.

With the goal of improving the effectiveness of the Group's CSR activities, from FY 2011.3, the Group has formulated the "BANDAI NAMCO Group's Important CSR Themes." We have begun to implement activities for CSR themes that are especially important, and in those endeavors we draw on the characteristics of each SBU.

BANDAI NAMCO Group's CSR Policy

Mission
"Dreams, Fun and Inspiration"

CSR Action Concept

"Fun for the future!"

The Group's CSR Initiatives

1. Environmental and Social Responsibilities
2. Economic Responsibilities
3. Legal and Ethical Responsibilities

Compliance Charter

Rules related to appropriate products and services / fair dealings, respect for all employees, information disclosure, respect for and usage of intellectual property, protection of information and resources, rejection of anti-society groups, harmony with the environment, and harmony with society.

BANDAI NAMCO Group's Important CSR Themes

- Safety and Cleanliness of Products and Services
- Environmental Consideration
- Policies Regarding Influence on Society of the Group's Content and Products
- Supply Chain Management

Each SBU and affiliated business company sets up priority initiatives and works to identify specific activities related to its business operations.

CSR Concept

fun for the future

楽しみながら、楽しい未来へ。

At BANDAI NAMCO, CSR activities are "Fun for the Future."

Our work is to provide inspiration to customers by realizing the individual ideas of "Dreams, Fun and Inspiration."

In turn, those "Dreams, Fun and Inspiration" provide healing and encouragement as they spread around the world. We believe that "Dreams, Fun and Inspiration" can change the world, and even change the future.

As a company that provides "Dreams, Fun and Inspiration," our relationship with the natural environment and society will be guided by the key phrase "Fun for the Future." We will implement CSR activities that lead to happiness for stakeholders by featuring fun today while also contributing to the creation of fun tomorrow.

We believe that entertainment can contribute to society by fostering mutual communication and inspiration among people around the world and creating a future filled with fun.

Topics

“BANDAI NAMCO Forest” at Shiga Kogen

“BANDAI NAMCO Forest” at Shiga Kogen

The BANDAI NAMCO Group participates in forest support activities in Nagano Prefecture. The Group provides support for forest management activities at the 47-hectare “BANDAI NAMCO Forest” at Shiga Kogen and works to help foster a deeper understanding of forest conservation issues.

Manufacture of safe, reliable products

Dropping products to test for quality

In all of our 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.

Product raw materials and packaging and wrapping initiatives

Moving toward low-environmental-impact packaging (using pulp molds)

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

Wide-ranging environmental impact reduction activities

Bandai Hobby Center (plastic model plant)

At the Bandai Hobby Center, in the city of Shizuoka, we are implementing a range of environmental conservation initiatives, such as solar power generation and resource recycling. Moreover, BANDAI LOGIPAL INC. has acquired Green Management Certification, which is given to transportation companies that implement low-environmental-impact operations.

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. These 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.

Universal design initiatives

Example of a package designed so that it is easy to open

From the viewpoint of universal design, which focuses on making things easy to use for as many people as possible, we are taking steps to increase usability, such as improving packaging to make it easier to open.

Initiatives to motivate and support human resources

BANDAI NAMCO Awards

We have a system of awards to recognize products and business models that contribute to increasing Group value from a variety of viewpoints, such as profitability, topicality, and innovation (BANDAI NAMCO Awards). Other initiatives include active exchanges of human resources among Group companies and entertainment training. In these ways, we will continue working to promote dynamic corporate activities.

Supporting reconstruction activities following the Great East Japan Earthquake

Events for children

In partnership with Save the Children Japan (SCJ), we are offering a range of activities, such as events for children. In addition, we have introduced a system offering choices of complimentary gifts for shareholders. One of the choices is to make a donation to support activities for children.

Corporate Governance

Our highest management priority is the provision of benefits to all of our stakeholders, who support our business activities. We believe that to achieve ongoing growth in enterprise value over the long term, the continuous enhancement of corporate governance is an important management issue. The Group aims to be a corporate group that is trusted by society and that makes an ongoing contribution to society. While striving to raise management soundness, transparency, and efficiency, we will build a corporate governance system that facilitates rapid information disclosure.

Corporate Governance System

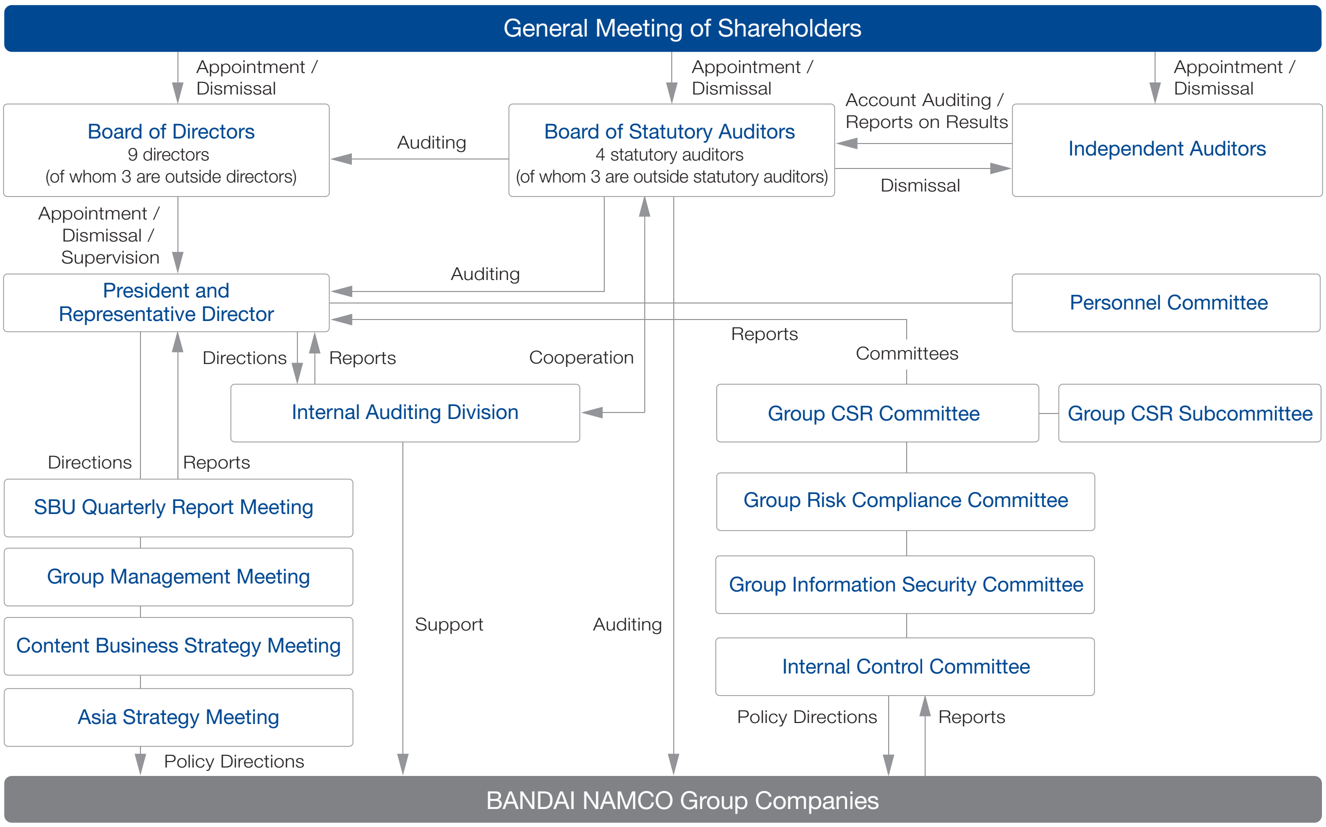
NAMCO BANDAI Holdings is working to enhance management oversight. As of June 18, 2012, the Company had nine directors, including three outside directors. Moreover, to respond rapidly to changes in the management environment and to further clarify the responsibilities of directors, the term of directors has been set at one year or less.

The Company uses the statutory auditor system and has established the Board of Statutory Auditors. The Company believes that the auditing system based on the statutory auditors, including outside statutory auditors, is an effective means of implementing the management oversight function. Our outside directors and outside statutory auditors have the important duty of monitoring management through the implementation of objective, neutral auditing and supervision based on their high levels of independence and specialized knowledge. We believe that they are contributing to the bolstering of our internal control systems.

In regard to internal audits, the Internal Auditing Division audits business execution by conducting on-site audits or document audits of each Company division in accordance with internal auditing rules. The Internal Auditing Division reports the results of those audits to the president. In addition, the Internal Auditing Division formulates basic guidelines for internal audits within the Group and monitors the implementation of internal audits at each Group company in accordance with the Group's internal auditing rules. In regard to audits by the statutory auditors, the four statutory auditors (of whom two are standing statutory auditors and three are outside statutory auditors), attend important meetings, such as meetings of the Board of Directors. In addition, in accordance with the Board of Corporate Auditors' regulations, the audit standards for Corporate Auditors, and implementation standards and auditing plans related to internal control systems, the statutory auditors conduct audits regarding the status of business execution by the directors. The Internal Auditing Division, the statutory auditors, and the independent auditors continually exchange opinions and maintain close ties. The status of the Group's business operations is monitored, issues are identified and understood, and recommendations for resolving those issues are provided.

As shown in the table on page 30, 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, which objectively and neutrally considers personnel and compensation issues regarding directors, as well as other matters about which it has received inquiries, in particular from the president and representative director. (The majority of the committee members are from outside directors.)



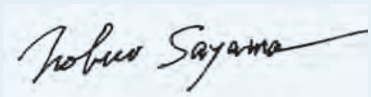
As of June 18, 2012

Message from Outside Officers

Nobuo Sayama
Director (Outside)

I was appointed as an outside director in June 2011. In general, I think that participating in meetings of a company's board of directors leads to a deep understanding of the level of the company's corporate governance. There are many types of companies. For example, some are run by an autocrat and the board meetings have no discussions, and in others there is an absence of leadership and the board of directors does not fulfill its functions. In my first year of attendance at meetings of NAMCO BANDAI Holdings's Board of Directors, I experienced a truly well-balanced relationship among the leadership of the president, the ability to execute and the sense of responsibility of the leaders of each division, and the checks and balances provided by the outside officers. I am participating in the Personnel Committee, and I believe that it is functioning well, in an extremely fair manner, in regard to both the direction of the committee and the people engaging in discussions. I am convinced that this type of rigorous corporate governance is linked to favorable results.

I believe that the role of an outside officer is not to contribute to a company's so-called daily operations but rather to act as a check on the frameworks and direction of the company and to help rectify any problems as needed. My areas of specialty are M&A and management. Over many years, I worked in close contact with the managers of a large number of companies, and in the past year I have observed the executives of BANDAI NAMCO. In my judgment, the management of BANDAI NAMCO is at a high level, even among listed companies in Japan. Nonetheless, the Company itself is undergoing a process of change as a result of the changes in its operating environment. The turmoil in Japanese society is deepening, and as we move forward I will do my utmost as an outside director to help the Company to generate results that satisfy customers, shareholders, and other stakeholders and to further enhance the corporate culture.

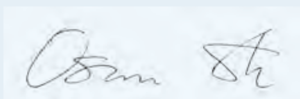


Osamu Sudoh
Statutory Auditor (Outside)

At meetings of the Board of Directors of NAMCO BANDAI Holdings, we receive periodic reports about the results of the Group's operating companies. On that basis, we are presented with important issues (resolutions) regarding the operational management of the operating companies, together with a substantial volume of related materials. Based on these reports and materials, discussions are held in a truly free and open-minded manner. If a proposal from an executive division is not accepted as a result of this process, then the proposal can be re-submitted. I know that this can be time-consuming for the executive divisions, but I believe that it represents the true value of governance. I also believe that the careful explanation of proposals by the executive divisions, without concern for the hard work involved, is one factor in the effectiveness of governance by the Board of Directors. If I were to make a suggestion, it might be helpful if we were able to read the proposal materials even more quickly.

As an attorney, I have worked in bankruptcy proceedings for nearly 30 years, and as a result I am relatively well versed in the signs of a company in trouble. Accordingly, when considering individual proposals and reported matters, I look at company management from the viewpoint of whether or not there are signs of trouble. With consideration for the duties that have been entrusted to outside corporate auditors by the shareholders, I believe that it is my role to focus first on the interests of shareholders and the interests of stakeholders, and make a decision on each issue on that basis.

Overall, in implementing the holding company format, I believe that the Company has achieved a harmonious and successful division of responsibilities between NAMCO BANDAI Holdings and the operating companies.



Meeting Name	Schedule	Agenda / Purpose	Participants
Board of Directors	Monthly and otherwise as needed	Decisions/reports on matters stipulated by law, items to be resolved in accordance with authority standards, reports on the status of operational execution, reports regarding CSR, crisis management, and compliance	Directors, statutory auditors, other designated employees
SBU Quarterly Report Meeting	Quarterly	Consolidated numerical reports, SBU reports, other items to be reported	Directors, statutory auditors, other designated employees
Group Management Meeting	Quarterly	Deliberations regarding issues extending across SBUs, other Group management issues, strategic deliberations	Full-time directors, other designated employees
Waigaya Meeting	Weekly	Weekly reports regarding the departments for which directors are responsible	Full-time directors, other designated employees
Content Business Strategy Meeting	Quarterly	Sharing of information about SBU initiatives related to the Group's important IP	Directors with related responsibilities, directors from major subsidiaries with related responsibilities, other designated employees
Asia Strategy Meeting	Semiannually	Deliberations regarding issues in executing business strategies, risk management and medium-to-long-term Group regional strategies in Asia	Directors with related responsibilities, directors from major subsidiaries with related responsibilities, other designated employees
Group CSR Committee	Semiannually	Deliberations and information sharing regarding the Group's important CSR strategies, consideration of resolutions, items to be reported, and deliberations at meetings of Board of Directors, overall supervision of Group CSR subcommittees, overall supervision of progress of important items for each SBU and affiliated company	Full-time directors, other designated employees

Furthermore, the Group comprises three SBUs and the affiliated business companies, which principally provide support services to the SBUs. In each SBU, operating strategies for Japan and overseas are formulated and implemented, with the lead role taken by the SBU's core company.

The Company, which is a holding company, monitors each SBU; holds meetings of Groupwide committees, such as the SBU Quarterly Report Meeting, the Group Management Meeting, the Waigaya Meeting, the Content Business Strategy Meeting, the Asia Strategy Meeting, and the Group CSR Committee; and, for the Group as a whole, shares the status of operations and considers and formulates strategies.

The Board of Directors has decided fundamental policies regarding internal control systems as stipulated by the Companies Act. In regard to the internal control reporting system under the Financial Instruments and Exchange Act, the Company's Internal Control Committee formulates policies regarding the establishment and evaluation of internal control systems in the Group, shares information, and conducts internal Group monitoring. The committee also presents internal control system reports, and the Board of Directors makes decisions on fundamental issues.

In addition, the Group Information Security Committee has been established with the objective of decision making, implementation reporting, and information sharing in regard to the Group's information security activities overall.

Outside Directors and Outside Statutory Auditors

Of the Company's nine directors, three meet the conditions for outside director. The Company is working to strengthen the management oversight function. In addition, of the four statutory auditors (including two full-time statutory auditors), three meet the conditions for outside statutory auditor. They work together and monitor the Company's internal control situation on a daily basis.

The status of audits by internal auditors, audits by the statutory auditors, and audits by the independent auditors are reported to the Board of Directors. By attending meetings of the Board of Directors, the outside directors track the status of these audits and work to maintain close ties.

In addition to tracking the status of internal audits reported at meetings of the Board of Directors, outside statutory auditors track the status of audits by the statutory auditors at meetings of the Board of Statutory Auditors and maintain cooperative relationships with the internal auditors and the other statutory auditors. In addition, all members of the Board of Statutory Auditors, including outside statutory auditors, receive explanations from the independent auditors of the status of account audits on a quarterly basis. In this way, they track the status of these audits and maintain cooperative relationships with the independent auditors.

Furthermore, through matters brought to the Board of Directors, outside directors and outside statutory auditors track the status of internal control departments (all of the Company's departments). In addition, they attend the SBU Quarterly Report Meeting, where reports on the status of the Group's operations are made; strengthen the supervisory function; and provide advice as needed.

Compliance and Risk Management

The BANDAI NAMCO Group has formulated standards for compliance and instituted a system that appropriately ensures the strict observance of laws and regulations, ethical standards, and internal regulations on a Groupwide basis. Under the Group's compliance system, the director in charge of compliance has overall responsibility for compliance throughout the Group and leads the Group Risk Compliance Committee. This committee, which is the top compliance entity, promptly considers and determines what action to take when there is a compliance violation or the possibility of a compliance violation in the Group. The Group Risk Compliance Committee works to prevent the occurrence of a wide range of risk events, strives to ensure prompt responses if a risk event does occur, and audits and supervises important matters regarding compliance for the entire Group.

In risk management, the Group works to prevent the occurrence of risk events and to rapidly identify the causes of risk events. In the event of the occurrence of a risk event, the Group establishes an emergency contact network, and in the event of the emergence of risk event information, including information about violations of laws or regulations, such information is immediately reported to the president. The Group is working to minimize any influence on operations through the implementation of rapid and accurate responses.

In addition, the Company has formulated the Group Compliance Charter and has published the *BANDAI NAMCO Group Compliance Handbook* to ensure thorough knowledge of compliance throughout the Group. In addition, the Group implements training activities, such as through an education system utilizing the Group's intranet. Furthermore, the presidents of Group operating companies submit written oaths pledging strict compliance with the charter.

FINANCIAL SECTION

Contents

Consolidated Six-Year Financial Summary

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
For the Years Ended March 31

Millions of yen, except per share data and main financial indicators

	2007	2008	2009	2010	2011	2012
For the Year:						
Net sales	¥459,133	¥460,474	¥426,400	¥378,547	¥394,179	¥454,211
Gross profit	168,080	164,073	146,023	128,753	139,415	167,503
Selling, general and administrative expenses	125,856	130,662	123,675	126,869	123,077	132,896
Operating income	42,224	33,411	22,348	1,884	16,338	34,607
Recurring income*1	45,616	36,198	24,513	1,908	16,399	34,960
Net income (loss)	24,252	32,679	11,830	(29,929)	1,848	19,304
Capital expenditures	27,925	34,115	17,481	14,418	13,439	17,456
Depreciation and amortization	21,201	24,759	22,546	18,989	18,001	18,142
Cash flows from operating activities	42,493	35,000	19,301	10,582	22,562	39,112
At Year-End:						
Total assets	¥408,490	¥413,023	¥363,445	¥325,936	¥308,269	¥342,172
Total current assets	257,209	267,713	230,086	217,763	210,934	240,920
Total current liabilities	110,829	101,649	84,304	86,605	86,105	107,946
Total net assets	284,254	289,944	260,579	229,012	213,693	213,126
Per Share Data (Yen):						
Net income (loss) per share (basic)	¥95.73	¥128.65	¥47.95	¥(123.98)	¥ 7.71	¥85.62
Cash dividends	28.00	24.00	24.00	24.00	24.00	26.00
Main Financial Indicators:						
Return on equity (ROE)*2 (%)	9.4	11.7	4.3	–12.4	0.8	9.1
Return on assets (ROA)*3 (%)	11.5	8.8	6.3	0.6	5.2	10.7
Selling, general and administrative expenses to net sales (%)	27.4	28.4	29.0	33.5	31.2	29.3
Operating income margin (%)	9.2	7.3	5.2	0.5	4.1	7.6
Net income margin (%)	5.3	7.1	2.8	–7.9	0.5	4.3
Shareholders' equity ratio (%)	67.1	69.4	70.9	69.5	68.8	61.8
Debt/equity ratio (times)	0.05	0.06	0.08	0.06	0.02	0.09

*1 Recurring income is a Japanese accounting term denoting income before extraordinary items.
*2 ROE = Net income (loss) / Average total shareholders' equity (= Net assets – Stock acquisition rights – Minority interests)
*3 ROA = Recurring income / Average total assets

Financial Review

Overview of Performance in the Fiscal Year Ended March 31, 2012

In this fiscal year, harsh economic conditions continued, due to factors related to the Great East Japan Earthquake, such as the extensive damage it caused and electric power shortages, as well as other factors such as the depressed economy in North America and Europe and the rapid appreciation of the yen. As for the entertainment industry, weak individual consumption and other factors have added further uncertainty to the outlook.

In this environment, the BANDAI NAMCO Group ("the Group") pressed ahead with the development of its global management foundation, in the final fiscal year of the three-year Mid-term Plan that started in April 2009, and sought to realize medium- to long-term growth.

On the business front, long-established character toys and peripheral toy category products such as cards in the Toys and Hobby Business and arcade game machines, network content, and home video game software in the Content Business contributed to performance. In the Amusement Facility Business, existing-facility sales in Japan trended favorably.

Net Sales

On a consolidated basis, the BANDAI NAMCO Group's net sales were ¥454,211 million, a year-on-year increase of 15.2%.

Cost of Sales

Cost of sales was ¥286,708 million, and the ratio of cost of sales to net sales declined to 63.1%, from 64.6% in the previous year. As a result, gross profit was ¥167,503 million, and the gross profit margin increased to 36.9%, from 35.4% in the previous year.

SG&A Expenses

Selling, general and administrative (SG&A) expenses were ¥132,896 million, up 8.0%, and the ratio of SG&A expenses to net sales decreased to 29.3%, from 31.2% in the previous year. Principal items included advertising expenses of ¥33,385 million, directors' remuneration and employees' wages of ¥34,536 million, employees' retirement and severance benefits of ¥1,394 million, and research and development expenses of ¥17,866 million.

Operating Income

Operating income was ¥34,607 million, an increase of 111.8%, and the operating income margin rose to 7.6%, from 4.1% in the previous year.

Other Income (Loss)

In other income (loss), loss on sales and disposal of fixed assets increased to ¥925 million, compared with ¥322 million in the previous fiscal year. However, loss on valuation of investment securities declined to ¥1,406 million, from ¥2,103 million in the previous fiscal year. In addition, other items netted out to a loss of ¥1,073 million, down from ¥1,948 million in the previous fiscal year. As a result, other loss was ¥4,199 million.

Net Income

The BANDAI NAMCO Group recorded net income of ¥19,304 million, an increase of 944.6% from the previous fiscal year. The net income margin in the year under review was 4.3%, and net income per share rose substantially, reaching ¥85.62, compared with ¥7.71 in the previous fiscal year.

Results by Segment

	Net sales (Millions of yen)			Segment income (Millions of yen)		
	2012	2011	Year on year	2012	2011	Year on year
Toys and Hobby	¥177,994	¥158,374	¥19,620	¥16,113	¥13,813	¥2,300
Content	225,504	179,917	45,587	17,003	3,092	13,911
Amusement Facility	61,033	62,338	(1,305)	2,381	1,779	602
Other	27,482	18,504	8,978	2,051	810	1,241

Toys and Hobby Business

In the Toys and Hobby Business, domestically, products in the *KAMEN RIDER* series and the *Super Sentai* series (*POWER RANGERS* series) proved extremely popular as a result of product categories being developed in coordination with each other. Also contributing to this business's results was strong performance by card games, including digital card games such as *DRAGON BALL HEROES* and trading card games such as *Battle Spirits*. In new developments, the *Little Battlers* plastic models gained popularity, mainly among elementary-school-age boys, and highly collectable toys for adults also performed well.

Overseas, in the North American region, *POWER RANGERS SAMURAI* toys, the first new creation in the *POWER RANGERS* series in two years, proved popular, and sales in the Asian region, mainly of character products popular in Japan, trended favorably. In the European region, products were developed in new categories, including toys for girls and for pre-school-aged children, but performance did not reach the level of the previous fiscal year, when this business's solid performance centered mainly on popular character toys.

As a result, net sales in the Toys and Hobby Business were ¥177,994 million (year-on-year increase of 12.4%), and operating income was ¥16,113 million (year-on-year increase of 16.7%).

Content Business

In the Content Business, in the arcade game machines area, in addition to the latest arcade game machines for popular series such as *Wangan Midnight Maximum Tune 4*, repeat sales of well-established prize machines and sales of prizes and the like contributed to performance.

In home video game software, the popular title in North America and Europe was *DARK SOULS*, for PlayStation 3 and Xbox 360. Domestically, games such as *TALES OF XILLIA and ONE PIECE KAIZOKU MUSOU* for PlayStation 3 and *AKB1/48 Idol to Guam de Koishitara . . .* for PlayStation Portable proved highly popular. In addition, in the network content area, social games such as the *Mobile Suit Gundam* series and *ONE PIECE Grand Collection* performed extremely well. In the visual and music content areas, visual package software such as *Mobile Suit Gundam UC (Unicorn)* and *TIGER & BUNNY* also proved popular.

As a result, net sales in the Content Business were ¥225,504 million (year-on-year increase of 25.3%), and operating income was ¥17,003 million (year-on-year increase of 449.9%).

Amusement Facility Business

In the Amusement Facility Business, domestically, differentiated facilities located in shopping centers that offer customers the opportunity to experience the distinctive worldview of specific characters were particularly popular. Within a market environment that is difficult to read, existing facilities performed favorably, with net sales rising to 100.1% of the result for the previous fiscal year. In addition, in implementing the plan to specialize in core businesses with the objective of increasing profitability, transfers of some businesses were carried out.

In the challenging market environment presented by countries outside Japan, sales declined in North America and Europe, but profits trended favorably, due to selection and concentration of stores.

As a result, net sales in the Amusement Facility Business were ¥61,033 million (year-on-year decrease of 2.1%), and operating income was ¥2,381 million (year-on-year increase of 33.8%).

Other Businesses

Other Businesses consist of companies that conduct businesses such as logistics support, building management, and printing for each of the Group's businesses. During this fiscal year, such businesses related to group support expanded, while efforts were also made to improve the efficiency of their operations.

As a result, net sales in the Other Businesses were ¥27,482 million (year-on-year increase of 48.5%), and operating income was ¥2,051 million (year-on-year increase of 153.2%).

Financial Position

As of March 31, 2012, total assets stood at ¥342,172 million, an increase of ¥33,903 million from the end of the previous year. The main factors contributing to this increase were increases of ¥18,833 million in cash and time deposits, ¥11,839 in trade receivables, and ¥2,809 million in deferred tax assets due to accounting treatment that assumes the application of the consolidated taxation regime, while there was a decrease of ¥7,324 million in work-in-process included in inventories.

Total liabilities amounted to ¥129,046 million, an increase of ¥34,470 million from the end of the previous fiscal year. The main factors contributing to this increase were increases of ¥12,101 million in trade payables; ¥12,883 million in long-term borrowings, due to new borrowings; and ¥3,344 million in short-term borrowings.

Total net assets at the end of the year stood at ¥213,126 million, a decrease of ¥567 million from the end of the previous year. This decline was mainly due an increase of ¥16,565 million in treasury stock as a result of the acquisition of treasury stock through tender offer and through open market purchase. This offset an increase of ¥13,758 million in retained earnings due to the favorable consolidated results, as well as an increase of ¥2,420 million in unrealized gains or losses on other securities, net of tax. The treasury stock was retired, and additional paid-in capital and treasury stock each declined by ¥17,678 million.

As a result, the equity ratio declined to 61.8%, from 68.8% at the end of the previous fiscal year. The current ratio* was 223.2%, compared with 245.0% a year earlier; the quick ratio* was 165.0%, compared with 172.1%; and the interest coverage ratio* was 337.2 times, compared to 42.0 times.

* Current ratio: Total current assets / Total current liabilities
Quick ratio: (Cash and time deposits + Short-term investments + Trade receivables) / Total current liabilities
Interest coverage ratio: Cash flows from operating activities / Interest paid

Cash Flows

As of the end of the year, cash and cash equivalents were up ¥17,997 million from the end of the previous year, to ¥107,327 million.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥39,112 million, an increase of 73.4%. Principal outflows included income taxes paid of ¥13,834 million, compared with ¥10,437 million in the previous year, and increase in trade receivables of ¥12,667 million, compared with ¥8,155 million in the previous year. Principal inflows included income before income taxes and minority interests of ¥30,408 million, compared with ¥11,460 million in the previous year; depreciation and amortization of ¥18,142 million, compared with ¥18,001 million in the previous year; and increase in trade payables of ¥12,634 million, compared with ¥3,669 million in the previous year.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥15,264 million, an increase of 107.0% from the previous year. Principal outflows included purchases of property, plant and equipment and of intangible assets, which totaled ¥14,530 million, compared with ¥9,313 million in the previous year.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥5,932 million, down 68.5% compared with the previous fiscal year. Proceeds from long-term borrowings, which were not recorded in the previous year, were ¥20,050 million. However, increase in treasury stock, net, was ¥16,565 million, compared with ¥4,171 million in the previous year; cash dividends paid were ¥5,546 million, compared with ¥5,797 million in the previous year; and repayment of long-term borrowings was ¥5,167 million, compared with ¥8,657 million in the previous year.

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

The Company positions the return of profits to stockholders 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. The Company is maintaining the consolidated dividend payout ratio at a level of 30%, based on stable annual dividend payments of ¥24 per share.

The Company has paid dividends of ¥26 per share for the year ended March 31, 2012, including the stable dividend portion of ¥24 and a results-linked dividend of ¥2. For the year ending March 31, 2013, the Company plans to pay the stable dividend portion of ¥24 per share.

In addition, after appropriation of dividends from the consolidated net income for the period, the Company has resolved to attribute a portion of the remaining balance to the acquisition of its own shares, with comprehensive consideration of aspects such as the level of cash held, operating performance, share price trend, and plan for large-scale investments. The Company's acquisition of treasury stock in the year ended March 31, 2012, as described below, were made in accordance with this basic policy.

Resolution made by the Board of Directors at a meeting held on February 25, 2011
Period of acquisition: February 28, 2011 to December 31, 2011
(Actual acquisition period: April 19, 2011 to December 28, 2011)
Total number of shares acquired: 16,806,264 shares
Total amount for share acquisition: ¥16,561 million

Targets and Management Performance Indicators

The Group has adopted ROE (Return on Equity) as a management performance indicator. Looking ahead, we will work to further expand profits by implementing the strategies outlined in the Mid-term Plan. In addition, by effectively utilizing stockholders' equity, we aim to achieve consolidated ROE of 10% or higher in the fiscal year ending March 31, 2015, the final year of the Mid-term Plan.

Outlook for the Fiscal Year Ending March 31, 2013

Future economic conditions are expected to remain difficult, with consumer spending in Japan sluggish and business conditions in Europe weak. Another factor will be the influence of the strong yen. These factors are expected to have an impact on the entertainment industry, in which the BANDAI NAMCO Group is extensively involved, resulting in ongoing uncertainty in the BANDAI NAMCO Group's operating environment. In this setting, we will implement initiatives targeting growth, based on our three-year Mid-term Plan. This plan, which was launched in April 2012, includes the mid-term vision of "Empower, Gain Momentum, Accelerate Evolution."

In the Toys and Hobby Business, for the Japanese market, we will work to strengthen links among categories, with a focus on toys. These initiatives will be implemented through long-established character toys, such as the *KAMEN RIDER* series, *POWER RANGERS* series, and *PRETTY CURE* series. In addition, while aiming for an overwhelming No. 1 position in Japan, we will launch products, aiming at expanding our customer base, such as card games, plastic models for elementary school students, and products for adults. Overseas, the Group will strengthen integrated brand management in Europe and the United States to improve profitability, with a focus on the core products in the *POWER RANGERS* series. Also, in Asia we will strive to record growth through development activities linked with Japan, centered on plastic models and products for adults that are popular in Japan.

In the Content Business, in arcade game machines, we will aim for growth through reinforced development and sales of machines that offer new entertainment value, diversification of sales methods, and stepped up development targeting emerging countries, centered on Asia. In home video game software, we will work to increase profitability through the timely release of franchise titles linked with arcade game machines and titles that meet customer needs. We will also strengthen social games through timely content provision and appropriate management, and reinforce sales of visual packaged software for the *Mobile Suit Gundam* series. In these ways, we will work to maximize content value.

In the Amusement Facility Business, in Japan we will step up marketing by customer segment in order to offer facilities and services that match each target group. In addition, we will continue to promote differentiated facilities that offer the opportunity to experience the distinctive worldviews of the BANDAI NAMCO Group's characters. Overseas, we will work to increase profitability in Europe and the United States through a range of initiatives to increase efficiency. In Asia, we will start to develop facilities using popular characters.

In light of the above considerations, the consolidated projections for the fiscal year ending March 31, 2013, are as follows: net sales of ¥455,000 million, a year-on-year increase of 0.2%; operating income of ¥36,500 million, a year-on-year increase of 5.5%; and net income of ¥21,500 million, a year-on-year increase of 11.4%.

Consolidated Plan for the Fiscal Year Ending March 31, 2013

Segments

(Millions of yen)

	Net sales	Segment income
Toys and Hobby	¥170,000	¥15,000
Content	239,000	22,500
Amusement Facility	60,000	1,500
Other	25,000	1,000
Adjustments	(39,000)	(3,500)
Consolidated	¥455,000	¥36,500

Forward-Looking Statements

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

Consolidated Balance Sheets

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
As of March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (note 3)
	2011	2012	2012
Assets			
Current assets:			
Cash and time deposits (notes 4 and 12)	¥ 88,126	¥ 106,959	$ 1,301,363
Short-term investments (notes 4, 5 and 12)	2,818	2,074	25,234
Trade receivables (notes 6 and 12)	57,263	69,102	840,759
Allowance for doubtful receivables	(820)	(678)	(8,249)
Inventories (note 7)	41,701	37,040	450,663
Deferred tax assets (note 13)	6,592	8,734	106,266
Other current assets	15,254	17,689	215,221
Total current assets	210,934	240,920	2,931,257
Investments and other assets:			
Investment securities (notes 5 and 12)	21,170	22,177	269,826
Deferred tax assets (note 13)	5,760	6,427	78,197
Other investments and assets	21,181	21,664	263,585
Allowance for doubtful receivables	(1,905)	(1,711)	(20,818)
Total investments and other assets	46,206	48,557	590,790
Property, plant and equipment:			
Buildings and structures	24,160	25,253	307,251
Amusement facilities and machines	61,618	60,593	737,231
Land	10,786	11,389	138,569
Other property, plant and equipment	68,423	74,870	910,938
Total	164,987	172,105	2,093,989
Less accumulated depreciation	(122,395)	(127,605)	(1,552,561)
Net property, plant and equipment	42,592	44,500	541,428
Intangible assets:			
Total intangible assets	8,537	8,195	99,708
Total assets	¥308,269	¥ 342,172	$ 4,163,183

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (note 3)
	2011	2012	2012
Liabilities and net assets			
Current liabilities:			
Short-term borrowings (notes 9 and 12)	¥ 3,429	¥ 6,773	$ 82,407
Trade payables (notes 10 and 12)	36,641	48,742	593,041
Accrued expenses	29,957	32,864	399,854
Accrued income taxes (notes 12 and 13)	7,980	9,360	113,882
Other current liabilities (notes 9, 13 and 22)	8,098	10,207	124,188
Total current liabilities	86,105	107,946	1,313,372
Long-term liabilities:			
Long-term borrowings (notes 9 and 12)	—	12,883	156,747
Accrued retirement and severance benefits (note 11)	2,764	3,141	38,216
Deferred tax liabilities (note 13)	1,245	983	11,960
Other long-term liabilities (notes 9 and 22)	4,462	4,093	49,799
Total long-term liabilities	8,471	21,100	256,722
Total liabilities	94,576	129,046	1,570,094
Net assets:			
Shareholders' equity			
Common stock (note 19)			
Authorized: 1,000,000,000 shares			
Issued: 240,000,000 shares in 2011, 222,000,000 shares in 2012	10,000	10,000	121,669
Additional paid-in capital	69,924	52,246	635,673
Retained earnings (note 17)	159,492	173,250	2,107,921
Treasury stock, at cost; 3,497,884 shares in 2011 and 2,308,176 shares in 2012 (note 19)	(3,496)	(2,383)	(28,994)
Subtotal	235,920	233,113	2,836,269
Accumulated other comprehensive income (loss)			
Unrealized gains or losses on other securities, net of tax (note 5)	448	2,868	34,895
Deferred gains or losses on hedges, net of tax	3	230	2,798
Land revaluation, net of tax (note 18)	(6,492)	(6,409)	(77,978)
Foreign currency translation adjustments	(17,776)	(18,358)	(223,360)
Subtotal	(23,817)	(21,669)	(263,645)
Minority interests	1,590	1,682	20,465
Total net assets	213,693	213,126	2,593,089
Total liabilities and net assets	¥308,269	¥342,172	$4,163,183

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2012

Consolidated Statements of Operations

	Millions of yen		Thousands of U.S. dollars (note 3)
	2011	2012	2012
Net sales	¥394,179	¥454,211	$5,526,354
Cost of sales	254,764	286,708	3,488,357
Gross profit	139,415	167,503	2,037,997
Selling, general and administrative expenses (note 14)	123,077	132,896	1,616,936
Operating income	16,338	34,607	421,061
Other income (loss):			
Interest and dividend income	389	450	5,475
Interest expense	(143)	(137)	(1,667)
Gain (loss) on sales of investment securities, net	246	(3)	(37)
Loss on valuation of investment securities	(2,103)	(1,406)	(17,107)
Gain (loss) on sales and disposal of fixed assets, net	(322)	(925)	(11,254)
Loss on impairment of fixed assets (note 8)	(997)	(1,105)	(13,444)
Other	(1,948)	(1,073)	(13,055)
	(4,878)	(4,199)	(51,089)
Income before income taxes and minority interests	11,460	30,408	369,972
Income taxes (note 13)	9,471	10,949	133,216
Income before minority interests	1,989	19,459	236,756
Minority interests	141	155	1,886
Net income	¥ 1,848	¥ 19,304	$ 234,870

	Yen		U.S. dollars (note 3)
	2011	2012	2012
Data per common share (note 16)**:**			
Net assets at March 31	¥896.83	¥962.45	$11.71
Net income:			
Basic	7.71	85.62	1.04
Diluted	7.71	—	—
Cash dividends applicable to period (note 17)	24.00	26.00	0.32

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (note 3)
	2011	2012	2012
Income before minority interests	¥ 1,989	¥19,459	$236,756
Other comprehensive income (loss)			
Unrealized gains or losses on other securities, net of tax	465	2,452	29,833
Deferred gains or losses on hedges, net of tax	(77)	226	2,750
Land revaluation, net of tax	—	83	1,010
Foreign currency translation adjustments	(6,928)	(637)	(7,750)
Share of other comprehensive income (loss) of associates accounted for using equity method	(49)	(32)	(389)
Total other comprehensive income (loss)	(6,589)	2,092	25,454
Comprehensive income (loss)	¥(4,600)	¥21,551	$262,210
Comprehensive income (loss) attributable to:			
Owners of the parent	¥(4,676)	¥21,452	$261,005
Minority interests	76	99	1,205

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, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (note 3)
	2011	2012	2012
Shareholders' equity			
Common stock (note 19):			
Balance at beginning of year	¥ 10,000	¥ 10,000	$ 121,669
Balance at end of year	10,000	10,000	121,669
Additional paid-in capital:			
Balance at beginning of year	79,960	69,924	850,760
Disposal of treasury stock	42	0	0
Retirement of treasury stock	(10,078)	(17,678)	(215,087)
Balance at end of year	69,924	52,246	635,673
Retained earnings (note 17):			
Balance at beginning of year	163,454	159,492	1,940,528
Net income	1,848	19,304	234,870
Change in scope of consolidation	(13)	—	—
Cash dividends	(5,797)	(5,546)	(67,477)
Balance at end of year	159,492	173,250	2,107,921
Treasury stock (note 19):			
Balance at beginning of year	(9,455)	(3,496)	(42,536)
Net change during year	5,959	1,113	13,542
Balance at end of year	(3,496)	(2,383)	(28,994)
Total shareholders' equity	¥235,920	¥233,113	$2,836,269
Accumulated other comprehensive income (loss)			
Unrealized gains or losses on other securities, net of tax (note 5):			
Balance at beginning of year	19	448	5,451
Net change during year	429	2,420	29,444
Balance at end of year	448	2,868	34,895
Deferred gains or losses on hedges, net of tax:			
Balance at beginning of year	80	3	37
Net change during year	(77)	227	2,761
Balance at end of year	3	230	2,798
Land revaluation, net of tax (note 18):			
Balance at beginning of year	(6,492)	(6,492)	(78,988)
Net change during year	—	83	1,010
Balance at end of year	(6,492)	(6,409)	(77,978)
Foreign currency translation adjustments:			
Balance at beginning of year	(10,900)	(17,776)	(216,279)
Net change during year	(6,876)	(582)	(7,081)
Balance at end of year	(17,776)	(18,358)	(223,360)
Total accumulated other comprehensive income (loss)	¥ (23,817)	¥(21,669)	$ (263,645)
Stock acquisition rights:			
Balance at beginning of year	810	—	—
Net change during year	(810)	—	—
Balance at end of year	—	—	—
Minority interests:			
Balance at beginning of year	1,536	1,590	19,345
Net change during year	54	92	1,120
Balance at end of year	1,590	1,682	20,465
Total net assets at end of year	¥213,693	¥213,126	$2,593,089

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (note 3)
	2011	2012	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 11,460	¥ 30,408	$ 369,972
Depreciation and amortization	18,001	18,142	220,732
Loss on impairment of fixed assets	997	1,105	13,444
Loss (gain) on sales and disposal of fixed assets, net	322	925	11,254
Loss on disposal of amusement facilities and machines	426	435	5,293
Loss (gain) on sales of investment securities, net	(444)	(81)	(986)
Loss on valuation of investment securities	2,103	1,406	17,107
Decrease (increase) in trade receivables	(8,155)	(12,667)	(154,119)
Decrease (increase) in inventories	(1,850)	4,082	49,665
Acquisition of amusement facilities and machines	(4,126)	(2,926)	(35,600)
Increase (decrease) in trade payables	3,669	12,634	153,717
Other	10,754	(870)	(10,585)
Subtotal	33,157	52,593	639,894
Interest and dividends received	379	469	5,706
Interest paid	(537)	(116)	(1,411)
Income taxes paid	(10,437)	(13,834)	(168,317)
Net cash provided by operating activities	22,562	39,112	475,872
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	(709)	(85)	(1,034)
Purchases of property, plant and equipment	(6,643)	(9,883)	(120,246)
Sales of property, plant and equipment	1,110	34	414
Purchases of intangible assets	(2,670)	(4,647)	(56,540)
Purchases of investment securities	(92)	(239)	(2,908)
Sales of investment securities	605	337	4,100
Proceeds from redemption of investment securities	—	24	292
Payments for investments in capital of subsidiaries and affiliates	—	(1,235)	(15,026)
Sales of subsidiary shares affecting the scope of consolidation	8	—	—
Payments of loans receivable	(1,372)	(544)	(6,619)
Collection of loans receivable	1,161	435	5,293
Payments of guarantee money deposited	(371)	(393)	(4,782)
Collection of guarantee money deposited	1,221	900	10,950
Other	379	32	390
Net cash used in investing activities	(7,373)	(15,264)	(185,716)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	(105)	1,383	16,827
Proceeds from long-term borrowings	—	20,050	243,947
Repayment of long-term borrowings	(8,657)	(5,167)	(62,867)
Proceeds from capital paid by minority interests	—	25	304
Payment of lease obligations	(73)	(78)	(949)
Decrease (increase) in treasury stock, net	(4,172)	(16,564)	(201,533)
Cash dividends paid	(5,797)	(5,546)	(67,477)
Cash dividends paid to minority interests	(21)	(35)	(426)
Net cash used in financing activities	(18,825)	(5,932)	(72,174)
Effect of exchange rate changes on cash and cash equivalents	(4,838)	81	986
Net increase (decrease) in cash and cash equivalents	(8,474)	17,997	218,968
Cash and cash equivalents at beginning of year	97,777	89,330	1,086,872
Increase in cash and cash equivalents due to consolidation of additional subsidiaries	27	—	—
Cash and cash equivalents at end of year (note 4)	¥ 89,330	¥107,327	$1,305,840

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 have prepared their financial statements in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards (IFRSs).

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with IFRSs or accounting principles generally accepted in the United States (U.S. GAAP).

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 Financial Instruments and Exchange Act.

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, 2012.

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 accounted for using the equity method.

Investments in unconsolidated subsidiaries and certain affiliates other than those accounted for using the equity method are stated at cost. 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.

(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.

(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 included in "Other income (loss)" in the Consolidated Statements of Operations.

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

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 date. 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 the translation of foreign currency financial statements are generally excluded from the consolidated statements of operations and are included in "Foreign currency translation adjustments" and "Minority interests" in "Net assets" in the Consolidated Balance Sheets.

(d) Accounting Standards for Income and Expenses

Video Game Software Revenue Recognition:

Consolidated subsidiaries operating in the United States recognize revenue in accordance with "Software Revenue Recognition" of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 985-605, treating video game software with online functions as software products with multiple-element arrangements. Unless the vendor can objectively and reasonably identify the fair value of undelivered elements specified by the vendor, recording of any revenue attributable to video game software is deferred until all the elements are delivered.

Accounting for video game software production expenses:

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

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

The capitalized production costs are amortized to cost of sales based on projected sales volumes.

(e) Short-Term Investments and Investment Securities

Other securities with fair value are principally carried at fair value. The difference, net of tax, between the acquisition cost and the carrying amount of other securities with fair value is recognized in “Unrealized gains or losses on other securities, net of tax” in “Net assets” until realized. Other securities without fair 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 by the average cost method. The value stated on the balance sheet is calculated by writing down the carrying amount based on declining profitability.
Foreign consolidated subsidiaries:
Inventories are stated at the lower of cost, determined principally by the average cost method, or net realizable value.

Both domestic and foreign consolidated subsidiaries state game software work in process by the specific-cost method. The value stated on the consolidated balance sheets is calculated by writing down the carrying amount based on declining profitability.

(h) Income Taxes

Current income taxes are accounted for based on income. 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.

In this consolidated fiscal year, the Company and some of its domestic consolidated subsidiaries have applied for approval of the use of a consolidated taxation regime in which the Company is the consolidated parent corporation and the consolidated taxation regime will be adopted from the next consolidated fiscal year. As a result, accounting from this consolidated fiscal year has been carried out on the basis of the adoption of the consolidated taxation regime, which is based on the “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (Accounting Standards Board of Japan Practical Issues Task Force (PITF) No. 5, issued on March 18, 2011) and “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (Accounting Standards Board of Japan PITF No. 7, issued on June 30, 2010).

(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 lives. 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 3–50 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 lives. The estimated useful lives for Buildings and structures and Amusement facilities and machines are 5–50 years and 3–7 years, respectively.

(j) Intangible Assets

Amortization of intangible assets is computed by the straight-line method based on estimated useful lives. Software for internal use is amortized over 1–5 years.

Goodwill is amortized over 5 years using the straight-line method.

(k) Leases

Depreciation of leased assets is computed by the straight-line method over the period of the lease with a residual value of zero. Finance lease transactions, other than those in which title to leased assets are determined to be transferred to lessees, which started on or before March 31, 2008, are stated by applying the accounting treatment applicable to ordinary operating lease transactions.

(l) Derivatives and Hedging Activities

The Company and its consolidated subsidiaries use derivative instruments, such as forward foreign exchange contracts and interest rate swap contracts, to reduce market risks arising 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 risks resulting from such fluctuations to which they are exposed in the course of their ordinary business activities. Accordingly, the Company and its consolidated subsidiaries do not use derivative instruments or other financial instruments for speculative purposes.

The Company and its consolidated subsidiaries’ counterparties for derivative instruments are all highly creditworthy financial institutions and, therefore, the Company believes that it is exposed to almost no counterparty risk. Derivative transactions are conducted in accordance with internal rules that specify transaction authority and transaction amount limits.

As a general rule, derivative instruments are stated at fair value. For derivative instruments that meet the criteria for hedge accounting, recognition of unrealized gains or losses is deferred. In cases where forward foreign exchange contracts meet certain hedging criteria, the hedged receivables and payables are translated at the corresponding forward foreign exchange contract rate (the "Allocation Method").

The Company and its consolidated subsidiaries assess the effectiveness of hedging transactions from the start of the transaction to the point at which effectiveness is assessed by 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. In the event that critical terms are the same for the hedging instrument and the hedged assets, liabilities, or scheduled transaction, it is assumed that the hedge is 100% effective, so the assessment of effectiveness is not performed.

In the event that a hedge becomes ineffective, 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' Bonuses

Accrued bonuses for directors are provided for based on the estimated amounts to be paid in respect of the fiscal year.

(n) Accrued Retirement and Severance Benefits

The Company and certain domestic consolidated subsidiaries have established defined benefit corporate pension plan and retirement lump-sum benefit system as defined benefit plan, and defined contribution pension plan as defined contribution plan. Other domestic consolidated subsidiaries (excluding domestic consolidated subsidiaries with no retirement benefit system) have established defined benefit corporate pension plan, retirement lump-sum benefit system, and comprehensive employee pension funds as defined benefit plan. Certain consolidated subsidiaries have established defined contribution pension plan and smaller corporate retirement allowance mutual aid plan as defined contribution plan. Moreover, additional benefits may be paid at retirement. Certain foreign consolidated subsidiaries have established defined benefit pension plans, retirement lump-sum benefit system, and defined contribution pension plans.

Accrued retirement and severance benefits for employees in respect of defined benefit plans 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 of service of employees as of the end of the fiscal year in which it is incurred (9–19 years). Certain domestic consolidated subsidiaries amortize prior service costs over a fixed period (10–11 years) that does not exceed the average remaining years of service of employees at the point when the costs are incurred. Provision for retirement benefits to directors and corporate auditors of certain domestic consolidated subsidiaries is provided based on the amount payable at the end of the fiscal year in accordance with internal regulations.

(o) Provision for Losses from Business Restructuring

Provision for losses from business restructuring is provided based on the estimated losses to be incurred on restructuring of operations.

(p) Provision for Sales Returns

The Company and its consolidated subsidiaries provide for losses on returned goods after the end of the fiscal year based on historic experience.

(q) Provision for Loss on Disaster

Provision for loss on disaster is provided based on the estimated amount at the end of the fiscal year for expenditures to restore assets damaged by the Great East Japan Earthquake.

(r) 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.

(s) 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.

(t) Accounting Changes and Error Corrections

Any accounting changes and corrections of past errors made after the beginning of the consolidated fiscal year ended March 31, 2012 are subject to the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan Statement No. 24, issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan Guidance No. 24, issued on December 4, 2009).

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, 2012 have been translated into U.S. dollars at the rate of ¥82.19=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2012.

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 as of March 31, 2011 and 2012 between the amounts shown in the consolidated balance sheets and the consolidated statements of cash flows are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Cash and time deposits	¥88,126	¥106,959	$1,301,363
Short-term investments	2,818	2,074	25,234
Time deposits with maturities in excess of three months	(1,614)	(1,706)	(20,757)
Cash and cash equivalents	¥89,330	¥107,327	$1,305,840

Cash and time deposits of ¥4 million and ¥3 million ($37 thousand) are pledged as collateral for bank transaction guarantees as of March 31, 2011 and 2012, respectively.

5 Short-Term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2011 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Held-to-maturity securities	¥ 26	¥ —	$ —
Other securities with fair value	13,165	13,842	168,414
Other securities without fair value	1,460	1,443	17,557
Investments in non-consolidated subsidiaries and affiliated companies	9,337	8,879	108,030
Contributions to investment partnerships	—	87	1,059
Total	¥23,988	¥24,251	$295,060

Note: The fair values of held-to-maturity securities are the same as those on the consolidated balance sheets.

The original cost, carrying amount (fair value), and gross unrealized holding gain (loss) for other securities with fair value as of March 31, 2011 and 2012 are summarized as follows:

	Millions of yen			
	2011			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (fair value)
Other securities with fair value:				
Equity securities	¥ 9,127	¥2,495	¥(1,548)	¥10,075
Other	3,241	—	(151)	3,090
Total	¥12,368	¥2,495	¥(1,699)	¥13,165

	Millions of yen			
	2012			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (fair value)
Other securities with fair value:				
Equity securities	¥7,745	¥3,966	¥(17)	¥11,694
Other	2,147	1	—	2,148
Total	¥9,892	¥3,967	¥(17)	¥13,842

	Thousands of U.S. dollars			
	2012			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (fair value)
Other securities with fair value:				
Equity securities	$ 94,233	$48,254	$(207)	$142,280
Other	26,122	12	—	26,134
Total	$120,355	$48,266	$(207)	$168,414

The following is a summary of the carrying amount of other securities without fair value as of March 31, 2011 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
	Carrying amount	Carrying amount	Carrying amount
Other securities without fair value:			
Unlisted securities	¥1,460	¥1,443	$17,557
Total	¥1,460	¥1,443	$17,557

Proceeds and gross realized gains and losses from the sales of other securities in the years ended March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Equity securities	¥505	¥233	$2,835
Debt securities			
Corporate bond securities	100	—	—
Proceeds from the sales of other securities	605	233	2,835
Gross realized gains from the sales of other securities	252	56	681
Gross realized losses from the sales of other securities	(6)	(59)	(718)

6 Trade Receivables

Trade receivables as of March 31, 2011 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Notes receivable	¥ 3,416	¥ 6,065	$ 73,792
Accounts receivable-trade	53,759	62,972	766,176
Lease receivables and investment assets	88	65	791
Total	¥57,263	¥69,102	$840,759

7 Inventories

Inventories as of March 31, 2011 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Finished goods and merchandise	¥10,553	¥12,908	$157,051
Work in process	26,741	19,417	236,245
Raw materials and supplies	4,407	4,715	57,367
Total	¥41,701	¥37,040	$450,663

8 Loss on Impairment of Fixed Assets

Evaluation of fixed asset impairment is performed by grouping assets according to management accounting classifications based on strategic business units, excluding significant idle assets, assets scheduled for disposal, and leased assets. In the amusement facility business, the individual facility is the smallest unit used in management accounting and is the basic unit for evaluating impairment.

The carrying amounts of the following assets, which exclude reusable assets, were reduced to the recoverable amount. The amounts of reduction recorded as an impairment loss in "Other income (loss)" for the years ended March 31, 2011 and 2012 are as follows:

				Millions of yen		Thousands of U.S. dollars
Strategic business unit	Items	Classification	Location	2011	2012	2012
Toys and Hobby	Software for Internet content business	Other intangible assets	Seoul, KOREA (Note 1)	¥253	¥ —	$ —
	Assets for business use	Other property, plant and equipment	Taito-ku, Tokyo (Note 3)	28	—	—
		Investments and other assets (other)	Taito-ku, Tokyo (Note 4)	28	—	—
		Other property, plant and equipment	Cergy-pontoise, FRANCE (Note 1)	15	—	—
Content	Assets scheduled for disposal	Buildings and structures, and other assets	Shinagawa-ku, Tokyo, and others (Note 5)	83	—	—
Amusement Facility	Amusement facility	Amusement facilities and machines, and other assets	Essex, U.K., and others (Note 2)	364	—	—
		Amusement facilities and machines, and other assets	Nakagami-gun, Okinawa, and others (Note 1)	205	—	—
		Other intangible assets, and other assets	Tyne and Wear, U.K., and others (Note 1)	20	—	—
Other	Assets for business use	Other property, plant and equipment	Sapporo City, Hokkaido (Note 1)	1	—	—
Toys and Hobby	Software for Internet content business	Other intangible assets	Seoul, KOREA (Note 2)	—	322	3,917
	Assets scheduled for disposal	Buildings and structures, and other assets	Kyoto City, Kyoto, and others (Note 6)	—	31	377
	Assets for business use	Other property, plant and equipment	Cergy-pontoise, FRANCE (Note 1)	—	27	329
Content	Assets for business use	Other intangible assets, and other assets	Shinagawa-ku, Tokyo (Note 2)	—	256	3,114
	Assets scheduled for disposal	Other intangible assets, and other assets	Shinagawa-ku, Tokyo, and others (Note 5)	—	27	329
	Assets for rental use	Land	Ota-ku, Tokyo (Note 8)	—	27	329
Amusement Facility	Amusement facility	Amusement facilities and machines, and other assets	Koto-ku, Tokyo, and others (Note 1)	—	228	2,774
			Staffordshire, U.K., and others (Note 2)	—	98	1,192
			Norfolk, U.K., and others (Note 1)	—	66	803
			Narashino City, Chiba (Note 6)	—	6	73
Other	Assets scheduled for disposal	Buildings and structures, and other assets	Shinagawa-ku, Tokyo (Note 5)	—	14	170
		Land, and other assets	Nagoya City, Aichi (Note 7)	—	3	37
Total				¥997	¥1,105	$13,444

Notes:
1. Impairment loss was recorded because it was forecasted that the carrying amount of these fixed assets could not be recovered due to the decline in business profitability. In addition, these assets were determined to have no fair value.
2. Impairment loss was recorded because it was forecasted that the carrying amount of these fixed assets could not be recovered due to the decline in business profitability. The recoverable amount was measured as the estimated value in use based on forecast future cash flows.
3. Impairment loss was recorded on these fixed assets, for which no future use is anticipated. The recoverable amount was evaluated as a memorandum value.
4. It was determined that the profit assumed at the time of acquisition was unlikely to be realized. Therefore, the total balance was recorded as impairment loss.
5. Impairment loss was recorded on these fixed assets, for which no future use is anticipated. In addition, these assets were determined to have no fair value.
6. Impairment loss was recorded because it was judged that the recoverable amount of these fixed assets had decreased substantially due to the decision to close the facility. In addition, these assets were determined to have no fair value.
7. Impairment loss was recorded because the decision was made to sell this real estate asset. The recoverable amount of the real estate was measured based on the estimated net selling price, which was assessed based on real estate appraisals.
8. Impairment loss was recorded because it was judged that the recoverable amount of these fixed assets had decreased substantially due to the change in use from a rental building to a rental parking lot. The recoverable amount was measured based on the estimated net selling price, which was assessed based on its roadside land price.

9 Borrowings and Lease Obligations

Borrowings and lease obligations as of March 31, 2011 and 2012 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars	
	2011		2012		
	Carrying amount	Weighted average interest rate (%)	Carrying amount		Weighted average interest rate (%)
Short-term borrowings	¥ 96	4.15%	¥ 1,440	$ 17,520	1.08%
Long-term borrowings due within one year	3,333	0.75	5,333	64,887	0.78
Lease obligations due within one year	66	3.14	66	803	4.62
Long-term borrowings (Less current portion)	—	—	12,883	156,747	0.80
Lease obligations (Less current portion)	156	1.87	119	1,448	3.00
Total	¥3,651	—	¥19,841	$241,405	—

Note: The terms of the Company's major borrowings include the following restrictive financial covenants.

(1) The Company shall maintain the amount of net assets on the consolidated balance sheet as of the closing dates of the interim and end of each fiscal year (the "Interim or End of Fiscal Year") at 75% or above of whichever is greater: (i) the amount of net assets on the consolidated balance sheet as of the closing date of the immediately preceding Interim or End of Fiscal Year or (ii) the amount of the net assets on the consolidated balance sheet as of the closing date of the year ended March 31, 2011.

(2) With respect to the recurring income or loss on the consolidated statements of operations for each fiscal year-end, the Company shall not record recurring losses for two consecutive fiscal years.

(3) From the date of this loan agreement and until all obligations to the lender and its agents under the terms of this agreement have been fulfilled, the Company shall maintain the ownership ratio (direct or indirect) at 100% with respect to Bandai Co., Ltd., NAMCO BANDAI Games Inc., and NAMCO LIMITED.

The aggregate annual maturities of long-term borrowings and lease obligations outstanding as of March 31, 2012 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥ 5,399	$ 65,690
2014	5,438	66,164
2015	4,547	55,323
2016	2,017	24,541
2017	1,000	12,167
Total	¥18,401	$223,885

10 Trade Payables

Trade payables as of March 31, 2011 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Notes payable	¥ 5,150	¥ 8,624	$104,928
Accounts payable-trade	31,491	40,118	488,113
Total	¥36,641	¥48,742	$593,041

11 Retirement and Severance Benefits

The plans' funded status and amounts of accrued retirement and severance benefits as of March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Projected benefit obligations	¥(14,999)	¥(15,891)	$(193,344)
Plan assets at fair value	9,949	10,354	125,976
Projected benefit obligation in excess of plan assets	(5,050)	(5,537)	(67,368)
Unrecognized loss	2,618	2,668	32,461
Unrecognized prior service cost	(311)	(266)	(3,236)
Net retirement and severance benefits recognized on the consolidated balance sheets	(2,743)	(3,135)	(38,143)
Prepaid pension cost	21	6	73
Total	¥ (2,764)	¥ (3,141)	$ (38,216)

Notes: 1. In addition to the above plan assets, plan assets of ¥311 million and ¥277 million ($3,370 thousand) as of March 31, 2011 and 2012, 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 based 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, 2011 and 2012 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Service cost for benefits earned, net of employee contributions	¥1,691	¥1,597	$19,432
Interest cost on projected benefit obligations	252	266	3,236
Expected return on plan assets	(285)	(269)	(3,273)
Amortization of unrecognized actuarial gain or loss	407	368	4,477
Amortization of prior service cost	(55)	(42)	(511)
Total	¥2,010	¥1,920	$23,361

Notes: 1. In addition to the net periodic cost of employee retirement and severance benefits, contributions to a governmental welfare pension benefit plan are charged to Cost of sales and Selling, general and administrative expenses. Contributions to the governmental welfare pension benefit plan of ¥29 million and ¥15 million ($183 thousand) were charged to Cost of sales and Selling, general and administrative expenses in the years ended March 31, 2011 and 2012, respectively. Also, additional discretionary retirement allowances of ¥194 million and ¥199 million ($2,421 thousand) were charged to Selling, general and administrative expenses in the years ended March 31, 2011 and 2012, respectively.

In addition, for certain consolidated subsidiaries, due to the transfer and restructuring of operations, additional retirement allowances of ¥849 million and ¥592 million ($6,594 thousand) were recognized as other income (loss) in the years ended March 31, 2011 and 2012, respectively.

2. The retirement benefit expense for the Company and certain consolidated subsidiaries that use a simplified calculation method is recorded as service cost.

3. The defined contribution expenses for the Company and certain consolidated subsidiaries that have established defined contribution retirement pension systems is recorded as a service cost.

4. The contributions of certain consolidated subsidiaries that simultaneously participate in the Smaller Enterprise Retirement Allowance Mutual Aid Scheme are recorded as service cost.

5. Retirement benefit expenses to the amount of ¥6 million ($73 thousand) due to the change in the Company's retirement benefit scheme are recognized as Other income (loss).

Actuarial assumptions and the basis for the calculation of retirement and severance benefits in 2011 and 2012 are as follows:

	2011	2012
Method of benefit attribution	"Benefits/years-of-service" approach	"Benefits/years-of-service" approach
Discount rate	1.25%~2.0%	1.25%~2.0%
Expected rate of return on plan assets	2.5%~3.1%	2.5%~3.02%
Period of amortization of unrecognized prior service cost	10~11 years	10~11 years
Period of amortization of unrecognized actuarial gain or loss	9~19 years (from the year following the year incurred)	9~19 years (from the year following the year incurred)

12 Financial Instruments

1. Financial Instruments

(1) Policy for financial instruments

The Company and its consolidated subsidiaries manage funds by means of highly secure financial instruments only and procures funds through borrowing from banks and other methods, such as issuing corporate bonds.

The Company and its consolidated subsidiaries utilize derivatives to hedge the risks noted below and do not engage in speculative transactions.

(2) Contents and risks of financial instruments

With regard to credit risk posed by customers with respect to trade receivables, the Company and its consolidated subsidiaries manage balances by counterparty and due date, and credit information on major customers is updated at least once a year to minimize such credit risk. The Company and its consolidated subsidiaries have a system for immediately sharing within the Company and its consolidated subsidiaries adverse credit and other information regarding counterparties in the event that such information is received.

As of March 31, 2011 and 2012, designated large customers were counterparties for 15.6% and 13.7% of trade receivables, respectively. Receivables denominated in foreign currencies arising as a result of the fact that the Company and its consolidated subsidiaries conduct business on a global basis are subject to foreign exchange rate fluctuation risk. The Company and its consolidated subsidiaries manage balances by counterparty and currency, and in addition the Company and its consolidated subsidiaries track market trends and, as necessary, utilize forward foreign exchange contracts for hedging.

Short-term investments and investment securities are principally money market funds and the shares of companies with which the Company has a business relationship. These investments are exposed to the risk of fluctuations in market prices. The market price is confirmed at least once per quarter, and the holdings are reevaluated once per year with consideration of market conditions and relationships with counterparties.

Trade payables substantially all have due dates within one year. Certain trade payables are denominated in foreign currencies and are exposed to the risk of fluctuations in foreign exchange rates. In the same manner as receivables, the Company and its consolidated subsidiaries manage balances by counterparty and currency, and in addition the Company and its consolidated subsidiaries track market trends and, as necessary, utilize forward foreign exchange contracts for hedging.

Borrowings are used mainly to procure funds needed for capital expenditures and for investment financing. Variable rate borrowings are exposed to the risk of fluctuations in interest rates. With consideration of market trends, the Company and its consolidated subsidiaries implement hedging as necessary through the use of interest-rate swaps or interest-rate options.

Trade payables, borrowings, and accrued income taxes are exposed to liquidity risk. The Company and its consolidated subsidiaries manage this risk through the formulation and revision of monthly funding plans for the Company and its consolidated subsidiaries.

Derivative transactions are used for hedging purposes. With regards to hedging methods and hedged items, hedging policies, and methods of assessing the effectiveness of hedging transactions, for which hedge accounting is applied, please refer to “2 Summary of Significant Accounting Policies—(l) Derivatives and Hedging Activities.”

Derivative transactions are executed and managed according to internal rules that determine trading authority and limits on amounts traded. Derivatives are used in ways that minimize credit risk, and thus transactions are carried out only with highly creditworthy financial institutions.

(3) Supplementary explanation on the fair value of financial instruments

The fair value of financial instruments includes, in addition to the value determined based on market prices, valuations calculated on a reasonable basis if no market price is available. However, as certain variables are used for these calculations, the result of such calculations may vary if different assumptions are used.

The contract amounts of derivative transactions in Note “21 Foreign Exchange Risk Management and Interest Rate Risk Management” in the Notes to Consolidated Financial Statements should not be considered indicative of the market risk associated with the derivative financial instruments.

2. Fair Value of Financial Instruments

The carrying amounts of financial instruments as stated in the consolidated balance sheets, their fair values as of March 31, 2011 and 2012, and the differences between carrying amounts and fair values are as stated below. This table does not include assets for which it was judged extremely difficult to assess the fair value. (Note 2 below)

	Millions of yen						Thousands of U.S. dollars		
	2011			2012			2012		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
(1) Cash and time deposits	¥ 88,126	¥ 88,126	¥ —	¥106,959	¥106,959	¥ —	$1,301,363	$1,301,363	$ —
(2) Trade receivables	57,263	57,263	—	69,102	69,102	—	840,759	840,759	—
(3) Short-term investments and investment securities	20,376	17,852	(2,524)	21,187	22,597	1,410	257,781	274,936	17,155
Total assets	¥165,765	¥163,241	¥(2,524)	¥197,248	¥198,658	¥1,410	$2,399,903	$2,417,058	$17,155
(1) Trade payables	36,641	36,641	—	48,742	48,742	—	593,041	593,041	—
(2) Short-term borrowings	3,429	3,429	—	6,773	6,773	—	82,407	82,407	—
(3) Accrued income taxes	7,980	7,980	—	9,360	9,360	—	113,882	113,882	—
(4) Long-term borrowings	—	—	—	12,883	12,883	—	156,747	156,747	—
Total liabilities	¥ 48,050	¥ 48,050	¥ —	¥ 77,758	¥ 77,758	¥ —	$ 946,077	$ 946,077	$ —
Derivative financial instruments*	¥ (107)	¥ (107)	¥ —	¥ 270	¥ 270	¥ —	$ 3,285	$ 3,285	$ —

* Assets and Liabilities derived from derivative transactions are stated on a net basis. Items for which the total is a net liability are shown in parentheses.

Notes: 1. Method for calculating the fair value of financial instruments and derivative transactions

Assets

(1) Cash and time deposits and (2) Trade receivables

Will be settled within a short period of time, their fair values are almost identical with the carrying amount.

(3) Short-term investments and investment securities

The fair value of these investments is stated at the quoted price on the stock exchange or the price as provided by counterparty financial institutions. In addition, with regard to short-term investments and investment securities by holding purpose, please refer to “5 Short-Term Investments and Investment Securities” in the Notes to Consolidated Financial Statements.

Liabilities

(1) Trade payables, (2) Short-term borrowings, and (3) Accrued income taxes

Since these are readily convertible into cash, their fair values are almost identical with the carrying amount.

(4) Long-term borrowings

The fair value of long-term borrowings is calculated by discounting the total principle and interest by the current market interest rate for comparable debt.

Derivative financial instruments

Please refer to “21 Foreign Exchange Risk Management and Interest Rate Risk Management” in the Notes to Consolidated Financial Statements.

2. Financial instruments for which fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
	Carrying amount		Carrying amount
Unlisted stocks	¥1,460	¥1,443	$17,557
Stocks of affiliated companies (unlisted stocks)	2,152	1,534	18,664
Contributions to investment partnerships	—	87	1,059

As these instruments do not have readily available market values, and their fair values are extremely difficult to determine, they are not included in “(3) Short-term investments and investment securities” in the table above.

3. Maturity analysis of financial assets and securities with contractual maturities

	Millions of yen								Thousands of U.S. dollars			
	2011				2012				2012			
	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
Cash and time deposits	¥ 88,126	¥ —	¥—	¥—	¥106,959	¥ —	¥—	¥—	$1,301,363	$ —	$—	$—
Trade receivables	56,998	261	4	—	68,300	802	—	—	831,001	9,758	—	—
Short-term investments and investment securities												
Held-to-maturity securities												
Corporate bonds	—	25	—	—	—	—	—	—	—	—	—	—
Total	¥145,124	¥285	¥ 4	¥—	¥175,259	¥802	¥—	¥—	$2,132,364	$9,758	$—	$—

13 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% for the years ended March 31, 2011 and 2012.

Income tax expenses reflected in the accompanying consolidated statements of operations for the years ended March 31, 2011 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Income taxes—current	¥10,946	¥15,710	$191,143
Income taxes for previous years	—	(127)	(1,545)
Income taxes—deferred	(1,475)	(4,634)	(56,382)
Total	¥ 9,471	¥10,949	$133,216

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, 2011 and 2012 is as follows:

	2011	2012
Normal tax rate	40.6%	40.6%
Entertainment expenses not deductible for tax purposes	3.8	1.0
Corporate inhabitant tax on per capita basis	1.9	0.8
Directors' bonuses	3.5	1.9
Effect of changes in tax rates on net deferred tax assets	—	4.0
Amortization of goodwill	7.4	0.5
Differences of tax rates of foreign consolidated subsidiaries	3.5	(0.8)
Change in valuation allowance for deferred tax assets	26.7	(2.0)
Tax credit for research and development expenses	(2.2)	(3.2)
Impact of adoption of consolidated tax payment system	—	(7.0)
Reversal of stock acquisition rights	(1.9)	—
Other	(0.7)	0.2
Effective tax rate	82.6%	36.0%

Significant components of deferred tax assets and liabilities as of March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Deferred tax assets:			
Losses carried forward	¥ 15,797	¥ 15,790	$ 192,116
Inventory valuation losses	8,090	7,459	90,753
Excess depreciation of fixed assets	4,694	4,894	59,545
Accrued employee bonuses	2,700	3,957	48,145
Accrued retirement and severance benefits	1,226	1,098	13,359
Loss on valuation of advance payments	1,078	959	11,668
Accrued enterprise taxes and others	939	885	10,768
Loss on impairment of fixed assets	901	853	10,378
Research and development expenses	480	546	6,643
Allowance for doubtful receivables	756	453	5,512
Unrealized gains or losses on other securities	2	2	24
Land revaluation	3,036	2,662	32,388
Other	6,477	7,246	88,162
Total gross deferred tax assets	46,176	46,804	569,461
Valuation allowance	(33,962)	(30,605)	(372,369)
Total deferred tax assets	12,214	16,199	197,092
Deferred tax liabilities:			
Retained earnings of foreign consolidated subsidiaries	(397)	(296)	(3,601)
Unrealized gains or losses on other securities	(344)	(765)	(9,308)
Land revaluation	(674)	(591)	(7,191)
Reserve for advanced depreciation of fixed assets	(115)	(96)	(1,168)
Other	(184)	(296)	(3,601)
Total deferred tax liabilities	(1,714)	(2,044)	(24,869)
Net deferred tax assets	¥ 10,500	¥ 14,155	$ 172,223

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

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Current assets–Deferred tax assets	¥ 6,592	¥ 8,734	$106,266
Investments and other assets–Deferred tax assets	5,760	6,427	78,197
Current liabilities–Other (deferred tax liabilities)	(607)	(23)	(280)
Long-term liabilities–Deferred tax liabilities	(1,245)	(983)	(11,960)
Total	¥10,500	¥14,155	$172,223

Correction of amounts of deferred tax assets and deferred tax liabilities due in part to a change in the income tax rate, and others

The "Act to partially revise the Income Tax Act and others in order to construct a tax system corresponding to changes in the structure of economic system" (Act No. 114 of 2011) and the "Special measures act to secure the financial resources required to implement policy on restoration after the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011, and from the consolidated fiscal years beginning on April 1, 2012, the corporation tax rates have been reduced and a special reconstruction corporation tax has been imposed.

Pursuant to these changes, the effective statutory tax rates used in calculating deferred tax assets and deferred tax liabilities will change from 40.6% to (i) 38.0% for temporary differences and other factors such as carryforward of unused tax losses that are forecasted to be resolved in the period between the consolidated fiscal year beginning on April 1, 2012 and the consolidated fiscal year beginning on April 1, 2014, and to (ii) 35.6% for temporary differences that are forecasted to be resolved in the consolidated fiscal year beginning on April 1, 2015 and thereafter.

As a result of these changes in the tax rate, the amount of deferred tax assets (deferred tax assets less deferred tax liabilities) decreased by ¥1,060 million ($12,897 thousand) while deferred gains or losses on hedges, the unrealized gains or losses on other securities, net of tax, and the adjustment for income taxes by ¥1 million ($12 thousand), ¥132 million ($1,606 thousand) and ¥1,194 million ($14,527 thousand) respectively. In addition, deferred tax liabilities for land revaluation decreased by ¥83 million ($1,010 thousand) and revaluation, net of tax, increased by the same amount.

14 Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Advertising expenses	¥ 28,782	¥ 33,385	$ 406,193
Directors' remuneration and employees' wages	32,012	34,536	420,197
Employees' retirement and severance benefits	1,470	1,394	16,961
Provision for directors' bonuses	965	1,365	16,608
Research and development expenses	16,091	17,866	217,374
Allowance for doubtful receivables, investments, and other assets	88	—	—
Other	43,669	44,350	539,603
Total	¥123,077	¥132,896	$1,616,936

15 Other Comprehensive Income

The components of Other comprehensive income (loss) for the year ended March 31, 2012 are as follows:

	Millions of yen					Thousands of U.S. dollars				
	2012					2012				
	Amounts arising	Reclassification adjustments	Before tax effect	Tax effect	Net of tax effect	Amounts arising	Reclassification adjustments	Before tax effect	Tax effect	Net of tax effect
Unrealized gains or losses on other securities	¥1,720	¥1,330	¥3,050	¥(598)	¥2,452	$20,927	$16,181	$37,108	$(7,276)	$29,832
Deferred gains or losses on hedges	(138)	436	298	(72)	226	(1,679)	5,305	3,626	(876)	2,750
Land revaluation	—	—	—	83	83	—	—	—	1,010	1,010
Foreign currency translation adjustments	(756)	119	(637)	—	(637)	(9,198)	1,448	(7,750)	—	(7,750)
Share of other comprehensive income (loss) of associates accounted for using equity method	(37)	5	(32)	—	(32)	(450)	61	(389)	—	(389)
Total	¥ 789	¥1,890	¥2,679	¥(587)	¥2,092	$ 9,600	$22,995	$32,595	$(7,142)	$25,453

16 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, 2011 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Net income	¥1,848	¥19,304	$234,870
Net income available to common stockholders	1,848	19,304	234,870
Net income for diluted net income per share calculation	¥1,848	¥ —	$ —

	Thousands of shares	
Average number of common shares outstanding	239,810	225,465
Effect of dilutive securities:		
Stock options	31	—
Average number of common shares for diluted net income per share calculation	239,841	—

	Yen		U. S. dollars
Net income per common share:			
Basic	¥7.71	¥85.62	$1.04
Diluted	7.71	—	—

Note: Diluted net income per common share is not presented for the year ended March 31, 2012 because no diluted securities were outstanding.

17 Retained Earnings and Dividends

In Japan, in the event a dividend distribution of surplus is made, the lesser 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 ($20,015 thousand) at March 31, 2011 and 2012, 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 for the year ended March 31, 2012 were cash dividends of ¥3,077 million ($37,438 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 for the year ended March 31, 2012 was ¥2,706 million ($32,924 thousand).

18 Land Revaluation

In accordance with the "Law Concerning Land Revaluation" (Law No. 34, promulgated on March 31, 1998), the land used for business purposes was revalued and "Land revaluation, net of tax" was reported 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 for 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.

Unrealized losses for land of ¥959 million ($11,668 thousand) were recognized based on the difference between the land carrying amount, which was revalued as of March 31, 2002, and the fair value of the land as of March 31, 2012.

19 Common Stock and Treasury Stock

The changes in the number of common stock and treasury stock for the years ended March 31, 2011 and 2012 were as follows:

Common stock (number of shares)	2011	2012
Number of shares at beginning of year	250,000,000	240,000,000
Retirement of treasury stock	(10,000,000)	(18,000,000)
Number of shares at end of year	240,000,000	222,000,000

Treasury stock (number of shares)	2011	2012
Number of shares at beginning of year	8,540,776	3,497,884
Purchase of treasury stock as per a decision made by the Board of Directors	5,000,000	16,806,264
Retirement of treasury stock	(10,000,000)	(18,000,000)
Others	(42,892)	4,028
Number of shares at end of year	3,497,884	2,308,176

20 Leases

As lessee

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

(1) Finance leases

Finance lease transactions other than those in which title to leased property are determined to be transferred to lessees, which started on or before March 31, 2008, are stated by applying the accounting treatment applicable to ordinary operating lease transactions.

The pro-forma original cost and accumulated depreciation of assets under such finance leases as if they had been accounted for as finance leases as of March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Original cost at inception of leases	¥ 246	¥ 132	$ 1,606
Less accumulated depreciation	(204)	(124)	(1,509)
Assets under finance leases, net	¥ 42	¥ 8	$ 97

Future minimum payments due under finance leases as of March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Within one year	¥33	¥8	$97
Over one year	9	—	—
Total	¥42	¥8	$97

Lease expense and pro-forma depreciation expense for such finance leases as if they had been accounted for as finance leases for the years ended March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Lease expense	¥71	¥29	$353
Depreciation expense	71	29	353

(2) Operating leases

Future minimum payments required under operating leases as of March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Within one year	¥2,708	¥1,158	$14,089
Over one year	5,608	5,044	61,370
Total	¥8,316	¥6,202	$75,459

21 Foreign Exchange Risk Management and Interest Rate Risk Management

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

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

Contract amounts, fair values, and gains or losses from valuation of forward foreign exchange contracts outstanding as of March 31, 2011 and 2012 are as follows. The contract amounts in themselves should not be considered indicative of the market risk associated with the derivative financial instruments.

(1) Derivative transactions not qualifying for hedge accounting

	Millions of yen						Thousands of U.S. dollars		
	2011			2012			2012		
	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts									
Sold:									
Yen	¥1,222	¥(128)	¥(128)	¥1,886	¥ 1	¥ 1	$22,947	$ 12	$ 12
U.S. dollars	65	(0)	(0)	696	(34)	(34)	8,468	(414)	(414)
Purchased:									
Yen	1	(0)	(0)	1	(0)	(0)	12	(0)	(0)
U.S. dollars	228	16	16	—	—	—	—	—	—
Total	¥1,516	¥(112)	¥(112)	¥2,583	¥(33)	¥(33)	$31,427	$(402)	$(402)

Notes: 1. Method of calculating fair value
Calculated based on prices provided by counterparty financial institutions.
2. For certain of the above forward foreign exchange contracts, hedge accounting is applied for the transactions between consolidated subsidiaries in non-consolidated financial statements, but these transactions have been eliminated in the consolidated financial statements, and as a result these transactions are not treated as effective hedges of the hedged assets and/or liabilities in the consolidated financial statements.

(2) Derivative transactions qualifying for hedge accounting

Hedge accounting method	Hedging method	Hedged items	Millions of yen				Thousands of U.S. dollars	
			2011		2012		2012	
			Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Deferred	Forward foreign exchange contracts							
	Sold:							
	Yen	Accounts receivable-trade	¥ 4,034	¥(17)	¥4,509	¥ 76	$ 54,860	$ 925
	Polish zloty	Accounts receivable-trade	271	(3)	23	(0)	280	(0)
	U.S. dollars	Accounts receivable-trade	111	1	7	(0)	85	(0)
	Purchased:							
	U.S. dollars	Accounts payable-trade	6,225	23	3,482	210	42,365	2,555
	HK dollars	Accounts payable-trade	60	1	89	7	1,083	85
	Yen	Accounts payable-trade	—	—	70	3	852	37
	Chinese yuan	Accounts payable-non trade	—	—	1,011	7	12,301	85
Total			¥10,701	¥ 5	¥9,191	¥303	$111,826	$3,687
Foreign exchange allocation method	Forward foreign exchange contracts							
	Purchased:							
	Yen	Accounts payable-trade	31	1	—	—	—	—
	U.S. dollars	Accounts payable-trade	106	(3)	230	12	2,798	146
	GB pounds	Other	17	0	—	—	—	—
Total			¥ 154	¥ (2)	¥ 230	¥ 12	$ 2,798	$ 146

Note: Method of calculating fair value
Calculated based on prices provided by counterparty financial institutions.

22 Asset Retirement Obligations

Asset retirement obligations as of March 31, 2011 and 2012 are summarized as follows:

1. Overview of asset retirement obligations

   Obligation for restoration to original condition accompanying real estate lease contracts for amusement facilities.

2. Method of calculating amounts of asset retirement obligations

   In calculating the amount of asset retirement obligations, the estimated period of use is determined based on period of the lease contract and the useful life of the building (principally 15 years), and the discount rate is principally 2%.

3. Change in total amount of asset retirement obligations in the years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Balance at beginning of the year	¥1,777	¥1,859	$22,618
Increase due to acquisition of property, plant and equipment	81	94	1,144
Adjustment due to passage of time	25	23	280
Decrease due to fulfillment of asset retirement obligations	(13)	(158)	(1,922)
Other	(11)	4	49
Balance at end of year	¥1,859	¥1,822	$22,169

23 Commitments and Contingent Liabilities

Commitments as of March 31, 2011 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Guarantee of obligation resulting from rental contracts of unconsolidated subsidiary	¥—	¥172	$2,093

24 Segment Information

The reportable segments of the Company are components of the Group whose separate financial information is available and which are periodically evaluated by the Board of Directors in deciding how to allocate management resources and in assessing performance.

The Group is made up of three strategic business units ("SBU"), one for each business domain, namely the Toys and Hobby SBU, the Content SBU, and the Amusement Facility SBU, and the affiliated business companies that mainly serve a supporting role for these strategic business units. The major company of each strategic business unit leads the planning and promotion of the business strategies of the strategic business unit for Japan and overseas.

Accordingly, the Group has the following three reportable segments: Toys and Hobby Business, Content Business, and Amusement Facility Business.

The Toys and Hobby Business conducts manufacturing and sales of toys, candy toys, and products for vending machines. The Content Business conducts the manufacturing and sales of arcade game machines and production and sales of home-use video game software, and video-related products. The Amusement Facility Business conducts the operation of amusement facilities.

The methods for accounting for reportable segments are the same as those described in Note "2 Summary of Significant Accounting Policies." Segment income in the segment information below is based on operating income, and segment assets are based on total assets. Amounts of inter-segment transactions are based on the prevailing market price.

Millions of yen

	2011							
	Reportable Segment							
	Toys and Hobby	Content	Amusement Facility	Subtotal	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)
Net sales								
To external customers	¥154,707	¥170,653	¥62,268	¥387,628	¥ 6,551	¥394,179	¥ —	¥394,179
Inter-segment sales and transfers	3,667	9,264	70	13,001	11,953	24,954	(24,954)	—
Total	¥158,374	¥179,917	¥62,338	¥400,629	¥18,504	¥419,133	¥(24,954)	¥394,179
Segment income	13,813	3,092	1,779	18,684	810	19,494	(3,156)	16,338
Segment assets	99,386	119,044	34,154	252,584	17,980	270,564	37,705	308,269
Other items:								
Depreciation and amortization	¥ 9,476	¥ 2,435	¥ 6,184	¥ 18,095	¥ 471	¥ 18,566	¥ (565)	¥ 18,001
Amortization of goodwill	3	1,792	148	1,943	—	1,943	282	2,225
Loss on impairment of fixed assets	325	83	588	996	1	997	—	997
Investments in associates accounted for using equity method	1,097	—	138	1,235	7,344	8,579	—	8,579
Increase in property, plant and equipment and intangible assets	7,075	1,688	4,185	12,948	220	13,168	271	13,439

Millions of yen

	2012							
	Reportable Segment							
	Toys and Hobby	Content	Amusement Facility	Subtotal	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)
Net sales								
To external customers	¥172,151	¥211,569	¥60,888	¥444,608	¥ 9,603	¥454,211	¥ —	¥454,211
Inter-segment sales and transfers	5,843	13,935	145	19,923	17,879	37,802	(37,802)	—
Total	¥177,994	¥225,504	¥61,033	¥464,531	¥27,482	¥492,013	¥(37,802)	¥454,211
Segment income	16,113	17,003	2,381	35,497	2,051	37,548	(2,941)	34,607
Segment assets	95,180	140,901	35,158	271,239	20,360	291,599	50,573	342,172
Other items:								
Depreciation and amortization	¥ 11,126	¥ 2,469	¥ 5,545	¥ 19,140	¥ 486	¥ 19,626	¥ (1,484)	¥ 18,142
Amortization of goodwill	—	229	1	230	—	230	143	373
Loss on impairment of fixed assets	379	311	398	1,088	17	1,105	—	1,105
Investments in associates accounted for using equity method	492	—	126	618	7,512	8,130	—	8,130
Increase in property, plant and equipment and intangible assets	10,148	2,535	3,018	15,701	537	16,238	1,218	17,456

Thousands of U.S. dollars

	2012							
	Reportable Segment							
	Toys and Hobby	Content	Amusement Facility	Subtotal	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)
Net sales								
To external customers	$2,094,550	$2,574,145	$740,820	$5,409,515	$116,839	$5,526,354	$ —	$5,526,354
Inter-segment sales and transfers	71,091	169,546	1,764	242,401	217,533	459,934	(459,934)	—
Total	$2,165,641	$2,743,691	$742,584	$5,651,916	$334,372	$5,986,288	$(459,934)	$5,526,354
Segment income	196,046	206,875	28,969	431,890	24,954	456,844	(35,783)	421,061
Segment assets	1,158,048	1,714,333	427,765	3,300,146	247,719	3,547,865	615,318	4,163,183
Other items:								
Depreciation and amortization	$ 135,368	$ 30,040	$ 67,466	$ 232,874	$ 5,913	$ 238,787	$ (18,055)	$ 220,732
Amortization of goodwill	—	2,786	12	2,798	—	2,798	1,740	4,538
Loss on impairment of fixed assets	4,611	3,784	4,842	13,237	207	13,444	—	13,444
Investments in associates accounted for using equity method	5,986	—	1,533	7,519	91,398	98,917	—	98,917
Increase in property, plant and equipment and intangible assets	123,470	30,843	36,720	191,033	6,534	197,567	14,819	212,386

Notes: 1. "Other" which is not a reportable segment, includes logistics services for the Group's SBUs, building management, and others.

2. Details of "Adjustments" are as follows:

(1) The adjustment to segment income of -¥3,156 million for the year ended March 31, 2011 includes elimination of inter-segment transactions of ¥-255 million and corporate expenses not allocated to reportable segments of -¥2,901 million. The adjustment to segment income of -¥2,941 million (-$35,783 thousand) for the year ended March 31, 2012, includes elimination of inter-segment transactions of -¥149 million (-$1,813 thousand) and corporate expenses not allocated to reportable segments of -¥2,792 million (-$33,970 thousand). Principal corporate expenses are expenses related to administrative divisions not belonging to reportable segments.

(2) The adjustment to segment assets of ¥37,705 million for the year ended March 31, 2011 includes elimination of inter-segment transactions of -¥7,328 million and corporate assets not allocated to reportable segments of ¥45,033 million. The adjustment to segment assets of ¥50,573 million ($615,318 thousand) for the year ended March 31, 2012 includes elimination of inter-segment transactions of -¥11,715 million (-$142,536 thousand) and corporate assets not allocated to reportable segments of ¥62,288 million ($757,854 thousand). Principal corporate assets are cash and deposits, investment securities, and assets related to administrative divisions not belonging to reportable segments.

(3) The adjustment to depreciation and amortization expense of -¥565 million for the year ended March 31, 2011 includes elimination of inter-segment transactions of -¥812 million and depreciation and amortization expense not allocated to reportable segments of ¥247 million. The adjustment to depreciation and amortization expense of -¥1,484 million (-$18,055 thousand) for the year ended March 31, 2012 includes elimination of inter-segment transactions of -¥1,697 million (-$20,647 thousand) and depreciation and amortization expense not allocated to reportable segments of ¥213 million ($2,592 thousand).

(4) The adjustment to amortization of goodwill of ¥282 million for the year ended March 31, 2011, and ¥143 million ($1,740 thousand) for the year ended March 31, 2012 are related to goodwill not allocated to reportable segments.

(5) The adjustment to property, plant and equipment and intangible assets of ¥271 million for the year ended March 31, 2011, and ¥1,218 million ($14,819 thousand) for the year ended March 31, 2012 are related to corporate assets not allocated to reportable segments.

3. Segment income is reconciled to operating income on the consolidated statements of operations.

For the years ended March 31, 2011 and 2012, additional segment information is as follows:

1. Information by product and service

This information is included in the segment information above.

2. Information by geographic region

Net sales and property, plant and equipment

	Millions of yen				
	2011				
	Japan	Americas	Europe	Asia, excluding Japan	Total
Net sales	¥307,660	¥29,691	¥37,274	¥19,554	¥394,179
Property, plant and equipment	37,245	1,674	1,954	1,719	42,592

	Millions of yen				
	2012				
	Japan	Americas	Europe	Asia, excluding Japan	Total
Net sales	¥372,617	¥26,542	¥33,678	¥21,374	¥454,211
Property, plant and equipment	37,671	1,590	1,590	3,649	44,500

	Thousands of U.S. dollars				
	2012				
	Japan	Americas	Europe	Asia, excluding Japan	Total
Net sales	$4,533,605	$322,935	$409,758	$260,056	$5,526,354
Property, plant and equipment	458,341	19,345	19,345	44,397	541,428

3. Information by major customer

Year ended March 31, 2011	Name	Net sales	Name of related segment
	Happinet Corporation	¥43,047 million	Toys and Hobby, Content

Year ended March 31, 2012	Name	Net sales	Name of related segment
	Happinet Corporation	¥47,522 million ($578,197 thousand)	Toys and Hobby, Content

4. By reportable segment, information regarding the amount of amortization of goodwill and negative goodwill for the years ended March 31, 2011 and 2012, and the unamortized balance of goodwill and negative goodwill as of March 31, 2011 and 2012, is as follows:

	Millions of yen					
	2011					
	Toys and Hobby	Content	Amusement Facility	Other (Note 1)	Corporate and eliminations (Note)	Total
Amortization of goodwill	¥3	¥1,792	¥148	¥ —	¥282	¥2,225
Unamortized balance of goodwill	—	384	1	—	342	727
Amortization of negative goodwill	—	4	—	114	—	118
Unamortized balance of negative goodwill	—	9	—	—	—	9

	Millions of yen					
	2012					
	Toys and Hobby	Content	Amusement Facility	Other (Note 1)	Corporate and eliminations (Note)	Total
Amortization of goodwill	¥—	¥229	¥1	¥—	¥143	¥373
Unamortized balance of goodwill	—	155	—	—	199	354
Amortization of negative goodwill	—	3	—	—	—	3
Unamortized balance of negative goodwill	—	6	—	—	—	6

	Thousands of U.S. dollars					
	2012					
	Toys and Hobby	Content	Amusement Facility	Other (Note 1)	Corporate and eliminations (Note)	Total
Amortization of goodwill	$—	$2,786	$12	$—	$1,740	$4,538
Unamortized balance of goodwill	—	1,886	—	—	2,421	4,307
Amortization of negative goodwill	—	37	—	—	—	37
Unamortized balance of negative goodwill	—	73	—	—	—	73

Notes: 1. The amount of "Other" is the negative goodwill related to logistics services for each of the Group's strategic business units.

2. The amount of "Corporate and eliminations" is the amount related to investment securities transferred from domestic consolidated subsidiaries to the Company on account of the business combination.

25 Related Party Disclosures

Transactions with Related Parties

Year ended March 31, 2011

Transactions by consolidated subsidiaries of the Company with non-consolidated subsidiaries and affiliated companies of the Company

Type	Company	Address	Capital or contribution to capital	Content of business	Ratio of voting rights ownership	Relationship with related party	Content	Transaction amount	Account items	Balance as of March 31, 2011
Affiliated company	Happinet Corporation	Taito-ku, Tokyo	¥2,751 million	Wholesaler of Toys, Video games, and Amusement products	Holding directly 26.4% indirectly 0.3%	Sales agency	Sales of products, and others (Note 2)	¥43,047 million	Accounts receivable-trade	¥8,929 million

Notes: 1. The above “Transaction amount” does not include consumption tax; the balance includes consumption tax.
2. Transaction terms and policy for determining transaction terms
For the transaction stated above, the products were sold on the same terms as general transactions with third parties in the ordinary course of business.

Year ended March 31, 2012

Transactions by consolidated subsidiaries of the Company with non-consolidated subsidiaries and affiliated companies of the Company

Type	Company	Address	Capital or contribution to capital	Content of business	Ratio of voting rights ownership	Relationship with related party	Content	Transaction amount	Account items	Balance as of March 31, 2012
Affiliated company	Happinet Corporation	Taito-ku, Tokyo	¥2,751 million ($33,471 thousand)	Wholesaler of Toys, Video games, and Amusement products	Holding directly 26.3% indirectly 0.3%	Sales agency	Sales of products, and others (Note 2)	¥47,522 million ($578,197 thousand)	Accounts receivable-trade	¥9,461 million ($115,111 thousand)

Notes: 1. The above “Transaction amount” does not include consumption tax; the balance includes consumption tax.
2. Transaction terms and policy for determining transaction terms
For the transaction stated above, the products were sold on the same terms as general transactions with third parties in the ordinary course of business.

26 Significant Subsequent Events

At the 7th General Meeting of Shareholders held on June 18, 2012, a resolution was passed granting stock compensation-type stock options (stock acquisition rights), with conditions, to directors of the Company.

1. Reason for issue of stock acquisition rights

The remuneration system for the Company’s Directors (apart from Outside Directors) makes its basic policy the promotion of the sharing value with the Company’s shareholders and enhancing the morale and motivation of the Directors to improve the Company’s performance.

In addition, accompanying the start of the “Mid-term Plan of BANDAI NAMCO Group (from April 2012 to March 2015)” (the “Mid-term Plan”) announced in February 2012, we have taken steps to make the relationship between performance and remuneration significantly clearer and to place more weight on performance-based remuneration in the Directors’ remuneration in order to strongly orient their focus to achieving the goals defined in the Mid-term Plan. As one part of that effort, we have introduced a new system for allotting stock compensation-type stock options on condition that the predefined performance goals are achieved.

Because the performance requirements have been imposed for these stock compensation-type stock options, not as a condition for exercising the options but as a condition for being allotted the options, the stock compensation-type stock options will not be granted to the Directors if those performance requirements are not satisfied.

2. Various conditions for grant of stock acquisition rights

(1) Persons to whom stock acquisition rights are allotted

Stock acquisition rights shall be allotted to the Directors of the Company (excluding Outside Directors). Excluding the three Outside Directors, there are six eligible directors.

(2) Class and number of shares to be delivered upon exercise of stock acquisition rights

The maximum number of shares of common stock of the Company to be delivered upon exercise of stock acquisition rights per year is 120,000 (0.05% of shares issued). In the event that the Company carries out a share split or share consolidation, the number of shares to be delivered upon exercise of stock acquisition rights will be adjusted in accordance with the following formula; provided, however, that such adjustment will only be carried out with respect to the number of shares to be delivered upon exercise of stock acquisition rights that are yet to be exercised at the time of the share split or share consolidation, and any fraction of less than one share resulting from such adjustment will be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of share split or share consolidation}$$

Furthermore, if the number of shares to be delivered upon exercise of stock acquisition rights needs to be adjusted because the Company carries out an absorption-type merger or a consolidation-type merger with another company with succession to the stock acquisition rights provided for in this proposal or because the Company carries out an incorporation-type company split or an absorption-type company split, the Company will make the necessary adjustment in the number of the shares as well.

(3) Total number of stock acquisition rights

The maximum number of stock acquisition rights to be allotted per year is 1,200. The number of shares to be delivered upon exercise of one stock acquisition right is 100 shares. (If, however, the number of shares is adjusted as provided for in the Paragraph (2). above, then the number of shares to be delivered upon exercise of one stock acquisition right will be adjusted in the same manner.)

(4) Requirements for allotment of stock acquisition rights

If the requirement stated in (i) below is satisfied, then stock acquisition rights will be allotted up to a maximum of 60 million yen per year. If, in addition to the requirement stated in (i), the requirement stated in (ii) is also satisfied, then stock acquisition rights will be allotted up to a maximum of 120 million yen per year.

If, however, neither of the requirements stated in (i) or (ii) is satisfied, then no stock acquisition rights will be allotted.

(i) The Company's consolidated operating income is 42,500 million yen or greater in any of the fiscal years from the fiscal year ending March 2013 through the fiscal year ending March 2015;

(ii) The Company's consolidated operating income is 53,000 million yen or greater in any of the fiscal years from the fiscal year ending March 2013 through the fiscal year ending March 2015.

(5) Price for issuance of stock acquisition rights

The price for issuance of each stock acquisition right will be calculated based on the Black-Scholes model, an impartial method of valuing stock acquisition rights. The person who receives an allotment of the stock acquisition rights will, instead of paying the price for issuance of the stock acquisition rights in cash, offset his or her obligation to pay for issuance of the stock acquisition rights against the recipient's right to his or her remuneration from the Company.

(6) Amount to be paid upon exercising stock acquisition rights

The amount to be paid upon exercising each stock acquisition right will be one yen per share to be issued or transferred by the exercise of each stock acquisition right, multiplied by the number of shares to be granted.

(7) Exercise period for stock acquisition rights

The exercise period for stock acquisition rights will be decided by the Company's Board of Directors but must not exceed 20 years from the allotment date of the stock acquisition rights.

(8) Conditions on exercise of stock acquisition rights

A person who has received an allotment of the stock acquisition rights may, within the period specified in the Paragraph (7). "Exercise period for stock acquisition rights," exercise those stock acquisition rights between one and ten days after the date on which that person loses his or her position as a Director, Auditor, or employee of the Company or of a subsidiary of the Company.

(9) Restrictions on assignment of stock acquisition rights

Any assignment of stock acquisition rights requires the approval of the Board of Directors of the Company.

(10) Other details concerning stock acquisition rights

Other details concerning stock acquisition rights will be determined at the Board of Directors' meeting of the Company at which matters concerning the offering of such stock acquisition rights will be resolved.

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of NAMCO BANDAI Holdings Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NAMCO BANDAI Holdings Inc. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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 LLC

July 17, 2012
Tokyo, Japan

Corporate Data

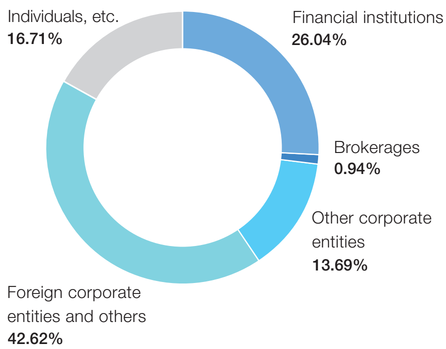
As of March 31, 2012

Corporate Name:	NAMCO BANDAI Holdings Inc.
Head Office:	NAMCO BANDAI Mirai Kenkyusho
	4-5-15, Higashi-Shinagawa, Shinagawa-ku, Tokyo 140-8590, 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: ....222,000,000 shares
	Number of Shareholders: 40,337
	Number of Shares per Trading Unit: ....100 shares

Major Shareholders:

Name	% of Total
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.80%
Japan Trustee Services Bank, Ltd. (Trust Account)	4.16%
MAL Ltd.	3.16%
XIL, LTD.	2.70%
Masaya Nakamura	2.68%
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	2.11%
The Nomura Trust and Banking Co., Ltd. (Retirement and Severance Benefits Trust, The Bank of Tokyo-Mitsubishi UFJ Account)	2.07%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2.03%
Northern Trust Co (AVFC) Sub A/C American Client	1.88%
Nintendo Co., Ltd.	1.73%

Ownership Breakdown:



OVERVIEW OF MAIN GROUP COMPANIES

As of April 2, 2012

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.	Pure holding company as regional headquarters in the U.S.
NAMCO Holdings UK LTD.	Pure holding company in the U.K.

Toys and Hobby Strategic Business Unit

Bandai Co., Ltd.	Planning, production, and sales of toys, plastic models, candy toys, vending machine products, apparel, and sundries, etc.
MegaHouse Corporation	Planning, development, production, and sales of toys, candy toys, figures, general games, and other products
CCP Co., Ltd.	Planning, development, manufacturing, and sales of toys, hobby commodities, and home electric appliances
Plex Co., Ltd.	Planning, design, development, and sales of character-based products
Seeds Co., Ltd.	Planning, development, and manufacturing of toys; contract operations for various types of inspecting and testing
People Co., Ltd.*	Planning, development, and sales of toys and bicycles for young children (JASDAQ)
TSUBURAYA PRODUCTION CO., LTD.*	Development of visual products and management of copyrights
Sun-Star Stationery Co., Ltd.*	Planning, production, and sales of stationery, sundries, and other products
BANDAI AMERICA INCORPORATED	Sales of toy-related products
BANDAI S.A.	Regional headquarters company in Europe; sales of toy-related products
BANDAI U.K. LTD.	Sales of toy-related products
BANDAI ESPAÑA S.A.	Sales of toy-related products
BANDAI POLSKA sp.zoo	Sales of toy-related products
BANDAI (H.K.) CO., LTD.	Regional headquarters company in Asia; import, export, manufacturing, and sales of toy-related products
BANDAI KOREA CO., LTD.	Manufacturing, import, and sales of toys, games, etc., and licensing operations
BANDAI (GUANGZHOU) CO., LTD.	Planning and sales of toy-related products
BANDAI INDUSTRIAL CO., LTD.	Manufacturing of toy-related products
BANDAI (SHENZHEN) CO., LTD.	Quality assurance and quality control operations, and factory inspections of trading partners

Content Strategic Business Unit

NAMCO BANDAI Games Inc.	Planning, development, and sales of game software and arcade machines, etc.
NAMCO BANDAI Studios Inc.	Planning and development of games and other content
D3 PUBLISHER INC.	Planning, development, and sales of game software
B.B.STUDIO Co., Ltd.	Planning, development, and sales of game software, etc.
VIBE Inc.	Development and provision of network content
NAMCO BANDAI Online Inc.	Planning, development, and operation of online games and other software

* Companies accounted for by the equity method

BNDeNA Inc.	Development and sales of smartphone content
Banpresto Co., Ltd.	Planning, development, and sales of amusement prizes
Banpresto Sales Co., Ltd.	Sales of arcade machines and prizes, etc.
BANDAI VISUAL CO., LTD.	Planning, production, and sales of visual software, etc.
Lantis Co., Ltd.	Planning, manufacturing, sales, and management of musical content
Sunrise Inc.	Planning and production of animation for TV and theatrical release; management and administration of copyrights
SUNRISE MUSIC Publishing Co., Ltd.	Production of music for animations produced by Sunrise; overall management of music publishing and master recording rights
Bandai Channel Co., Ltd.	On-demand delivery of content, such as animations
NAMCO BANDAI Live Creative Inc.	Planning and production of events and live performances, etc.
I WILL Co., Ltd.	Development and training of artist management
NAMCO BANDAI Games America Inc.	Sales and marketing of game software
NAMCO AMERICA INC.	Sales of arcade machines
NAMCO BANDAI Games Europe S.A.S.	Sales and marketing of game software
NAMCO EUROPE LTD.	Sales of arcade machines
BANPRESTO (H.K.) LTD.	Manufacturing and production management of arcade machines and prizes
BANDAI ENTERTAINMENT INC.	Planning, manufacturing, sales, and copyright management of visual content

Amusement Facility Strategic Business Unit

NAMCO LIMITED	Planning and operation of amusement facilities
Pleasure Cast Co., Ltd.	Planning and operation of amusement facilities
Hanayashiki Co., Ltd.	Planning and operation of Asakusa Hanayashiki amusement park
NAMCO ENTERTAINMENT INC.	Planning and operation of amusement facilities in the U.S.
NAMCO OPERATIONS EUROPE LTD.	Planning and operation of amusement facilities in the U.K.
NAMCO ENTERPRISES ASIA LTD.	Planning and operation of amusement facilities in Hong Kong
SHANGHAI NAMCO LTD.*	Planning and operation of amusement facilities in China

Affiliated Business Companies

BANDAI LOGIPAL INC.	Cargo trucking operations, logistics management, etc.
LOGIPAL EXPRESS INC.	Transportation, distribution, warehousing, etc.
NAMCO BANDAI Business Arc Inc.	Support of Group operations and administration, etc.
Artpresto Co., Ltd.	Planning and designing of various printed materials
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

www.bandainamco.co.jp/

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