BANDAI NAMCO Group ANNUAL REPORT 2013

BANDAI NAMCO

BANDAI NAMCO Group

ANNUAL REPORT 2013

PROFILE

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 content, network content, and amusement facilities. In accordance with our Mid-term Plan, which includes the vision of "Empower, Gain Momentum, Accelerate Evolution," we are aiming to be No. 1 with strong conviction. On that basis, 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.

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."

CONTENTS

OVERVIEW OF THE GROUP

(FY2013.3)

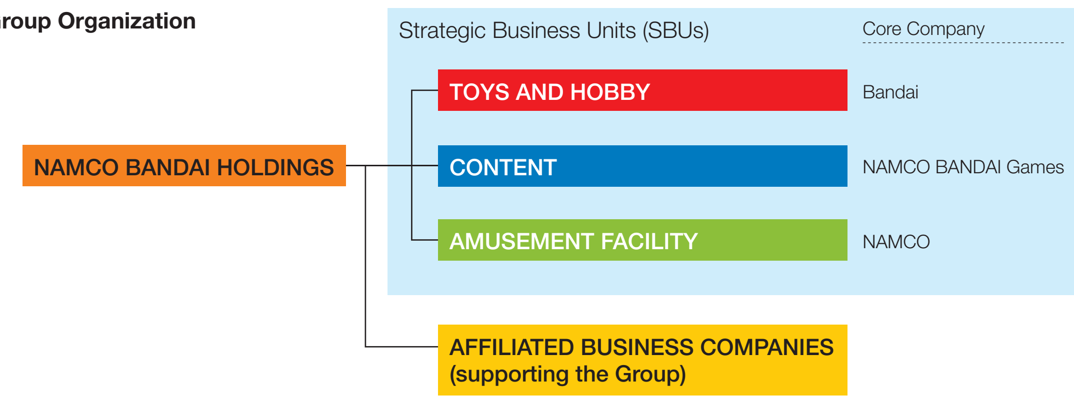
Net Sales: ¥487.2 billion

Operating Income: ¥48.6 billion

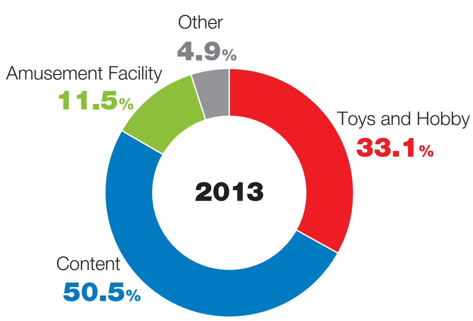
ROE: 14.1%

Number of Employees: 6,983

Group Organization

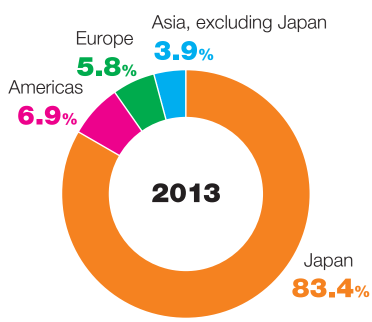


Net Sales by Segment



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

Reference: Contributions to Net Sales by Geographic Region



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

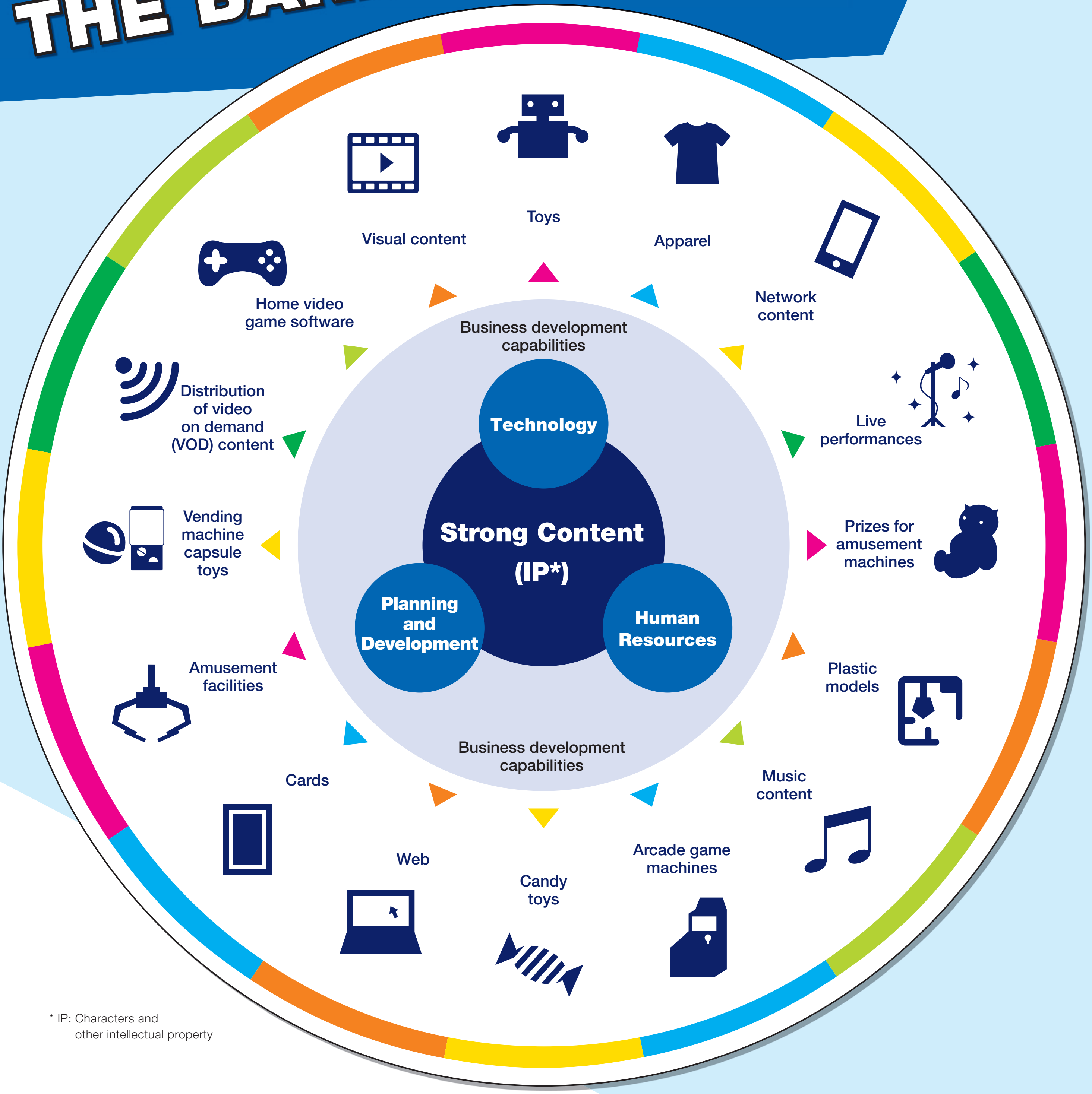
Forward-Looking Statements

The forward-looking statements in this annual report are based on the information available to management as of August 2013 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 annual report are rounded to the nearest unit.
2. FY2013.3 and the year under review represent the one-year period ended March 31, 2013.
3. Figures in this annual report are as of August 2013.

THE STRENGTHS OF THE BANDAI NAMCO GROUP



* IP: Characters and other intellectual property

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.

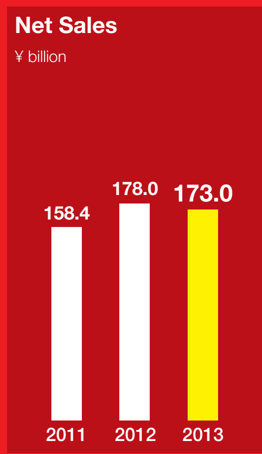
STRATEGIC BUSINESS UNIT (SBU)

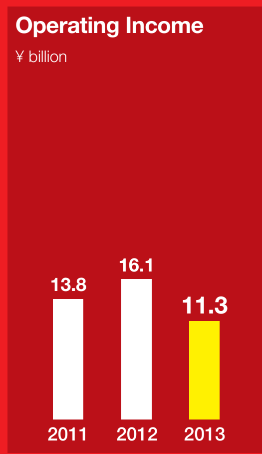
The BANDAI NAMCO Group comprises NAMCO BANDAI Holdings Inc., which is a pure holding company, three strategic business units (SBUs), and affiliated business companies that support the work of the SBUs. The SBUs, which encompass the operating companies in each field, formulate and implement business strategies and provide a diverse range of entertainment in Japan and overseas.

TOYS AND HOBBY

MID-TERM VISION **True Globalization**

Towards globalization, we are striving to become the premier company in the character merchandising business.

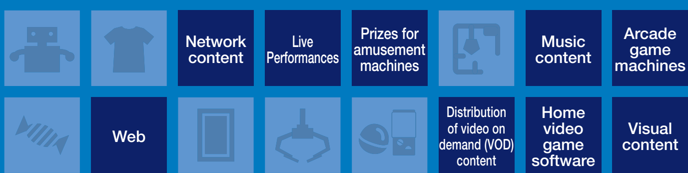


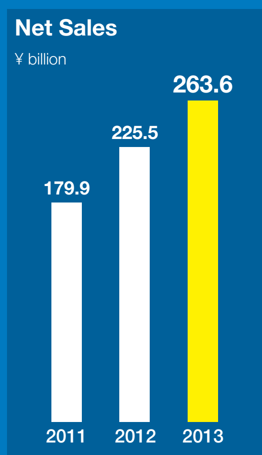


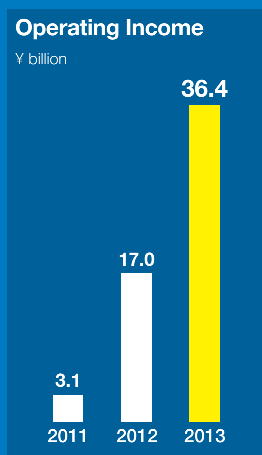
CONTENT

MID-TERM VISION **Become the No. 1 Content Company in Japan and Borderless Development**

We are implementing borderless operations, targeting a range of exits,including overseas markets.



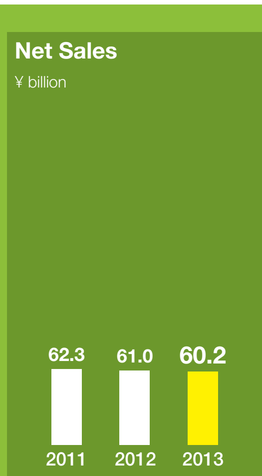




AMUSEMENT FACILITY

MID-TERM VISION **Become an Overwhelming Leader in the Market**

We provide amusement facilities that leverage BANDAI NAMCO's distinctive strengths in order to provide value.



For the years ended March 31

BOARD OF DIRECTORS AND

(Back, from left) Tomohisa Tabuchi, Nobuo Sayama, Yuji Asako, Masahiro Tachibana, Satoshi Oshita
(Front, from left) Manabu Tazaki, Shuji Ohtsu, Kazunori Ueno, Shukuo Ishikawa

AUDIT & SUPERVISORY BOARD MEMBERS

(From left) Kouji Yanase, Osamu Sudoh, Katsuhiko Kohtari, Koichiro Honma

As of June 24, 2013

DIRECTORS

President and CEO,
Representative Director
Shukuo Ishikawa

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

Director
Shuji Ohtsu

Director
Yuji Asako

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

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

Director (Outside)
Manabu Tazaki

Director (Outside)
Nobuo Sayama

Director (Outside)
Tomohisa Tabuchi

AUDIT & SUPERVISORY BOARD MEMBERS

Audit & Supervisory Board Member
(Full-time)
Koichiro Honma

Audit & Supervisory Board Member
(Full-time, Outside)
Katsuhiko Kohtari

Audit & Supervisory Board Member
(Outside)
Osamu Sudoh

Audit & Supervisory Board Member
(Outside)
Kouji Yanase

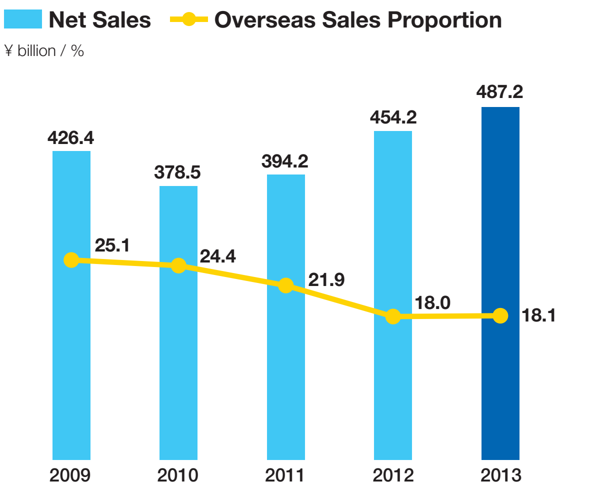
CONSOLIDATED FINANCIAL HIGHLIGHTS

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

FY2013.3

NET SALES

Up **7.3%** YOY **¥487.2** billion

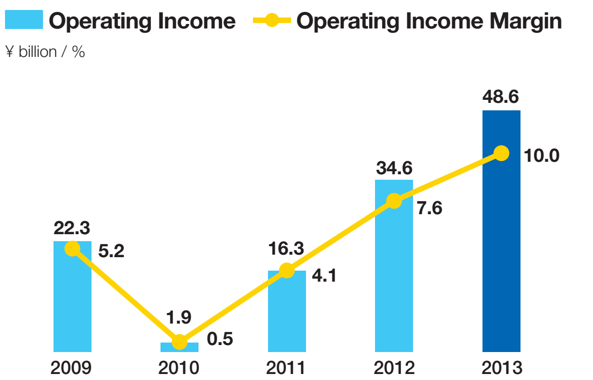


OPERATING INCOME

Up **40.6%** YOY **¥48.6** billion

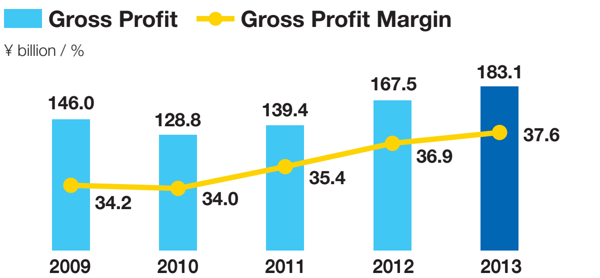
OPERATING INCOME MARGIN

FY2012.3 **7.6%** **10.0%**



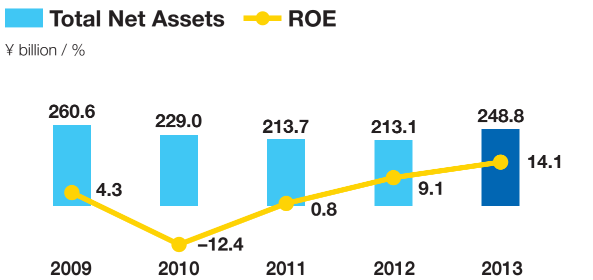
GROSS PROFIT

Up **9.3%** YOY **¥183.1** billion



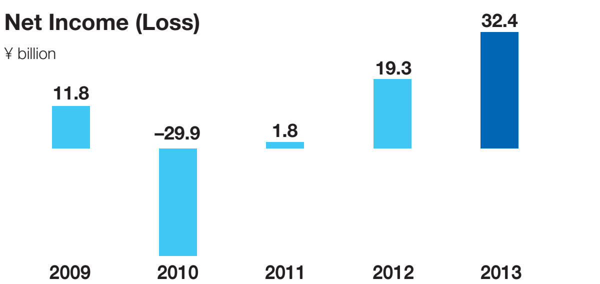
RETURN ON EQUITY (ROE)

FY2012.3 **9.1%** **14.1%**



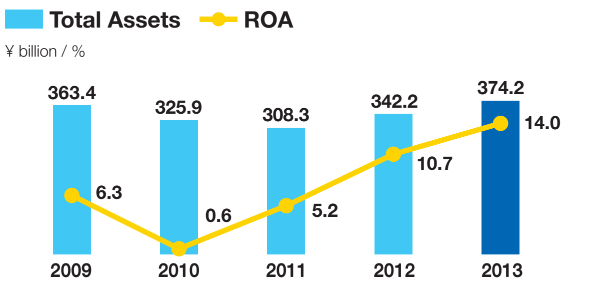
NET INCOME

Up **67.8%** YOY **¥32.4** billion



RETURN ON ASSETS (ROA)

FY2012.3 **10.7%** **14.0%**



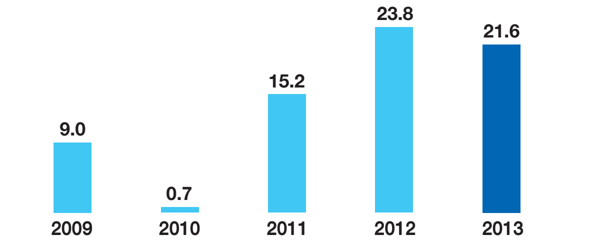
CASH FLOWS FROM OPERATING ACTIVITIES

Down 6.9% YOY

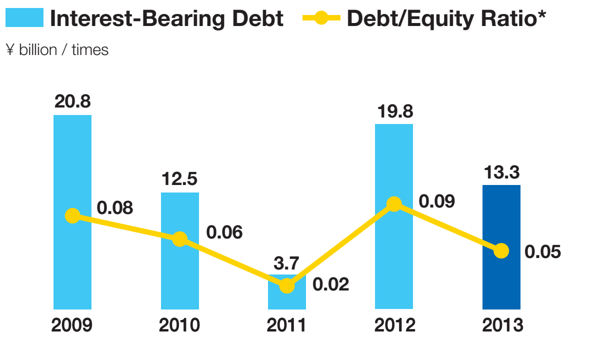
¥36.4 billion

Free Cash Flows*

¥ billion



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



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

CASH DIVIDENDS PER SHARE

Up ¥19 YOY

¥45

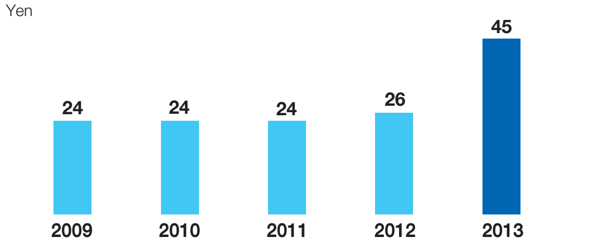
NET INCOME PER SHARE (BASIC)

Up ¥61.78 YOY

¥147.40

Cash Dividends per Share

Yen



SALES OF MAJOR CHARACTERS (Group total)

***Mobile Suit Gundam* series**

¥65.2 billion

***KAMEN RIDER* series**

¥34.0 billion

ONE PIECE

¥33.9 billion

***Power Rangers* series**

¥20.8 billion

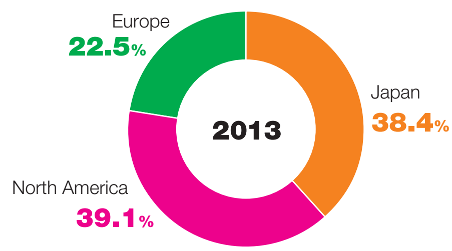
UNIT SALES OF HOME VIDEO GAME SOFTWARE

97 titles

24,585 thousand

Note: After elimination of localized versions

Unit Sales by Region



SALES OF EXISTING AMUSEMENT FACILITIES IN JAPAN

Down 4.5% YOY

95.5%

MID-TERM PLAN

Mid-term Plan of the BANDAI NAMCO Group (From April 2012 to March 2015)

The BANDAI NAMCO Group aims at the vision of becoming “the Leading Innovator in Global Entertainment” under a mission to bring “Dreams, Fun and Inspiration” to the world. Since the management integration in 2005, we have promoted the development of our management base under the Mid-term Plan from April 2006 to March 2009 and of a business base for global growth under the Mid-term Plan from April 2009 to March 2012.

In the new Mid-term Plan from April 2012 to March 2015, we aim to increase our profit both in Japan and overseas by sticking 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

挑戦 EMPOWER

Strive to achieve record profit

成長 GAIN MOMENTUM

Attain growth of record sales

進化 ACCELERATE EVOLUTION

Enhance our business model to maximize our IP value

Focus Strategies under the Mid-term Plan

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

Business Area Strategies

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

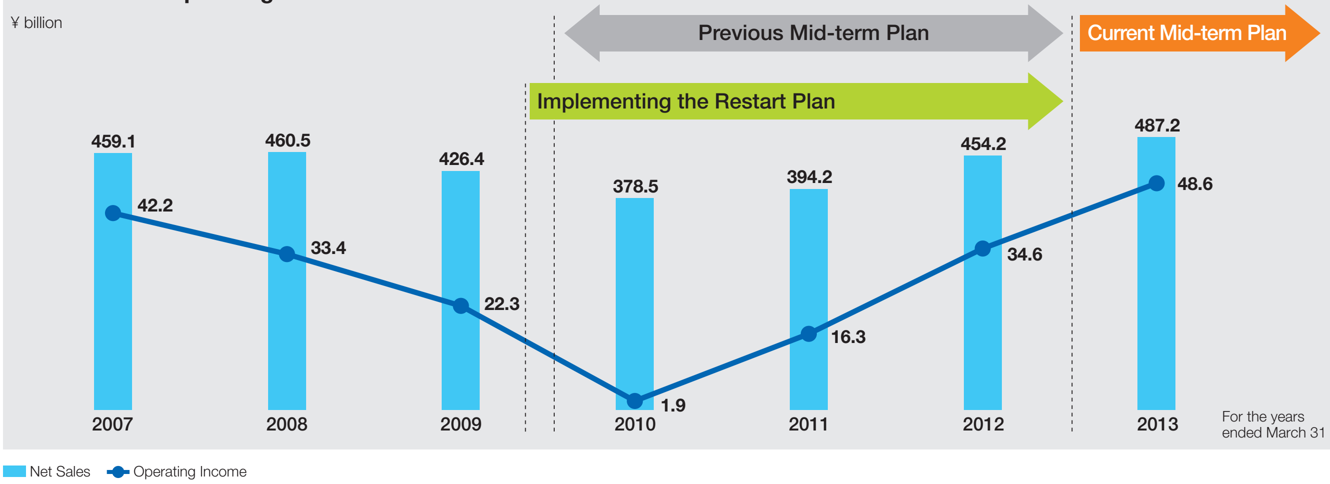
Functional Strategies

GROUPWIDE NETWORK STRATEGY

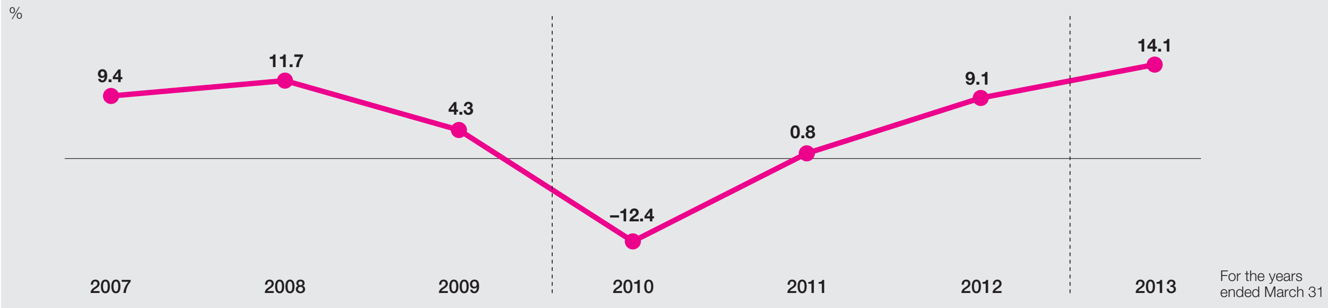
HUMAN RESOURCES STRATEGY

Key Points of the Mid-term Plan

Net Sales and Operating Income



Return on Equity (ROE)



Key Progress in FY2013.3

- The Group has met quantitative objectives and set new records for net sales and operating income in the period after the management integration.
- The Content SBU's IP axis strategy has generated favorable results for each content outlet and the growth of network content, in particular, has made a substantial contribution to the Group's results.

BASIC BUSINESS AREA

Japan

- In the Toys and Hobby SBU, coordinated development across product categories, centered on toys, led to favorable results by products in established character series. Initiatives targeting a broader range of customers made steady progress.
- In the Content SBU, favorable results were recorded for all content outlets, including arcade game machines, prizes, visual and music content, and home video game software. In particular, network content, centered on social games, made a substantial contribution to results.
- In the Amusement Facility SBU, results were solid, centered on differentiated facilities that offer customers the opportunity to experience the distinctive worldview of specific characters. However, sales at existing amusement facilities were down 4.5%.

PROFIT RECOVERING AREA

U.S. & EU

- Products in the *Power Rangers* series recorded favorable sales in the U.S. and Europe, but market environments were challenging and sales in the U.S. and Europe were sluggish overall.
- In the Content SBU's home video game software operations, favorable sales were recorded by new titles in popular series.

NEW GROWTH AREA

Asia

- In Asia, profits declined due in part to value chain reforms in the Toys and Hobby SBU. However, business activities got off to a strong start, and initiatives coordinated with Japan resulted in solid popularity for toys as well as for plastic models and collectable toys for adults.
- In the Amusement Facility SBU, we verified market conditions and took other steps targeting growth over the mid to long term.

Shukuo Ishikawa

President and CEO, Representative Director
NAMCO BANDAI Holdings Inc.

We will aim for growth
in global markets as we continue to

"Empower, Gain Momentum, Accelerate Evolution."

Record-High Net Sales and Operating Income

In FY2013.3, the BANDAI NAMCO Group's results exceeded expectations. This achievement was due to the efforts of all of the Group's employees on the front lines of its business activities. Consolidated net sales were up 7.3%, to ¥487.2 billion, and operating income increased 40.6%, to ¥48.6 billion. In the first year of the three-year Mid-term Plan that was started in April 2012, we set new record highs for net sales and operating income in the period after the management integration.

The reasons behind our solid start in the first year of the Mid-term Plan include strong results in the Toys and Hobby SBU in the domestic market. In addition, in the Content SBU the IP axis strategy generated favorable results for all content outlets, and growth in network content made a substantial contribution to the Group's performance. The greatest driving force behind these results has been the commitment and enthusiasm of our employees. Following the Group's weak performance in FY2010.3, the entire Group has worked together to implement the Restart Plan with a sense of urgency.

However, I believe that our achievement of record-high sales and profits merely represents a return to our position immediately after the management integration. We still have many challenges to overcome and strategies to implement. Starting in FY2014.3, we will face a crucial period for the realization of true growth for the BANDAI NAMCO Group. To turn our potential into results, we must tackle the challenges that we face with a heightened sense of urgency.

FY2014.3: Taking the Initiative for Growth Over the Mid to Long Term

For FY2014.3, which is the halfway point of the Mid-term Plan, we are forecasting net sales of ¥480.0 billion, about the same level as in the previous year, but operating income of ¥40.0 billion, a year-on-year decline of 17.8%. This is because we have positioned FY2014.3 as a year for taking the initiative for mid- to long-term growth, and accordingly we will implement investment targeting future growth.

From a short-term perspective, it would be possible to implement initiatives that are simply an extension of what we did in FY2013.3. However, I believe this is the best time for the Group to lay a foundation for growth in global markets in 5 or 10 years. We will take a number of steps to build this foundation, such as investment targeting the creation of new IP, technical development, and innovation in business models. To achieve solid growth, it will also be necessary to streamline our operations and establish a more-robust corporate constitution. Accordingly, we will implement these foundation-building initiatives in conjunction with structural reforms targeting a stronger earnings platform and increased efficiency.

By advancing these types of foundation-building and structural reforms, the entire Group will work together to generate results in FY2015.3 and thereafter and to achieve dramatic growth in global markets.

Advancing the Key IP Axis Strategy

Since the launch of the Restart Plan in 2010, we have shifted our approach to activities with IP as an axis. The IP axis strategy has become a major reason behind the recovery in our results. This strategy involves the provision of products and services, with consideration for all outlets, at the optimal timing, in the optimal region, and for the optimal target. In this way, we work to maximize the value of our IP. For example, the use of *Mobile Suit Gundam* IP in the implementation of a variety of development initiatives illustrates our approach to the IP axis strategy. With *Mobile Suit Gundam*, everything from the original visual product to product development is completed within the Group. The strategy that we are implementing is not based on a short-term perspective. Rather, from a long-term viewpoint of 10–20 years, this strategy will generate synergies through the coordination of activities among SBUs to sustain the popularity of *Mobile Suit Gundam*.

Under the IP axis strategy, a key point is the effective combination of two of BANDAI NAMCO's traditional strengths. The first is our wide range of business fields, which extends from "products," such as toys, to network content and other "services," as well as "places," such as amusement facilities and live events.

The second strength is that we can utilize a variety of popular IP, such as characters and content, in our own products and services. We do more than just rapidly create products based on characters that are popular at that point in time. We have also developed a large number of characters products that have transcended generations and appealed to a wide range of age groups for decades, such as the *Power Rangers* series and the *KAMEN RIDER* series. We have also expanded initiatives with original IP that originated from the Group's products and services, such as *Mobile Suit Gundam* and *Tamagotchi*.

By combining these two strengths, the IP axis strategy fully realizes the potential of the BANDAI NAMCO Group. In implementing this strategy, we delegate authority and responsibility to small and medium-sized units, with IP as an axis. In this way, we can achieve rapid decision making and implementation on the front lines while fostering mutual support among different units. A major issue in the entertainment markets that BANDAI NAMCO serves is the fast pace at which technical innovation is progressing and consumer needs are diversifying. In this environment, we will advance the IP axis strategy, which will maximize the value of our strengths—our wide-ranging fields of business and our extensive IP—without limiting ourselves to existing ways of doing business. In this way, we will strive to overcome the challenges we face and develop new business models that leverage BANDAI NAMCO's distinctive capabilities.

Targeting Growth in Global Markets

In overseas operations, unfortunately we are still in the midst of building our earnings platform in the U.S. and Europe. Overseas sales still account for less than 20% of the Group's total net sales. We have earned many No. 1 positions in the domestic market, but we still have tremendous room for growth overseas. In the U.S., for example, the Group's share of the toy market is less than 1%. In the future, we will continue to position the recovery of our earnings capacity in the U.S. and Europe as a priority issue, and on that basis we will strive to establish a stable foundation. In the U.S. and Europe, we will aggressively employ human resources with local know-how. In addition, we will assign highly experienced employees who can leverage the Group's strengths to overseas operations. In these ways, we are working to strengthen our organization. The Toys and Hobby SBU will approach the U.S. and Europe as a single market, implement integrated brand management for the U.S. and Europe, and foster development with IP as an axis. In this way, we will clarify responsibility and speed up decision making.

In FY2014.3, we will start new development of *PAC-MAN*, which will join the *Power Rangers* series as another key IP asset in the U.S. and Europe. In the past, development of the *Power Rangers* series has centered on figures. However, we will commence coordinated development with cards. In addition, *PAC-MAN* will be developed on a worldwide basis as Group IP. *PAC-MAN* and *the Ghostly Adventures*, a new animation, is scheduled for broadcast in more than 40 countries around the world, starting with North American broadcasting in June 2013. In conjunction with these broadcasts, we will also introduce other products, such as arcade game machines, home video game software, network content, and toys. *PAC-MAN* already has high name recognition, and consequently plans call for the sale of many licensed products as well. In the future, our policy will be for the entire Group to work together to nurture *PAC-MAN* over the medium to long term as a key IP asset in overseas markets.

In Asia, the Toys and Hobby SBU has made a solid start with a strategy of conducting Japan-originated business activities simultaneously in Japan and Asia. In addition to plastic models and collectors' products, we have started development of digital card games originated in Japan. In Asia, consumer preferences are very similar to those in Japan, and Japan-originated IP is very popular. We are already offering free streaming of *Mobile Suit Gundam* series animations in local languages, and we are also stepping up other initiatives, such as Internet sales and local events. Moreover, local amusement facilities have begun to expand, and consequently demand for arcade game machines is rising. To meet that demand, we are introducing a number of the Group's popular machines, such as *Taiko Drum Master* series machines and racing game machines. Our net sales in Asia are still relatively low, but the market has extremely high potential and we have positioned Asia as a future growth region. Accordingly, we will implement aggressive development initiatives.

Always Striving to Improve and Continuing to "Empower, Gain Momentum, Accelerate Evolution"

Over the past several years, the operating environment in the entertainment industry has changed substantially, and it is expected to undergo further dramatic changes in the years ahead. However, the BANDAI NAMCO Group will respond quickly to changes in its operating environment. We are aiming to achieve continued development over the next 10, 50, or even 100 years. That is why we announced our mid-term vision: "Empower, Gain Momentum, Accelerate Evolution." This vision incorporates our strong commitment to achieve continual progress for both businesses and employees and to record ongoing growth. To that end, we will continue to address change and aim for No. 1 over the three years covered by the Mid-term Plan. With speed and flexibility—centered on the IP axis strategy—we will uphold the BANDAI NAMCO tradition of taking on challenges as we strive to achieve growth and draw on BANDAI NAMCO's distinctive capabilities to build a new business model for the next generation. In this way, we will work to achieve steady progress.

In the future, there will be no change in the importance of entertainment in people's daily lives. With a sense of pride and responsibility for our mission of providing "Dreams, Fun and Inspiration," we will continue to offer people around the world products and services that leverage our unique strengths. The BANDAI NAMCO Group will not be satisfied with the status quo. We will always strive to create new entertainment as we continue to "Empower, Gain Momentum, Accelerate Evolution."

I would like to ask our shareholders, investors, and other stakeholders for their continued support and guidance of the BANDAI NAMCO Group in the years ahead.

August 2013

The BANDAI NAMCO Group is advancing its IP axis strategy on a Groupwide basis. Since the launch of the Restart Plan in 2010, the entire Group has worked to implement this strategy, and those efforts have generated significant results. Moving forward, we will continue to strive for further growth by stepping up and enhancing its implementation.

This special feature explains our IP axis strategy by presenting a message from management and specific examples of success from three key employees.

SPECIAL FEATURE:

BANDAI NAMCO'S IP AXIS STRATEGY

Maximizing the Value of Our Intellectual Property

Kazunori Ueno
Executive Vice President, Representative Director, NAMCO BANDAI Holdings Inc.
President and Representative Director, Bandai Co., Ltd.
Chief Gundam Officer

Management Comments about the IP Axis Strategy

Our IP Axis Strategy: The Key to Further Growth

In FY2013.3, the BANDAI NAMCO Group set new records for consolidated net sales and operating income in the period after the management integration. The fact that we were able to achieve the quantitative objectives of the Mid-term Plan in just one year was due in large part to the contribution made by the IP axis strategy, which we have been implementing since the launch of the Restart Plan in 2010. In this section, NAMCO BANDAI Holdings Executive Vice President Kazunori Ueno discusses the Group's IP axis strategy initiatives and future direction.

Our IP Axis Strategy: Leveraging the Know-how of the BANDAI NAMCO Group

The BANDAI NAMCO Group's IP axis strategy is a simple strategy for expanding the Group's business, with characters and other IP as an axis. It is, however, a strategy that is made possible only by the distinctive know-how of the BANDAI NAMCO Group. Our know-how has been cultivated through many years of experience in the IP business in Japan. We utilize a wide range of IP assets, including some that were launched 30–40 years ago.

In advancing the IP axis strategy, product development capabilities that leverage our distinctive know-how are extremely important, as is the capability to move quickly with business development initiatives in a wide range of areas. The heart of our IP axis strategy is a business model in which we create products and services that draw on the worlds of characters and other IP, and then rapidly implement business development initiatives.

Content SBU: The IP Axis Strategy Effectively Drove a Rapid Recovery in Results

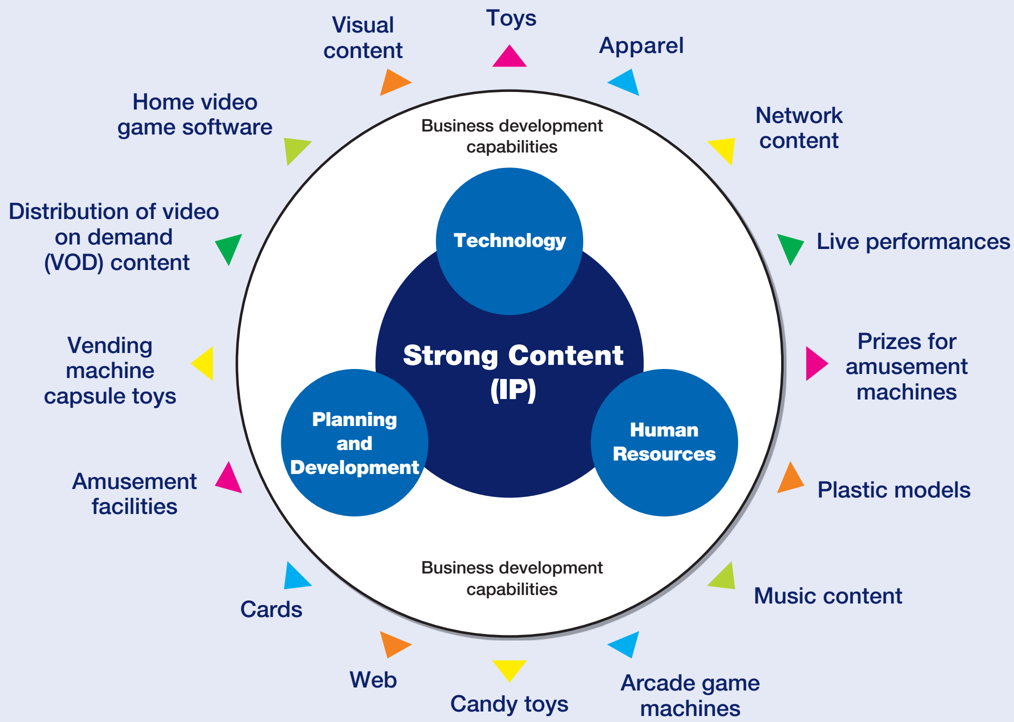
The IP axis strategy made a major contribution to our results in FY2013.3. Following the introduction of the Restart Plan in 2010, we were able to achieve a recovery in results in a relatively short period of time. The reason is that we shifted our approach from the previous system, where business development initiatives were organized by content outlet, to a system utilizing the optimal outlet, with IP as an axis. The ability of the Content SBU to respond flexibly to new IP outlets, such as social games, is also a result of the IP axis strategy. We made strong progress in combining our IP axis strategy and the know-how that we have acquired in developing products and services, and as a result we were able to make effective use of IP even more rapidly. I believe that this was a key factor behind the recovery in our performance.

Maximizing IP Value and Sustaining that Value Over the Medium to Long Term: The Key Point of the IP Axis Strategy

The IP itself plays the central role of the IP axis strategy. We have positioned FY2014.3 as a period for planting seeds for the future. This decision was based on our judgment that it is right now, when our results are strong, that we need to invest and work from a medium- to long-term perspective to create, acquire, and nurture new IP with a focus on the future. The creation and nurturing of IP is one area in which the BANDAI NAMCO Group has special strengths.

For example, *THE IDOLM@STER*, which originated from arcade game machines, has transcended the game framework

Developing Appealing IP in a Wide Range of Business Fields



and earned popularity in a variety of formats. This success was the result of our steady efforts to nurture *THE IDOLM@STER* since its launch in 2005, and of our efforts to develop products and services in formats that leverage the world of the *THE IDOLM@STER* IP. The key point of the IP axis strategy is maximizing IP value and sustaining that value over the medium to long term, with simultaneous consideration for the need to nurture the IP over the long term. In this way, we fully leverage the IP's appeal.

Another good example of our IP nurturing is the *Mobile Suit Gundam* series, which will mark its 35th anniversary in 2014. The *Mobile Suit Gundam* series has maintained a stable level of revenues over many years as a result of the generation of synergies through Groupwide initiatives, which extended from the creation of the IP to its subsequent development.

The Gundam Project serves as a system for promoting the horizontal realization of inter-related Group activities. As Chief Gundam Officer, I am the leader of the Gundam Project. Several times a year, we assemble managers from businesses throughout the Group and discuss initiatives for products and services. These discussions cover not only short-term actions but also mid-term activities that extend out over a 3–5 year period. This is not simply the provision of reports from each person on the products and services for which they are responsible. Rather, these are important discussions to have from the viewpoint of raising IP value. Other powerful IP, such as *Power Rangers* and *KAMEN RIDER*, are also the focus of initiatives in a variety of formats for the purpose of effective Group cooperation. The know-how needed to unify and control IP with this Groupwide comprehensive producer policy is a distinctive strength of the BANDAI NAMCO Group, and we will continue to refine this strength in the years ahead.

Working to Build a Framework to Pass Along the Strengths of the BANDAI NAMCO Group to Future Generations

One of the strengths of the BANDAI NAMCO Group is that we have content outlets for a wide range of products and services. In addition, we work not only with IP developed in-house but also with IP from many other companies. I think that our major strengths include the know-how to strategically nurture IP in line with global trends and the ability to implement business development initiatives with mobility and speed.

In addition, we are moving ahead with the creation of a framework for steadily passing down these strengths to the next generation. Continuous human resources development is essential for the survival of a company, and our human resources strategy is positioned as a focus strategy in the Mid-term Plan. We are working aggressively to ensure that we can pass along to the next generation of employees the strengths and external partnerships that we have established. With a focus on future generations, I think that this is an important step to take.

Moving forward, we will work to build a framework within the Group to activate the creation of original IP. Establishing an environment in which employees are eager to take on challenges, even if they fail, is the job of company management. As managers, we first need to ensure that we ourselves maintain the spirit of taking on challenges.

CASE STUDY 1

Mobile Suit Gundam Series

Developing Visual Products, which Play a Central Role in the IP Axis Strategy, for a Variety of Targets

The *Mobile Suit Gundam* series is a popular IP that has been loved by fans for more than 30 years since its first TV broadcast in 1979. The Group is developing a wide range of related products and services for the *Mobile Suit Gundam* series, centered on visual products created by Sunrise Inc. In FY2013.3, the Group's total *Mobile Suit Gundam*-related sales reached ¥65.2 billion. For this series, we implement everything in-house, from IP creation to product and service development. The *Mobile Suit Gundam* series is a good example of how the strengths of the IP axis strategy produce effective results.

Conversations with Key Employees

Shin Sasaki

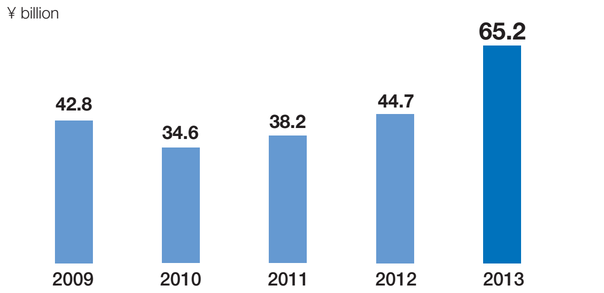
Director
General Manager
High End Works Division
Sunrise Inc.

Characters that are Loved by Fans of All Ages

At Sunrise, where I work, we have the important responsibility of planning and producing visual products in the *Mobile Suit Gundam* series and creating business schemes for those products. In 2014, the *Mobile Suit Gundam* series will mark the 35th anniversary of its first TV broadcast. The base of *Mobile Suit Gundam* fans extends over a wide range of ages. The customer base is centered on fans who have enjoyed *Mobile Suit Gundam* since the series was launched and are now in their 30s and 40s, but it also includes many teenagers and young people in their 20s as well as seniors who are over 50. We deliver the *Mobile Suit Gundam* products in a form that is appropriate for the specific product type and the target generation, such as visual products as well as movies, packaged media, and Internet distribution.

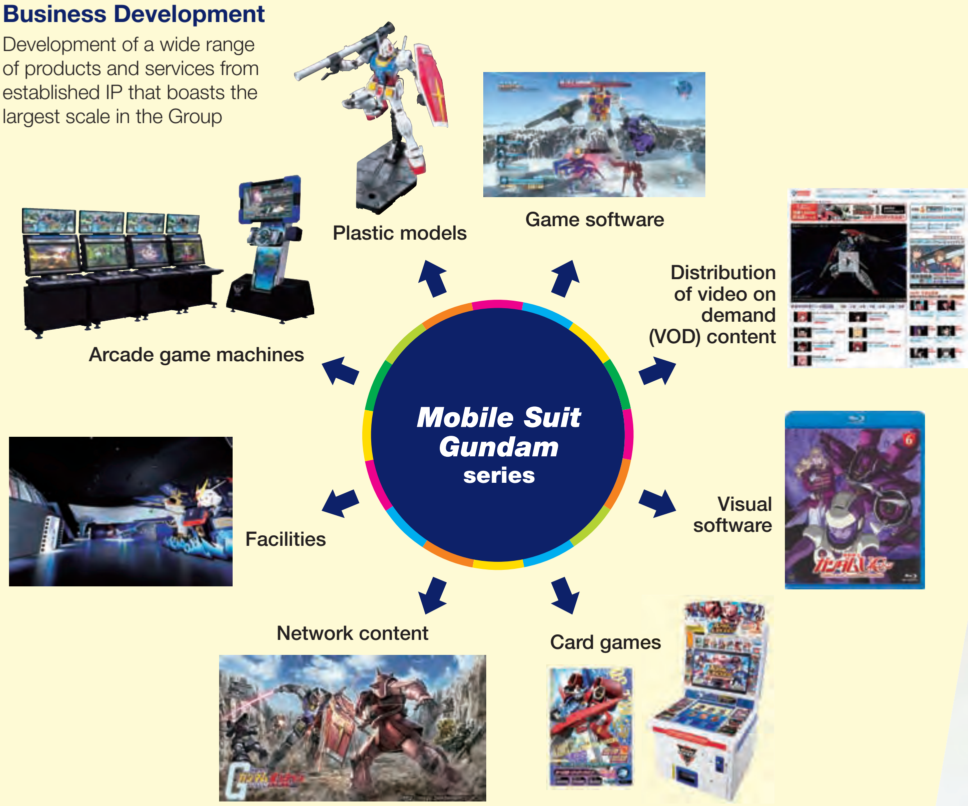
We target a wide range of generations, and as we plan and produce the products we always keep in mind what type of visual product we will deliver, how we will develop the business for that product, and what goods will be produced. However, if we are overly focused on those issues from the initial stages, the creativity of the product itself is adversely affected, and so we strive to think about the optimal development method for the nature of the product.

MOBILE SUIT GUNDAM SERIES SALES (GROUP TOTAL)



Mobile Suit Gundam Series IP Axis Business Development

Development of a wide range of products and services from established IP that boasts the largest scale in the Group



A Business Model that Advances with the Times

Since I started working with the *Mobile Suit Gundam* series in the 1990s, the key turning point in business development has been *Mobile Suit Gundam SEED* in 2002. Although this product was targeted at customers in their teens and 20s, we succeeded not only in broadening the age range of our male fans but also at attracting female fans. In addition, we tried new methods of distribution, such as free distribution of Internet video in tandem with TV broadcasts. We also aggressively collaborated with popular artists in the area of music. A variety of fan-based movements arose, and live events mixing visual and music presentation drew thousands of fans. From this, I had a strong sense of how the times were changing.

These multifaceted development initiatives became a prototype for our current business model. We began to provide fans with a variety of different ways to enjoy the *Mobile Suit Gundam* series that were appropriate for the changing times. Subsequently, we have taken on the challenge of another new business model with *Mobile Suit Gundam UC (Unicorn)*. *Mobile Suit Gundam UC (Unicorn)* was planned and produced with a story that links back to the very first *Gundam*. We registered excellent results with the establishment of a business model for the implementation of a worldwide simultaneous rollout. This model included special screenings at movie theaters, simultaneous sales of packaged goods at those venues, and the nearly simultaneous launch of Internet distribution. Prior to the launch we had some concerns, but the special screenings, the packaged goods sales, and the distribution generated synergies across all content outlets, and as a result the number of fans increased.

Demonstrating Synergies Among Visual Products, Products, and Services

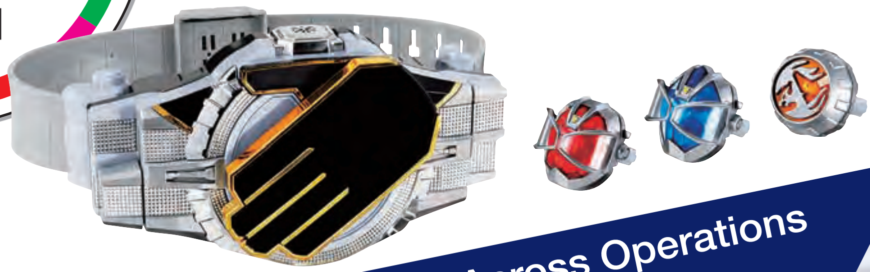
A big strength of the BANDAI NAMCO Group is its ability to develop business using multiple product and service touchpoints on a Groupwide basis. To that end, collaboration within the Group is extremely important, and we are naturally conscious of collaboration from the initial stages at which visual products are planned.

We also periodically convene the Gundam Project, which is led by NAMCO BANDAI Holdings Executive Vice President Kazunori Ueno, who is also Chief Gundam Officer. Meetings of this project include about 30 people from throughout the Group who are in charge of products and services in the *Mobile Suit Gundam* series. A wide range of information is shared at the meetings, such as product and service concepts and schedules, as well as future issues.

The *Mobile Suit Gundam* series is representative of the IP of the BANDAI NAMCO Group, and new advances entail the development of a wide range of products and services. In that sense, *Gundam* is a happy product series. The manufacturers of these products are also highly conscious of the need to maintain a balance between change and tradition, and they are working to be able to provide appealing products based on the world that forms the foundation of the *Mobile Suit Gundam* series but also reflecting the changing times—so that those products continue to be popular for the next 10 or 20 years. Moving forward, I will always keep uppermost in my mind how we can effectively deliver *Mobile Suit Gundam* to the world, including the use of TV broadcasts and the Internet. There are still many challenges that we can take on only because of the many strengths of the *Mobile Suit Gundam* series, and accordingly I wish to continue taking on the challenges of new business initiatives that will attract new fans.

CASE STUDY 2

KAMEN RIDER Series



Business Model that Extends Across Operations to Expand Character Touchpoints

The *KAMEN RIDER* series is a popular IP asset that has been consistently loved for more than 40 years since its first TV broadcast in 1971. The BANDAI NAMCO Group develops a variety of related products and services for the *KAMEN RIDER* series, including the transformation belt, which is the core product. Sales have recorded substantial growth since 2009, and in FY2013.3, sales related to the *KAMEN RIDER* series totaled ¥34.0 billion.

These sales were not just toys with key items as an axis. We have developed linked products in a variety of categories, including capsule toys, candy toys, digital card games, and apparel. This business model that crosses business lines has enabled us to successfully maximize the appeal of the *KAMEN RIDER* series.

Conversations with Key Employees

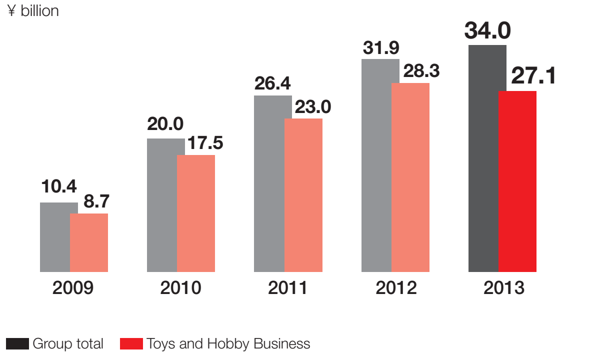
Kiyoto Nishizawa
Leader
KAMEN RIDER Team
Boys Toy Department
Bandai Co., Ltd.

Product Development with Linked Key Items as an Axis

In Bandai's Boys Toys Department, I am responsible for the development of products for the *KAMEN RIDER* series. I also do a considerable amount of coordination involving linked development initiatives among Bandai's various departments and Group companies. In addition, I work closely with the TV production side, and propose ideas to enhance the program from the perspective of a toy maker. *KAMEN RIDER WIZARD*, which was broadcast from fall 2012, is a good example. The program production side decided on the key word "magic," so I proposed a ring as a key item suitable for that world. We were able to create links among the ring and various other items that are central to the *KAMEN RIDER* world, such as the belt and weapons.

In this way, we developed products using all of the Group's touchpoints, with these key items as an axis. As a result, it became possible to horizontally link Bandai departments and Group companies, and we succeeded in expanding the scale of *KAMEN RIDER* products and services.

KAMEN RIDER SERIES SALES



Example of Business Model that Extends Across Operations

With the *KAMEN RIDER* series, an item linked to toys, was developed in a variety of categories. In this way, the IP touchpoints were expanded.

Advancing a Business Model that Extends Throughout the Group

Business models based on links among products, with key items as an axis, were implemented in the past, but the full-fledged starting point of this model was *KAMEN RIDER Decade* in 2009. Favorable sales were recorded by this product, which was created by linking the belt with the cards that were sold with the digital card game. With *KAMEN RIDER OOO* in 2010, the O-medal key item, which was linked with toys and digital card games, was sold through the Group's various touchpoints, such as capsule toys, candy toys, and apparel. As a result, it became a major hit that continues to draw great attention in the domestic market. Furthermore, for *KAMEN RIDER FOURZE*, in 2011, and *KAMEN RIDER WIZARD*, which is the latest title in the series, we have moved to a business model that generates synergies by extending across the entire Group's operations, including amusement facilities.

The framework that increases the effects of this cross business linkage is the Linked Item Conference. Since about 2007, the Linked Item Conference, which began with the *Power Rangers* series, has also included the *KAMEN RIDER* series. This conference is attended by all of the people responsible for *KAMEN RIDER* business in each department. We coordinate product line-ups, sales schedules, and other initiatives with the objective of maximizing IP value. Each department proposes a number of product ideas, which are discussed with great enthusiasm. This process is something that has resulted in many hit products.

Making Full Use of the Group's Touchpoints

In the distribution of products and services, the Group makes full use of its touchpoints. The strengths of the BANDAI NAMCO Group lie in its ability to deliver products to customers through a variety of means and methods. By making full use of the Group's strengths, we strive to make the days of children more enjoyable through the world of *KAMEN RIDER*. In addition, although the main target of the *KAMEN RIDER* series is 3–6 year old boys, it has been loved for so many years that it has become an IP that is now enjoyed by two generations, parents and their children. I believe that our linking key items with products that are part of the parent–child relationship, such as candy, apparel, and sundries, was one the reasons for the *KAMEN RIDER* market boom.

However, if we continue to do the same thing over and over, children will eventually lose interest in the product. Accordingly, we will not remain satisfied with the current state of affairs. Instead, we will continuously seek out entirely new and different developments and take on the challenge of exceeding children's expectations. Through actions such as this, I hope to enhance even further the appeal of *KAMEN RIDER*, which has been loved for so long by so many.

CASE STUDY 3

THE IDOLM@STER Series

Leveraging a Unique World to Nurture IP

THE IDOLM@STER **started as an arcade game machine targeted at males in their teens to 30s. It was based on the concept of being a producer involved in the development of new celebrity idols.** ***THE IDOLM@STER*** **has since been extended to home video game software, social games, visual and music products, and figures. In addition, due to the strong support of fans it has transcended the virtual world of games and** ***THE IDOLM@STER*** **IP now includes live events.**

Conversations with Key Employees

Yohzo Sakagami
General Manager
Production Department 8
Division 3
Production Group 1
NAMCO BANDAI Games Inc.

Developing Products and Services with a Focus on the World of *THE IDOLM@STER* IP

Since 2007, I have worked as the general producer for *THE IDOLM@STER*. I have been in charge of all content outlets related to this IP, from home video game software to visual and music content, as well as related products. In the unique *THE IDOLM@STER* world, the player acts as an entertainment industry producer who gives lessons and holds auditions for women who want to be idols. The producer helps the women to succeed as top idols. The players have great empathy for the idols, and *THE IDOLM@STER* communities have developed, with IP as an axis. In advancing the IP axis strategy for *THE IDOLM@STER*, we are placing a high priority on the provision of information for the community of fans. Rather than targeting large numbers of members of the general public, we focus actively on core fans. In this way, the community itself will be a source of information. We carefully select the products and services that we are developing, with a focus on scale and balance. More than anything else, we thought carefully about whether the products and services were suitable for the world of *THE IDOLM@STER* IP. In this way, we have steadily nurtured the IP.

HISTORY OF *THE IDOLM@STER*

2005: Launch of *THE IDOLM@STER* arcade game machine

2007: Launch of *THE IDOLM@STER* game software for Xbox 360

2009: Launch of *THE IDOLM@STER Sp3 Version* game software for PSP
Launch of *THE IDOLM@STER*: *Dearly Stars* game software for Nintendo DS

2010: Implementation of "The World Is All One!!" live event for fifth anniversary

2011: Launch of *THE IDOLM@STER* 2 for Xbox 360 and PS3
Start of *THE IDOLM@STER* TV animation
Start of distribution of *THE IDOLM@STER CINDERELLA GIRLS* social game

2012: Launch of *THE IDOLM@STER SHINY FESTA Sp3 Version* game software for PSP

2013: Start of distribution of *THE IDOLM@STER Million Live!* social game

THE IDOLM@STER IP Axis Development

Expansion of products and services using unique
THE IDOLM@STER world leads to increased recognition

A Major Driver of Growth in Social Games

THE IDOLM@STER started with an arcade game machine in 2005, and in 2007 we began rolling out home video game software. There is a high degree of affinity between *THE IDOLM@STER* IP and the Internet. For example, the promotion video for the game software became a major focus of attention after it was uploaded to an Internet video site. As a result, we achieved tremendous results with our efforts to integrate the IP and the Internet, which included sales of download content as well as package content.

In addition, *THE IDOLM@STER* songs are also very popular, and music has become an important element of *THE IDOLM@STER* IP. Cumulative sales of related CD titles have surpassed two million, and *THE IDOLM@STER* IP has jumped from the virtual world to the real world, where we hold live events. It also broke new ground with the receipt of the Project Award at the Japan Record Awards in 2012. In addition, we plan to follow up the broadcast of the TV animation with a theater version. The development of *THE IDOLM@STER* as a social game proved to be a major turning point. With more than 3.5 million registered users (as of June 2013), *THE IDOLM@STER* has achieved popularity that places it on a par with the *Mobile Suit Gundam* series, and its name recognition has expanded significantly.

Building *THE IDOLM@STER* into a Long-Established IP

In the future, we will provide information to core fans and will also implement initiatives to broaden the target group. To that end, I think an extremely important point will be the extent to which we can roll out products and services in line with the lifestyles of the target customer groups. For example, there are many cases in which customers who first developed an interest in *THE IDOLM@STER* through the animation later went on to enjoy the social game, leading to growth in the number of registered users. The game software acts as a hub that connects various products and services, and also has the capability to provide information. We are also expanding development initiatives targeting a variety of mobile devices, such as tablets. Next, I would like to once again take on the challenge of arcade game machines, which will be, in a sense, a return to our starting point. In this way, by broadening *THE IDOLM@STER* IP touchpoints and implementing initiatives in such areas as peripheral products and services, we will strive to further increase the value of the IP.

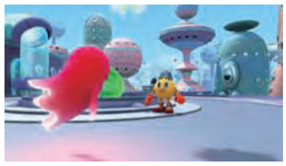
In the end, I think that the strength of the BANDAI NAMCO Group is the ability to create and provide a wide range of entertainment that is a vital part of the daily lives of customers. I believe it is my mission to continue to draw on the Group's wide-ranging portfolio and develop *THE IDOLM@STER*, which is now in its eighth year, into a long-established character that customers will still be enjoying in 10 or 20 years.

Promising IP in FY2014.3

Worldwide Development of the *PAC-MAN* Original IP

From June 2013, TV broadcasts of a new *PAC-MAN* animation, *PAC-MAN and the Ghostly Adventures*, began in North America. Broadcasts are planned for more than 40 countries around the world, such as the U.K., Australia, and Spain. Accompanying the start of these broadcasts, the BANDAI NAMCO Group is implementing worldwide development of a range of *PAC-MAN* character products. By March 2014, we will launch three home video game software titles, including *PAC-MAN and the Ghostly Adventures*. In addition, we will roll out five arcade game machines, including *PAC-MAN SMASH*, which is currently enjoying strong use, and one network content title—*PAC-MAN DASH!*—for which service has already commenced. Plans call for steady global development, starting with the U.S.

In addition, in summer 2013 we began to roll out more than 10 toys, including figures and stuffed toys. Moreover, plans also call for the sale of more than 500 licensed products from more than 40 companies. *PAC-MAN* is a promising IP asset that plays an important role in our IP axis strategy, and the entire Group is excited about the worldwide roll out of *PAC-MAN*, which will start in the U.S.



Further Growth for the *Aikatsu!* Original IP

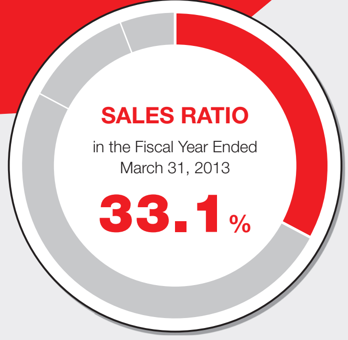
Aikatsu! is an original IP asset for elementary school girls. It was launched in October 2012. *DATA CARDDASS Aikatsu!* is national idol audition game in which players compete in Audition Battles and work to increase their fan numbers as they strive to be the No. 1 idol in the nation. The TV broadcast of an animation from Group company Sunrise Inc. was commenced at nearly the same time as the launch of the *DATA CARDDASS* products, and the popularity of *Aikatsu!* grew at a pace that significantly exceeded our expectations. Currently, we are rolling out *Aikatsu! Phone* and other toys, apparel, candy toys, and *Aikatsu! Cinderella Lesson* home video game software. In addition, from December 2012 we have offered special limited-time *Aikatsu!* Official Shops in NAMCO amusement facilities throughout Japan. The entire Group is working together to implement these types of initiatives. In the future, our policy will be to establish *Aikatsu!* as a long-lasting character for girls and to nurture its continued growth.

Amusement Facilities that Utilize Popular IP

In July 2013, *J-WORLD TOKYO*, an indoor theme park, was opened in Tokyo. *J-WORLD TOKYO* uses the world of *Weekly Shonen Jump* and *JUMP SQUARE*, popular weekly manga magazines for youths that is published by SHUEISHA Inc. The new theme park offers a range of attractions and original products, and showcases the strengths of the entire BANDAI NAMCO Group. There are popular attractions, such as *ONE PIECE*, *DRAGON BALL*, and *NARUTO*, as well as *J-WORLD KITCHEN*, a food court featuring collaboration among multiple characters. In addition, *J-WORLD STORE* sells a wide range of original products, such as limited-edition goods. *J-WORLD TOKYO* will function as a place to disseminate information about the entire Group.

In the future, the BANDAI NAMCO Group will work to achieve differentiation by developing amusement facilities that utilize IP. In addition, we will leverage these facilities as important venues for customer contact and for the collection and provision of information.

TOYS AND HOBBY



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

BUSINESS PERFORMANCE

Millions of yen

For the fiscal years ended March 31	2011	2012	2013	% change	Forecasts for 2014
Net sales	¥158,374	¥177,994	**¥172,977**	–2.8%	¥180,000
Segment income	13,813	16,113	**11,255**	–30.1%	13,000
Segment income margin	8.7%	9.1%	**6.5%**	—	7.2%

SALES OF MAJOR CHARACTERS (Group Total)

Billions of yen

For the fiscal years ended March 31	2011	2012	2013
Mobile Suit Gundam series	¥38.2	¥44.7	**¥65.2**
KAMEN RIDER series	26.4	31.9	**34.0**
ONE PIECE	15.4	28.8	**33.9**

SALES OF MAJOR CHARACTERS (Toys and Hobby Business in Japan)

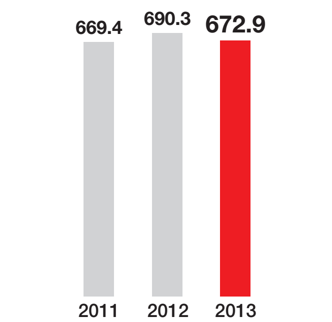
Billions of yen

For the fiscal years ended March 31	2011	2012	2013
KAMEN RIDER series	¥23.0	¥28.3	**¥27.1**
Mobile Suit Gundam series	13.4	15.6	**16.5**
PRETTY CURE! series	12.5	10.7	**10.6**

MARKET DATA

Size of Japan's Toy Market

¥ billion



Source: Survey by the Japan Toy Association

STRATEGIC POINTS IN FY2014.3

Japan

Implement active measures to achieve an overwhelming No. 1 position in Japan

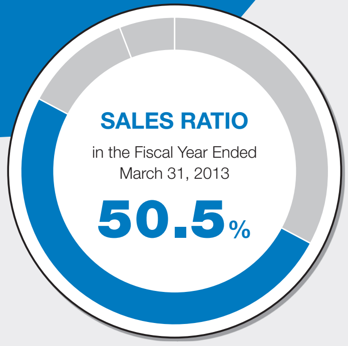
- Continue to actively implement measures that cross business boundaries, with established characters as an axis.
- Enhance the character lineup and introduce strategic products. Specifically, nurture *Aikatsu!*, which was launched in the fiscal year ended March 31, 2013, and introduce new characters for boys.
- Continue to expand targeted customer range by strengthening development initiatives for adults and for small children.

Overseas

Reorganize in the U.S. and European markets, expand in Asia

- Give highest priority to reorganizing in the U.S. and Europe. Carry out integrated brand management for the U.S. and Europe. Clarify responsibility and speed up decision making through IP axis units.
- In addition to initiatives using the *Power Rangers* series as an axis in the U.S. and Europe, expand lineup through the introduction of *PAC-MAN* products.
- In plastic models, collectable products, and card products, commence full-fledged application of the strategy of conducting Japan-originated business activities simultaneously in Japan and Asia.

CONTENT



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

BUSINESS PERFORMANCE

Millions of yen

For the fiscal years ended March 31	2011	2012	2013	% change	Forecasts for 2014
Net sales	¥179,917	¥225,504	¥263,596	16.9%	¥250,000
Segment income	3,092	17,003	36,438	114.3%	28,000
Segment income margin	1.7%	7.5%	13.8%	—	11.2%

NET SALES BREAKDOWN

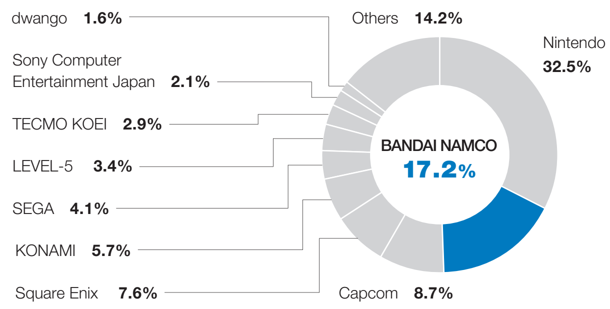
Billions of yen

For the fiscal years ended March 31	2011	2012	2013
Arcade game machines	¥ 56.0	¥ 73.4	¥ 71.8
Home video game software	81.2	86.0	84.4
Others, elimination*	42.7	66.1	107.3
Total	179.9	225.5	263.5

* Including network content, visual and music content, etc.

MARKET DATA

Share of Unit Sales by Domestic Production Group (2012)



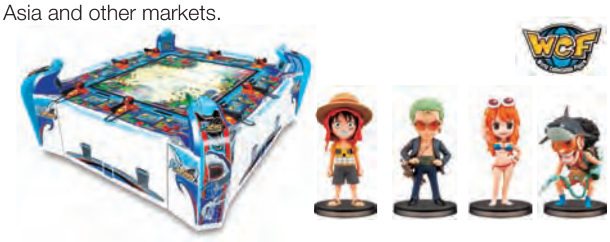
Source: Famitsu Game White Paper 2013, Published by ENTERBRAIN, INC.
(Period: December 26, 2011, to December 30, 2012)

STRATEGIC POINTS IN FY2014.3

In accordance with the IP axis strategy, leverage abundant content outlets and emphasize appeal of IP.

Arcade game machines, prizes

- Provide entertainment that draws on BANDAI NAMCO'S distinctive strengths and earns the support of users. Accommodate diversification of sales frameworks. Strengthen overseas development in Asia and other markets.



Network content

- Foster stable growth by launching new games and implementing timely renewals of existing content in the fields of social games and online games.

Home video game software

- Strengthen new initiatives for titles using established popular series and IP and for products drawing on network capabilities, such as download-only titles.

Visual and music content

- In addition to the *Mobile Suit Gundam* series, provide high-quality products in a diverse range of genres. Devote resources to the creation of new IP.

AMUSEMENT FACILITY

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

BUSINESS PERFORMANCE

Millions of yen

For the fiscal years ended March 31	2011	2012	2013	% change	Forecasts for 2014
Net sales	¥62,338	¥61,033	**¥60,186**	–1.4%	¥60,000
Segment income	1,779	2,381	**1,684**	–29.3%	2,000
Segment income margin	2.9%	3.9%	**2.8%**	—	3.3%

TOTAL NUMBER OF AMUSEMENT FACILITIES (March 31, 2013)

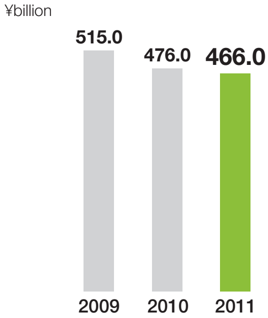
Facilities

Region	Regional total	Number of which that are		
		Directly managed facilities	Revenue-sharing facilities*	Others
Japan	**229**	216	11	2
North America	**1,007**	20	987	0
Europe	**13**	11	2	0
Asia	**22**	7	15	0
Total	**1,271**	254	1,015	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



Source: Leisure White Paper 2012, Japan Productivity Center

STRATEGIC POINTS IN FY2014.3

As outlets for the IP axis strategy, leverage facilities as Groupwide information provision sites.

- Take steps to advance the development of differentiated facilities that offer customers the opportunity to experience the distinctive worldview of specific characters, such as facilities that enable visitors to dress up as characters, cross-sectional campaigns, and character pop-up stores.

- Take steps to develop indoor theme parks into a new operational pillar, such as the opening of *J-WORLD TOKYO*, which enables customers to experience the worldview of *Jump* content, and the remodeled *NAMCO NAMJATOWN*.

- In response to the issue of an increase in the consumption tax, enhance earnings platform by taking steps to expand business portfolio, such as nurturing new businesses, and by implementing structural reforms.

THE BANDAI NAMCO GROUP'S CSR INITIATIVES

To realize the provision of "Dreams, Fun and Inspiration," the BANDAI NAMCO Group conducts CSR activities in accordance with the concept of "Fun for the future!" Themes that require special initiatives have been identified as "BANDAI NAMCO Group's Important CSR Themes." In addition, each strategic business unit (SBU) formulates its own "CSR Major Initiative Themes" and leverages the special characteristics of its operations to implement activities in accordance with those themes.

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
- Policies Regarding Influence on Society of the Group's Content and Products
- Environmental Consideration
- 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 Action 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 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 words "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 inspiration and creating a future of "Dreams, Fun and Inspiration."

TOPICS

"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.

"BANDAI NAMCO Forest" at Shiga Kogen

Manufacture of safe, reliable products

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.

Dropping products to test for quality

Product raw materials and packaging and wrapping initiatives

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.

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

Wide-ranging environmental impact reduction activities

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.

Bandai Hobby Center (plastic model plant)

Social contribution activities

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.

Omocha-no-Machi Bandai Museum

Universal design initiatives

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.

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

Initiatives to motivate and support human resources

The BANDAI NAMCO Group is implementing a variety of initiatives to enhance the utilization of human resources. These include measures to advance dynamic corporate activities. For example, the Group has established an award system to recognize products and services that excel in such areas as market success, creativity, and uniqueness. Other programs include aggressive personnel exchange initiatives and development training for future management candidates.

BANDAI NAMCO Awards

Supporting reconstruction activities following the Great East Japan Earthquake

In partnership with Save the Children Japan, 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.

Workshops in disaster-stricken areas

CORPORATE GOVERNANCE

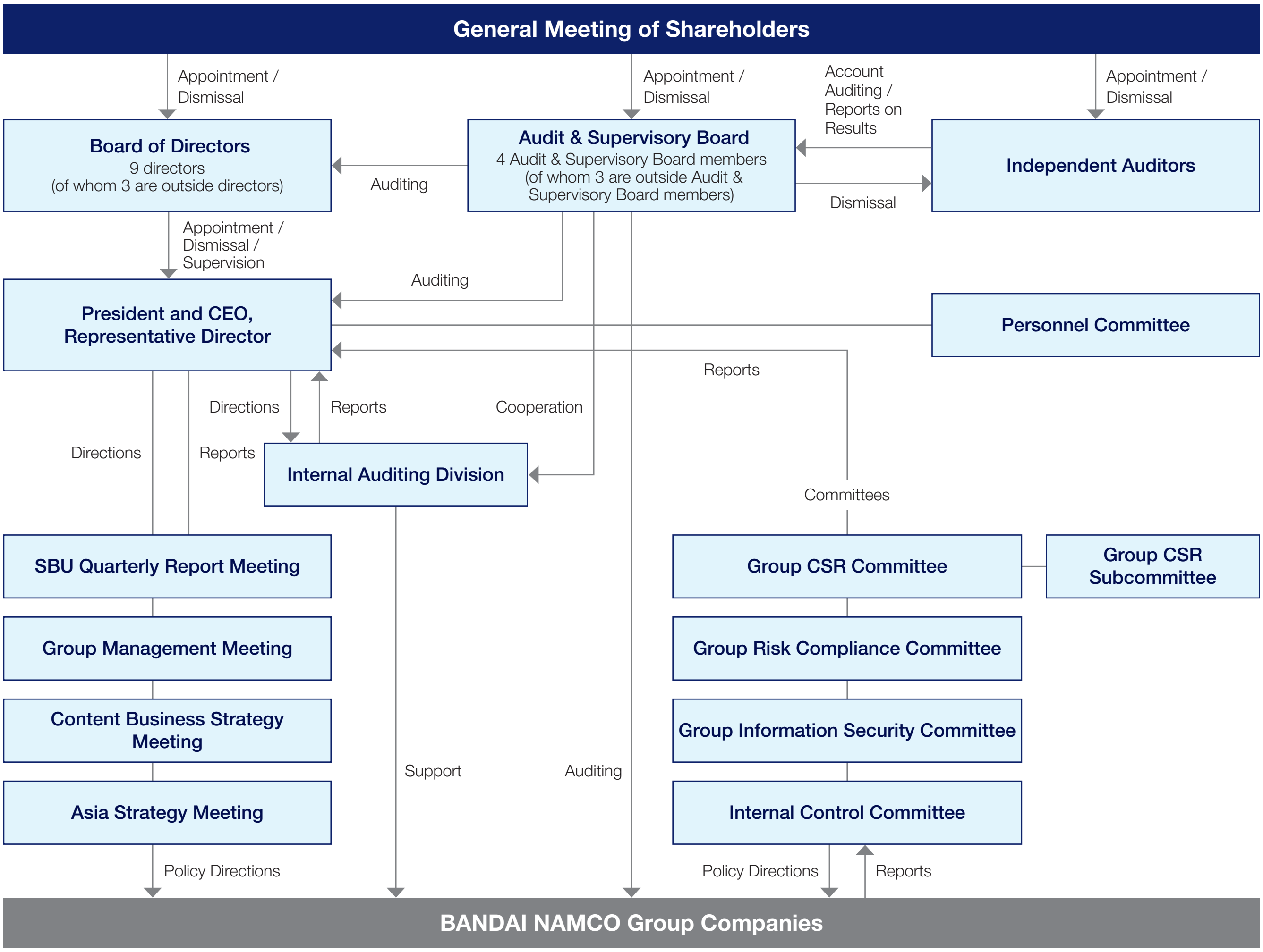
Our highest management priority is the provision of benefits to all of our stakeholders, who support our business activities. We believe that to achieve ongoing growth in enterprise value over the long term, the continuous enhancement of corporate governance is an important management issue. The Group 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 24, 2013, 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 audit & supervisory board system and has established the Audit & Supervisory Board. The Company believes that the auditing system based on the Audit & Supervisory Board, including outside Audit & Supervisory Board members, is an effective means of implementing the management oversight function. Our outside directors and outside Audit & Supervisory Board members 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 Audit & Supervisory Board, the four Audit & Supervisory Board members (of whom two are full-time Audit & Supervisory Board members and three are outside Audit & Supervisory Board members), attend important meetings, such as meetings of the Board of Directors. In addition, in accordance with the Audit & Supervisory Board regulations, the audit standards for the Audit & Supervisory Board, and implementation standards and auditing plans related to internal control systems, the Audit & Supervisory Board members conduct audits regarding the status of business execution by the directors. The Internal Auditing Division, the Audit & Supervisory Board members, 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 of June 24, 2013

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 outside directors.)

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 Content Business Strategy Meeting, the Asia Strategy Meeting, the Group CSR Committee and the Waigaya Meeting; and, for the

Message from Outside Officers

Director (Outside) **Manabu Tazaki**

Immediately after the management integration of Bandai and NAMCO in 2006, I became a business advisor to the Company, and in 2009 I became an outside director. I have had previous management experience in the toy industry, and I have some understanding of the industry as well as the Company. Accordingly, I believe that my experience is useful in the management of the Company.

I believe that my role as an outside director is to protect the interests of shareholders through the control and supervision of management. In the management of a holding company, it is important to monitor the operating companies to ensure that they are being run appropriately. I strive to draw on my own experience to contribute in the areas of control and supervision. I also think it is important to understand the business and strategies of each operating company and to listen carefully to the intentions of the leader of each SBU's core company.

At BANDAI NAMCO Holdings, the president of each SBU's core company is a member of the holding company's Board of Directors. Accordingly, the Board of Directors can directly confirm appropriate information from the front lines as well as the intentions of the presidents of the core companies. At meetings of the Board of Directors, we have lively discussions based on this information, and I strive to offer a range of advice from an outside perspective in consideration of my experience to date.

This approach enhances the steady monitoring of the operating companies by the holding company. In addition, the Company is actively appointing independent officers. In these ways, I believe that the Company has established a corporate governance system that functions effectively. From my outside perspective, the Company's management is sound and stable. In the future, I will strive to draw on my experience to contribute to management and help BANDAI NAMCO Holdings to achieve further growth as a company with dreams.

Audit & Supervisory Board Member (Outside) **Kouji Yanase**

I am now in my second term as an outside Audit & Supervisory Board member at the Company. As an Audit & Supervisory Board member, I regularly attend meetings of the Audit & Supervisory Board. At these meetings, reports from full-time Audit & Supervisory Board members regarding methods of auditing the Company's operations are received and discussed. In addition, I periodically have discussions with the representative directors and other directors with business execution responsibilities. In these ways, I work to fulfill my duties as an Audit & Supervisory Board member.

At meetings of the Board of Directors, I listen to reports from directors in their fields of specialty and the related discussions, as well as a range of other questions and discussions. In these ways, I learn about the actual state of the Company's affairs.

I am an attorney, but I believe that my most important duty as an outside Audit & Supervisory Board member is to monitor the appropriateness and soundness of the Company's affairs, not just from the viewpoint of a legal specialist but also from a third-party viewpoint, as well as the viewpoint of someone who is a novice in business administration.

With society undergoing daily change, the Company continues to consider from a variety of pespectives how it can contribute to society. In order for the Company to be able to focus its capabilities on external challenges in an effective manner, it is important to maintain careful administration internally.

Heretofore, I believe that the corporate governance and compliance systems of NAMCO BANDAI Holdings have functioned well, and henceforth, as an Audit & Supervisory Board member, I will focus on ensuring that these systems continue to function in this manner. Moving forward, I will do my utmost to help the Company to meet the expectations of its shareholders and other stakeholders.

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, Audit & Supervisory Board members, other designated employees
SBU Quarterly Report Meeting	Quarterly	Consolidated numerical reports, SBU reports, other items to be reported	Directors, Audit & Supervisory Board members, other designated employees
Group Management Meeting	6 times a year	Deliberations regarding issues extending across SBUs, other Group management issues, strategic deliberations	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	Quarterly	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 business company	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

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 Audit & Supervisory Board Members

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 Audit & Supervisory Board members (including two full-time Audit & Supervisory Board members), three meet the conditions for outside Audit & Supervisory Board members. 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 Audit & Supervisory Board members, 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 audit & supervisory board members track the status of audits by the Audit & Supervisory Board members at meetings of the Audit & Supervisory Board and maintain cooperative relationships with the internal auditors and the other Audit & Supervisory Board members. In addition, all members of the Audit & Supervisory Board, including outside Audit & Supervisory Board members, 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 Audit & Supervisory Board members 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 Fiscal Years Ended March 31

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

	2008	2009	2010	2011	2012	2013
For the Year:						
Net sales	¥460,474	¥426,400	¥378,547	¥394,179	¥454,211	**¥487,241**
Gross profit	164,073	146,023	128,753	139,415	167,503	**183,079**
Selling, general and administrative expenses	130,662	123,675	126,869	123,077	132,896	**134,436**
Operating income	33,411	22,348	1,884	16,338	34,607	**48,643**
Recurring income*1	36,198	24,513	1,908	16,399	34,960	**49,973**
Net income (loss)	32,679	11,830	(29,929)	1,848	19,304	**32,383**
Comprehensive income (loss)	—	—	—	(4,600)	21,551	**41,505**
Capital expenditures*2	34,115	17,481	14,418	13,439	23,758	**23,836**
Depreciation and amortization	24,759	22,546	18,989	18,001	18,142	**20,416**
Cash flows from operating activities	35,000	19,301	10,582	22,562	39,112	**36,411**
At Year-End:						
Total assets	¥413,023	¥363,445	¥325,936	¥308,269	¥342,172	**¥374,203**
Total current assets	267,713	230,086	217,763	210,934	240,920	**264,804**
Total current liabilities	101,649	84,304	86,605	86,105	107,946	**108,391**
Total net assets	289,944	260,579	229,012	213,693	213,126	**248,770**
Per Share Data (Yen):						
Net income (loss) per share (basic)	¥128.65	¥47.95	¥(123.98)	¥ 7.71	¥85.62	**¥147.40**
Cash dividends	24.00	24.00	24.00	24.00	26.00	**45.00**
Main Financial Indicators:						
Return on equity (ROE)*3 (%)	11.7	4.3	–12.4	0.8	9.1	**14.1**
Return on assets (ROA)*4 (%)	8.8	6.3	0.6	5.2	10.7	**14.0**
Selling, general and administrative expenses to net sales (%)	28.4	29.0	33.5	31.2	29.3	**27.6**
Operating income margin (%)	7.3	5.2	0.5	4.1	7.6	**10.0**
Net income margin (%)	7.1	2.8	–7.9	0.5	4.3	**6.6**
Shareholders' equity ratio (%)	69.4	70.9	69.5	68.8	61.8	**66.0**
Debt/equity ratio (times)	0.06	0.08	0.06	0.02	0.09	**0.05**

Notes:
*1 Recurring income is a Japanese accounting term denoting income before extraordinary items.
*2 Until the previous fiscal year, transfers from inventories had not been included in capital expenditures. However, from the fiscal year under review, transfers from inventories are included in capital expenditures. Figures for the previous fiscal years have been restated.
*3 ROE = Net income (loss) / Average total shareholders' equity (= Total net assets – Stock acquisition rights – Minority interests)
*4 ROA = Recurring income / Average total assets

Overview of Performance in the Fiscal Year Ended March 31, 2013

In this fiscal year, although some signs of improvement in economic conditions have begun appearing thanks to positive expectations towards factors such as economic policies aimed at promoting growth in the domestic environment from late 2012, the economic slowdown in Europe resulting from financial instability and the effect of exchange rate fluctuations have meant that, overall, harsh economic conditions continued. As for the entertainment industry, weak individual consumption and other factors added further uncertainty to conditions.

In this environment, the BANDAI NAMCO Group ("the Group") is implementing various measures aimed at medium- to long-term growth under the concept of "Empower, Gain Momentum, Accelerate Evolution," which is the vision of the Group's new Mid-term Plan, started in this fiscal year. On the business front, the Content Business contributed to performance in each category, particularly in network content by coordinated deployment revolving around IP (intellectual property) such as characters.

Net Sales

On a consolidated basis, the Group's net sales were ¥487,241 million (year-on-year increase of 7.3%).

Cost of Sales

Cost of sales was ¥304,162 million, and the ratio of cost of sales to net sales declined to 62.4%, compared with 63.1% in the previous fiscal year. As a result, gross profit was ¥183,079 million, and the gross profit margin increased to 37.6%, compared with 36.9% in the previous fiscal year.

SG&A Expenses

Selling, general and administrative (SG&A) expenses were ¥134,436 million (year-on-year increase of 1.2%), and the ratio of SG&A expenses to net sales declined to 27.6%, compared with 29.3% in the previous fiscal year. Principal items included advertising expenses of ¥32,600 million, directors' remuneration and employees' wages of ¥36,160 million, employees' retirement and severance benefits of ¥2,159 million, and research and development expenses of ¥16,619 million.

Operating Income

Operating income was ¥48,643 million (year-on-year increase of 40.6%), and the operating income margin rose to 10.0%, compared with 7.6% in the previous fiscal year.

Other Income (Loss)

In other income (loss), loss on valuation of investment securities declined substantially to ¥21 million, compared with ¥1,406 million in the previous fiscal year. Loss on sales and disposal of fixed assets, net, declined to ¥234 million, compared with ¥925 million in the previous fiscal year. In addition, other items netted out to a gain of ¥278 million, compared with a loss of ¥1,073 million in the previous fiscal year. As a result, other loss was ¥153 million.

Net Income

The Group recorded net income of ¥32,383 million (year-on-year increase of 67.8%). In addition to favorable consolidated results, the Group used the consolidated tax return filing system from this fiscal year, and as a result, the amount of the tax credit for research and development expenses, and others increased. Accordingly, income taxes were less than initially forecast. The net income margin in this fiscal year was 6.6%, and net income per share rose substantially, reaching ¥147.40, compared with ¥85.62 in the previous fiscal year.

Results by Segment

	Millions of yen			Millions of yen		
	Net sales			Segment income		
	2013	2012	Year on year	2013	2012	Year on year
Toys and Hobby	**¥172,977**	¥177,994	¥ (5,017)	**¥11,255**	¥16,113	¥ (4,858)
Content	**263,596**	225,504	38,092	**36,438**	17,003	19,435
Amusement Facility	**60,186**	61,033	(847)	**1,684**	2,381	(697)
Other	**25,788**	27,482	(1,694)	**1,693**	2,051	(358)

Toys and Hobby Business

In the Toys and Hobby Business, domestically, sales performed favorably due to coordinated sales of products in the variety of categories revolving around toys including long-established characters such as the *KAMEN RIDER* series and *PRETTY CURE!* series. Although domestic performance was lower year on year in total, for reasons such as a lower gross margin ratio resulting from changes in the product mix, the Group made steady efforts toward broadening the scope of target customers, including by developing products such as the new *Aikatsu!* characters for girls, plastic models for elementary school students, and collectable toys for adults.

Overseas, in North America and Europe, although products of the *Power Rangers* series sold favorably, overall performance was weak amid a harsh market environment. In the Asian region, plastic models and collectable toys for adults became popular in addition to character toys thanks to developments in conjunction with Japan.

As a result, net sales in the Toys and Hobby Business were ¥172,977 million (year-on-year decrease of 2.8%), and segment income was ¥11,255 million (year-on-year decrease of 30.1%).

Content Business

In the Content Business, the network content area made a significant contribution to performance mainly through social games such as the *Mobile Suit Gundam* series, *ONE PIECE Grand Collection*, and *IDOLM@STER CINDERELLA GIRLS*. Arcade game machines for well-established series and new game machines such as *Fishing Spirits* became popular, and prize sales of popular characters were favorable. Also contributing to performance were visual and music content areas, which enjoyed favorable sales of *Mobile Suit Gundam UC (Unicorn)* and repeat sales of visual packages that were launched in previous years, as well as sales of LCD units for pachinko and pachi-slot machines. In home video game software, the launch of the latest titles of popular series such as *SOULCALIBUR*, *NARUTO*, *TALES OF*, and *ONE PIECE* in both the Japanese and overseas markets, and domestic sales of titles with concepts based on popular television programs, trended strongly.

As a result, net sales in the Content Business were ¥263,596 million (year-on-year increase of 16.9%), and segment income was ¥36,438 million (year-on-year increase of 114.3%).

Amusement Facility Business

In the Amusement Facility Business, domestically, despite a steady performance mainly by differentiated facilities located in shopping centers that offer customers the opportunity to experience the distinctive worldview of specific characters, sales at existing facilities declined to 95.5% of the previous fiscal year, when we recorded a high level of sales.

In the challenging market environment presented by countries outside Japan, results were at a similar level to those of the previous fiscal year as a result of efficiency in operations from the selection and concentration of stores.

As a result, net sales in the Amusement Facility Business were ¥60,186 million (year-on-year decrease of 1.4%), and segment income was ¥1,684 million (year-on-year decrease of 29.3%).

Other Businesses

Other Businesses consist of companies that conduct businesses such as logistics support, printing, and other kinds of administration and operational support for each of the Group's businesses. We are making efforts to manage such operations related to group support in an efficient manner.

Net sales in the Other Businesses were ¥25,788 million (year-on-year decrease of 6.2%), and segment income was ¥1,693 million (year-on-year decrease of 17.5%).

Financial Position

As of March 31, 2013, total assets stood at ¥374,203 million, an increase of ¥32,031 million from the end of the previous fiscal year. The main factors were increases of ¥12,174 million in cash and time deposits and ¥7,967 million in trade receivables in connection with favorable results, ¥3,228 million in investment securities due to market valuation, and ¥3,818 million in deferred tax assets.

Total liabilities amounted to ¥125,433 million, a decrease of ¥3,613 million from the end of the previous fiscal year. The main factors were decreases of ¥5,383 million in long-term borrowings and ¥1,177 million in short-term borrowings, both due to repayment.

Total net assets stood at ¥248,770 million, an increase of ¥35,644 million from the end of the previous fiscal year. The main factors were increases of ¥25,868 million in retained earnings thanks to the recording of net income through favorable consolidated results, and ¥6,165 million in foreign currency translation adjustments due to foreign exchange fluctuation, despite cash dividends paid of ¥5,715 million.

As a result, the shareholders' equity ratio became 66.0%, compared with 61.8% at the end of the previous fiscal year. The current ratio*1 was 244.3%, compared with 223.2% at the end of the previous fiscal year, the quick ratio*2 was 185.1%, compared with 165.0%; and the interest coverage ratio*3 was 244.4 times, compared with 337.2 times.

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

Cash Flows

As of the end of this fiscal year, cash and cash equivalents ("net cash") had increased by ¥11,715 million from the end of the previous fiscal year, to ¥119,042 million. Below is the breakdown of cash flows by activities.

Cash Flows from Operating Activities

The amount of net cash provided by operating activities totaled ¥36,411 million (year-on-year decrease of 6.9%). Net cash used mainly included income taxes paid of ¥20,378 million (compared with ¥13,834 million in the previous fiscal year) and an increase in trade receivables of ¥5,522 million (compared with ¥12,667 million in the previous fiscal year). However, overall, there was a net increase in net cash due to income before income taxes and minority interests of ¥48,490 million (compared with ¥30,408 million in the previous fiscal year), and depreciation and amortization of ¥20,416 million (compared with ¥18,142 million in the previous fiscal year).

Cash Flows from Investing Activities

The amount of net cash used in investing activities totaled ¥14,861 million (year-on-year decrease of 2.6%). The main item of net cash used was purchases of property, plant and equipment and intangible assets totaling ¥13,531 million (compared with ¥14,530 million in the previous fiscal year).

Cash Flows from Financing Activities

The amount of net cash used in financing activities amounted to ¥12,500 million (year-on-year increase of 110.7%). The main factors for net cash used were cash dividends paid of ¥5,715 million (compared with ¥5,546 million in the previous fiscal year) and repayment of long-term borrowings of ¥5,333 million (compared with ¥5,167 million in the previous fiscal 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 ¥45 per share for the fiscal year ended March 31, 2013, including the stable dividend portion of ¥24 and a results-linked dividend of ¥21. For the fiscal year ending March 31, 2014, the Company plans to pay the stable dividend portion of ¥24 per share, and this will be considered by the Company in light of the consolidated operating results and other factors.

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.

Targets and Management Performance Indicators

The Group has adopted ROE (return on equity) as its key management performance indicator. Looking ahead, the Group will strive to continue to secure ROE of 10% or more by aiming to further expand profits through execution of strategies under the Mid-term Plan, as well as by effectively utilizing stockholders' equity.

Outlook for the Fiscal Year Ending March 31, 2014

Looking ahead, although there are some bright signs such as a recovery in Japan's stock markets, the business environment is expected to remain beset by uncertainties including individual consumption trends and economic developments in North America and Europe. Such factors are also expected to have an impact on the entertainment industry, in which the Group is extensively involved, resulting in ongoing uncertainty in this business environment.

Facing these circumstances, the Group started its three-year Mid-term Plan in April 2012, and will steadily implement the strategies in this plan. Specific areas of focus include obtaining new IP, developing products and services, and working to construct new business models with the aim of medium- to long-term growth, in addition to strengthening the business foundation further to stabilize and improve profitability.

In the Toys and Hobby Business, our plan for the Japanese market is to strengthen development through coordinated sales of products in the variety of categories revolving around long-established character toys, such as the *KAMEN RIDER* series, *Power Rangers* series, and *PRETTY CURE!* series. We will also expand our character lineup by such means as developing the new *Aikatsu!* characters for girls through cross-functional efforts undertaken across all businesses and launching new characters for boys. In tandem with this, we will aim to be No. 1 in Japan by an overwhelming margin by introducing new products and services such as card games, plastic models, and collectable toys for adults targeting a variety of customers. Outside Japan, in North America and Europe, where the market environment continues to be harsh, the Group will strive to improve profitability by strengthening the integrated brand management structure of North America and Europe and developing product sales with a focus on content for boys such as the mainstay *Power Rangers* series. In Asian markets, the Group aims to achieve growth through developments in conjunction with Japan, focusing on plastic models, collectable toys for adults, and card products that are popular in Japan.

In the Content Business, the Group will enhance its IP strategy for offering products and services in a wide variety of categories with a focus on IP. To this end, the Group will supplement its existing IP lineup by cultivating new IP mainly through various business operations centered around *PAC-MAN and the Ghostly Adventures*, a new animated series scheduled to be broadcast primarily in North America and Europe. Furthermore, the Group will put in place and improve the development environment from a medium- and long-term perspective, such as by implementing measures to respond swiftly to technological progress and changes in the environment.

Looking at approaches by business, in the network content area, the Group will work to achieve stable deployment of social games and online games through the launch of new games and timely upgrades of existing content. In the area of home video game software, the Group will introduce popular series while also taking a more proactive approach to new initiatives that make use of network functions such as download-only titles. For arcade game machines, in addition to development and sale of popular game machines, the Group will work to diversify sales methods through approaches including a system in which fees vary according to the amount of use. In the area of visual and music content, the Group will work to supplement sales of the *Mobile Suit Gundam* series by taking a proactive approach to creating new IP like the *Aikatsu!* characters.

In the Amusement Facility Business, in Japan, the Group will plan and operate facilities and services aimed at each target customer through reinforcement of its marketing by customer segment. The Group will also continue to promote the development of differentiated facilities that offer the experience of the Group's distinctive worldview of specific characters. In the summer of 2013, the Group will open new facilities including an indoor theme park based on popular creations from the comic book *Weekly Shonen Jump*. These various facilities will be operated as promotional venues for the entire Group. The Group will also strive to improve profitability by implementing various efficiency measures in North America and Europe.

In light of the above considerations, the consolidated projections of the fiscal year ending March 31, 2014 are as follows: net sales of ¥480,000 million (year-on-year decrease of 1.5%), operating income of ¥40,000 million (year-on-year decrease of 17.8%), and net income of ¥26,000 million (year-on-year decrease of 19.7%).

Consolidated Plan for the Fiscal Year Ending March 31, 2014

Millions of yen

Segments	Net sales	Segment income
Toys and Hobby	¥180,000	¥13,000
Content	250,000	28,000
Amusement Facility	60,000	2,000
Other	24,000	1,000
Adjustments	(34,000)	(4,000)
Consolidated	¥480,000	¥40,000

Forward-Looking Statements

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

CONSOLIDATED BALANCE SHEETS

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
As of March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (note 3)
	2012	2013	2013
Assets			
Current assets:			
Cash and time deposits (notes 4 and 12)	¥ 106,959	¥ 119,133	$ 1,266,699
Short-term investments (notes 4, 5 and 12)	2,074	4,380	46,571
Trade receivables (notes 6 and 12)	69,102	77,069	819,447
Allowance for doubtful receivables	(678)	(485)	(5,157)
Inventories (note 7)	37,040	36,644	389,623
Deferred tax assets (note 13)	8,734	10,580	112,493
Other current assets	17,689	17,483	185,890
Total current assets	240,920	264,804	2,815,566
Investments and other assets:			
Investment securities (notes 5 and 12)	22,177	25,405	270,122
Deferred tax assets (note 13)	6,427	8,399	89,304
Other investments and assets	21,664	21,180	225,199
Allowance for doubtful receivables	(1,711)	(1,338)	(14,226)
Total investments and other assets	48,557	53,646	570,399
Property, plant and equipment:			
Buildings and structures	25,253	25,319	269,208
Amusement facilities and machines	60,593	60,999	648,581
Land	11,389	11,538	122,679
Other property, plant and equipment	74,870	86,537	920,117
Total	172,105	184,393	1,960,585
Less accumulated depreciation	(127,605)	(137,137)	(1,458,129)
Net property, plant and equipment	44,500	47,256	502,456
Intangible assets:			
Total intangible assets	8,195	8,497	90,346
Total assets	¥ 342,172	¥ 374,203	$ 3,978,767

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars (note 3) 2013
Liabilities and net assets			
Current liabilities:			
Short-term borrowings (notes 9 and 12)	¥ 6,773	¥ 5,596	$ 59,500
Trade payables (notes 10 and 12)	48,742	46,472	494,120
Accrued expenses	32,864	38,070	404,785
Accrued income taxes (notes 12 and 13)	9,360	7,853	83,498
Other current liabilities (notes 9 and 13)	10,207	10,400	110,581
Total current liabilities	107,946	108,391	1,152,484
Long-term liabilities:			
Long-term borrowings (notes 9 and 12)	12,883	7,500	79,745
Accrued retirement and severance benefits (note 11)	3,141	3,724	39,596
Deferred tax liabilities (note 13)	983	1,589	16,895
Other long-term liabilities (note 9)	4,093	4,229	44,965
Total long-term liabilities	21,100	17,042	181,201
Total liabilities	129,046	125,433	1,333,685
Net assets:			
Shareholders' equity			
Common stock (note 19)			
Authorized: 1,000,000,000 shares			
Issued: 222,000,000 shares	10,000	10,000	106,326
Additional paid-in capital	52,246	52,246	555,513
Retained earnings (note 17)	173,250	199,118	2,117,151
Treasury stock, at cost; 2,308,176 shares in 2012 and 2,309,342 shares in 2013 (note 19)	(2,383)	(2,385)	(25,359)
Subtotal	233,113	258,979	2,753,631
Accumulated other comprehensive income			
Unrealized gains or losses on other securities, net of tax (note 5)	2,868	5,212	55,417
Deferred gains or losses on hedges, net of tax	230	642	6,826
Revaluation reserve for land, net of tax (note 18)	(6,409)	(5,609)	(59,638)
Foreign currency translation adjustments	(18,358)	(12,193)	(129,644)
Subtotal	(21,669)	(11,948)	(127,039)
Minority interests	1,682	1,739	18,490
Total net assets	213,126	248,770	2,645,082
Total liabilities and net assets	¥342,172	¥374,203	$3,978,767

CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2012 and 2013

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (note 3)
	2012	2013	2013
Net sales	¥454,211	¥487,241	$5,180,659
Cost of sales	286,708	304,162	3,234,045
Gross profit	167,503	183,079	1,946,614
Selling, general and administrative expenses (note 14)	132,896	134,436	1,429,410
Operating income	34,607	48,643	517,204
Other income (loss):			
Interest and dividend income	450	457	4,859
Interest expense	(137)	(142)	(1,510)
Gain (loss) on sales of investment securities, net	(3)	15	159
Loss on valuation of investment securities	(1,406)	(21)	(223)
Gain (loss) on sales and disposal of fixed assets, net	(925)	(234)	(2,488)
Loss on impairment of fixed assets (note 8)	(1,105)	(506)	(5,380)
Other	(1,073)	278	2,956
	(4,199)	(153)	(1,627)
Income before income taxes and minority interests	30,408	48,490	515,577
Income taxes (note 13)	10,949	16,038	170,526
Income before minority interests	19,459	32,452	345,051
Minority interests	155	69	734
Net income	¥ 19,304	¥ 32,383	$ 344,317

	Yen		U.S. dollars (note 3)
	2012	2013	2013
Data per common share (note 16):			
Net assets at March 31	¥962.45	¥1,124.45	$11.96
Net income:			
Basic	85.62	147.40	1.57
Diluted	—	—	—
Cash dividends applicable to period (note 17)	26.00	45.00	0.48

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (note 3)
	2012	2013	2013
Income before minority interests	¥19,459	¥32,452	$345,051
Other comprehensive income			
Unrealized gains or losses on other securities, net of tax (note 5)	2,452	2,325	24,721
Deferred gains or losses on hedges, net of tax	226	412	4,381
Revaluation reserve for land, net of tax (note 18)	83	—	—
Foreign currency translation adjustments	(637)	6,283	66,805
Share of other comprehensive income (loss) of associates accounted for using equity method	(32)	33	350
Total other comprehensive income	2,092	9,053	96,257
Comprehensive income	¥21,551	¥41,505	$441,308
Comprehensive income attributable to:			
Owners of the parent	¥21,452	¥41,304	$439,171
Minority interests	99	201	2,137

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, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (note 3)
	2012	2013	2013
Shareholders' equity			
Common stock (note 19):			
Balance at beginning of year	¥ 10,000	¥ 10,000	$ 106,326
Balance at end of year	10,000	10,000	106,326
Additional paid-in capital:			
Balance at beginning of year	69,924	52,246	555,513
Disposal of treasury stock	0	(0)	(0)
Retirement of treasury stock	(17,678)	—	—
Balance at end of year	52,246	52,246	555,513
Retained earnings (note 17):			
Balance at beginning of year	159,492	173,250	1,842,105
Net income	19,304	32,383	344,317
Reversal of revaluation reserve for land	—	(800)	(8,506)
Cash dividends	(5,546)	(5,715)	(60,765)
Balance at end of year	173,250	199,118	2,117,151
Treasury stock (note 19):			
Balance at beginning of year	(3,496)	(2,383)	(25,338)
Net change during year	1,113	(2)	(21)
Balance at end of year	(2,383)	(2,385)	(25,359)
Total shareholders' equity	¥233,113	¥258,979	$2,753,631
Accumulated other comprehensive income (loss)			
Unrealized gains or losses on other securities, net of tax (note 5):			
Balance at beginning of year	448	2,868	30,494
Net change during year	2,420	2,344	24,923
Balance at end of year	2,868	5,212	55,417
Deferred gains or losses on hedges, net of tax:			
Balance at beginning of year	3	230	2,446
Net change during year	227	412	4,380
Balance at end of year	230	642	6,826
Revaluation reserve for land, net of tax (note 18):			
Balance at beginning of year	(6,492)	(6,409)	(68,145)
Net change during year	83	800	8,507
Balance at end of year	(6,409)	(5,609)	(59,638)
Foreign currency translation adjustments:			
Balance at beginning of year	(17,776)	(18,358)	(195,194)
Net change during year	(582)	6,165	65,550
Balance at end of year	(18,358)	(12,193)	(129,644)
Total accumulated other comprehensive income	¥ (21,669)	¥ (11,948)	$ (127,039)
Minority interests:			
Balance at beginning of year	1,590	1,682	17,884
Net change during year	92	57	606
Balance at end of year	1,682	1,739	18,490
Total net assets at end of year	¥213,126	¥248,770	$2,645,082

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (note 3)
	2012	2013	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 30,408	¥ 48,490	$ 515,577
Depreciation and amortization	18,142	20,416	217,076
Loss on impairment of fixed assets	1,105	506	5,380
Loss (gain) on sales and disposal of fixed assets, net	925	234	2,488
Loss on disposal of amusement facilities and machines	435	407	4,327
Loss (gain) on sales of investment securities, net	(81)	(49)	(521)
Loss on valuation of investment securities	1,406	21	223
Decrease (increase) in trade receivables	(12,667)	(5,522)	(58,713)
Decrease (increase) in inventories	4,082	(1,558)	(16,566)
Acquisition of amusement facilities and machines	(2,926)	(3,516)	(37,384)
Increase (decrease) in trade payables	12,634	(4,264)	(45,338)
Other	(870)	1,312	13,950
Subtotal	52,593	56,477	600,499
Interest and dividends received	469	461	4,902
Interest paid	(116)	(149)	(1,584)
Income taxes paid	(13,834)	(20,378)	(216,672)
Net cash provided by operating activities	39,112	36,411	387,145
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	(85)	(2,352)	(25,008)
Purchases of property, plant and equipment	(9,883)	(8,842)	(94,014)
Sales of property, plant and equipment	34	272	2,892
Purchases of intangible assets	(4,647)	(4,689)	(49,856)
Purchases of investment securities	(239)	(102)	(1,085)
Sales of investment securities	337	101	1,074
Proceeds from redemption of investment securities	24	74	787
Purchases of investments in subsidiaries	—	(250)	(2,658)
Payments for investments in capital of subsidiaries and affiliates	(1,235)	—	—
Payments of loans receivable	(544)	(229)	(2,435)
Collection of loans receivable	435	676	7,188
Payments of guarantee money deposited	(393)	(610)	(6,486)
Collection of guarantee money deposited	900	1,175	12,493
Other	32	(85)	(904)
Net cash used in investing activities	(15,264)	(14,861)	(158,012)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	1,383	(1,317)	(14,003)
Proceeds from long-term borrowings	20,050	—	—
Repayment of long-term borrowings	(5,167)	(5,333)	(56,704)
Payment of lease obligations	(78)	(83)	(883)
Decrease (increase) in treasury stock, net	(16,564)	(2)	(21)
Cash dividends paid	(5,546)	(5,715)	(60,765)
Proceeds from capital paid by minority interests	25	—	—
Cash dividends paid to minority interests	(35)	(50)	(532)
Net cash used in financing activities	(5,932)	(12,500)	(132,908)
Effect of exchange rate changes on cash and cash equivalents	81	2,665	28,336
Net increase (decrease) in cash and cash equivalents	17,997	11,715	124,561
Cash and cash equivalents at beginning of year	89,330	107,327	1,141,170
Cash and cash equivalents at end of year (note 4)	¥107,327	¥119,042	$1,265,731

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 foreign 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 fiscal year ended March 31, 2013.

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 income.

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 income.

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 fiscal year. Gains and losses, resulting from the translation of foreign currency financial statements are generally excluded from the consolidated statements of income 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 market 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 market value are principally carried at market value. The difference, net of tax, between the acquisition cost and the carrying amount of other securities with market value is recognized in "Unrealized gains or losses on other securities, net of tax" in "Net assets" in the consolidated balance sheets until realized. Other securities without market value are principally carried at cost. The cost of other securities sold is principally computed based on the moving average method. Investments in investment limited partnerships or similar associations (investments that are deemed to be securities under the Financial Instruments and Exchange Act, Article 2, Clause 2), are carried at the net amount proportionate to the Company's ownership interests, based on the most recent financial statements available in accordance with the financial reporting date specified in the partnership agreement.

(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.

From this consolidated fiscal year, the Company and some of its domestic consolidated subsidiaries have applied the consolidated taxation system.

(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 3–5 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 market 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 market value or the cumulative changes in the cash flows of the hedged item with the cumulative changes in the market 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 a defined benefit corporate pension plan and defined benefit retirement lump-sum benefit system plan, and a defined contribution pension plan. Other domestic consolidated subsidiaries (excluding domestic consolidated subsidiaries with no retirement benefit system) have established a defined benefit corporate pension plan, a defined benefit retirement lump-sum benefit system, and defined benefit comprehensive employee pension funds. Certain consolidated subsidiaries have established a defined contribution pension plan and a defined contribution smaller corporate retirement allowance mutual aid plan. Moreover, additional benefits may be paid at retirement. Certain foreign consolidated subsidiaries have established defined benefit pension plans, retirement lump-sum benefit systems, 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.

The Company plans to adopt the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) for the fiscal year ending March 31, 2014. Amendments related to determining the method of attributing expected benefit to periods will be effective from the beginning of the fiscal year ending March 31, 2015. There are transitional measures for this accounting standard, and accordingly it will not be applied retroactively to the financial statements for previous fiscal years. The effect on the consolidated financial statements of the application of this standard is currently in the process of being determined.

Summary of the accounting standard that has not yet been adopted

Under the new accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net assets section, after adjusting for tax effects, and the deficit or surplus of a defined benefit plan would be recognized as a liability or asset without any adjustments. In regard to the method of attributing expected benefit to periods, the Standard now allows the benefit formula basis to be used, in addition to the straight-line basis. The method for determination of the discount rate has also been amended.

(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) Appropriation of Retained Earnings

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

(r) Data per Common Share

In computing basic net income per common share, the average number of shares outstanding during each year has been used. Diluted net income per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in issuance of common stock.

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

(s) Change in Accounting Policies with Amendment of Respective Law or Regulation that are Not Distinguishable from Changes in Accounting Estimates

Changes in depreciation method for property, plant and equipment

From the fiscal year ended March 31, 2013, in accordance with the amendment in corporate tax law, the Company and some of its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment. Assets acquired on or after April 1, 2012 are depreciated using the method prescribed in the amended corporate tax law. Due to this change in depreciation method, operating income and income before income taxes have each increased by ¥382 million ($4,062 thousands) for the fiscal year ended March 31, 2013.

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 fiscal year ended March 31, 2013 have been translated into U.S. dollars at the rate of ¥94.05=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2013.

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, 2012 and 2013 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
	2012	2013	2013
Cash and time deposits	¥106,959	¥119,133	$1,266,699
Short-term investments	2,074	4,380	46,571
Time deposits with maturities in excess of three months	(1,706)	(4,471)	(47,539)
Cash and cash equivalents	¥107,327	¥119,042	$1,265,731

Cash and time deposits of ¥3 million is pledged as collateral for bank transaction guarantees as of March 31, 2012. No cash and cash equivalents is pledged as collateral as of March 31, 2013.

5 Short-Term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2012 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Other securities with market value	¥13,842	¥18,902	$200,978
Other securities without market value	1,443	1,527	16,236
Investments in non-consolidated subsidiaries and affiliated companies	8,879	9,273	98,596
Contributions to investment partnerships	87	83	883
Total of short-term investments and investment securities	¥24,251	¥29,785	$316,693

The original cost, carrying amount (market value), and gross unrealized holding gain (loss) for other securities with market value as of March 31, 2012 and 2013 are summarized as follows:

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

	Millions of yen			
	2013			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (market value)
Other securities with market value:				
Equity securities	¥ 7,721	¥6,804	¥(3)	¥14,522
Other	4,380	—	—	4,380
Total	¥12,101	¥6,804	¥(3)	¥18,902

	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (market value)
	Thousands of U.S. dollars			
	2013			
Other securities with market value:				
Equity securities	$ 82,095	$72,344	$(32)	$154,407
Other	46,571	—	—	46,571
Total	$128,666	$72,344	$(32)	$200,978

The following is a summary of the carrying amount of other securities without market value as of March 31, 2012 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
	Carrying amount	Carrying amount	Carrying amount
Other securities without market value:			
Unlisted securities	¥1,443	¥1,527	$16,236
Total	¥1,443	¥1,527	$16,236

Proceeds and gross realized gains and losses from the sales of other securities in the fiscal years ended March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Equity securities	¥133	¥55	$585
Other	100	10	106
Proceeds from the sales of other securities	¥233	¥65	$691
Gross realized gains from the sales of other securities	56	15	159
Gross realized losses from the sales of other securities	(59)	(0)	(0)

6 Trade Receivables

Trade receivables as of March 31, 2012 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Notes receivable	¥ 6,065	¥ 2,569	$ 27,315
Accounts receivable–trade	62,972	74,457	791,675
Lease receivables and investment assets	65	43	457
Total	¥69,102	¥77,069	$819,447

7 Inventories

Inventories as of March 31, 2012 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Finished goods and merchandise	¥12,908	¥10,916	$116,066
Work in process	19,417	19,598	208,379
Raw materials and supplies	4,715	6,130	65,178
Total	¥37,040	¥36,644	$389,623

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 fiscal years ended March 31, 2012 and 2013 are as follows:

				Millions of yen		Thousands of U.S. dollars
Strategic business unit	Items	Classification	Location	2012	2013	2013
Toys and Hobby	Software for Internet content business	Intangible assets	Seoul, Korea (Note 2)	¥ 322	¥ —	$ —
	Assets scheduled for disposal	Buildings and structures, and other assets	Kyoto City, Kyoto, and others (Note 4)	31	—	—
	Assets for business use	Other property, plant and equipment	Cergy-pontoise, France (Note 1)	27	—	—
Content	Assets for business use	Intangible assets, and other assets	Shinagawa-ku, Tokyo (Note 2)	256	—	—
	Assets scheduled for disposal	Intangible assets, and other assets	Shinagawa-ku, Tokyo, and others (Note 3)	27		
	Assets for rental use	Land	Ota-ku, Tokyo (Note 6)	27		
Amusement Facility	Amusement facility	Amusement facilities and machines, and other assets	Koto-ku, Tokyo, and others (Note 1)	228	—	—
			Staffordshire, U.K., and others (Note 2)	98	—	—
			Norfolk, U.K., and others (Note 1)	66	—	—
			Narashino City, Chiba (Note 4)	6		
Other	Assets scheduled for disposal	Buildings and structures, and other assets	Shinagawa-ku, Tokyo (Note 3)	14	—	—
		Land, and other assets	Nagoya City, Aichi (Note 5)	3		
Toys and Hobby	Software for Internet content business	Intangible assets	Seoul, Korea (Note 1)	—	91	967
	Assets scheduled for disposal	Buildings and structures, and other assets	Taito-ku, Tokyo (Note 3)	—	71	755
			Funabashi City, Chiba, and others (Note 4)	—	17	181
Content	Assets scheduled for disposal	Other property, plant and equipment	Shinagawa-ku, Tokyo (Note 3)	—	12	127
Amusement Facility	Amusement facility	Amusement facilities and machines	Nagoya City, Aichi, and others (Note 3)	—	186	1,978
			Kobe City, Hyogo (Note 4)	—	44	468
Corporate (Common)	Assets scheduled for disposal	Buildings and structures, and other assets	Shinagawa-ku, Tokyo (Note 3)	—	85	904
Total				¥1,105	¥506	$5,380

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 market 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. In addition, these assets were determined to have no market value.
4. 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 market value.
5. 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.
6. 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, 2012 and 2013 are summarized as follows:

	2012		2013		2013
	Millions of yen				Thousands of U.S. dollars
	Carrying amount	Weighted average interest rate (%)	Carrying amount	Weighted average interest rate (%)	Carrying amount
Short-term borrowings	¥ 1,440	1.08	¥ 213	2.63	$ 2,265
Long-term borrowings due within one year	5,333	0.78	5,383	0.73	57,235
Lease obligations due within one year	66	4.62	71	4.97	755
Long-term borrowings (Less current portion)	12,883	0.80	7,500	0.76	79,745
Lease obligations (Less current portion)	119	3.00	96	4.42	1,021
Total	¥19,841	—	¥13,263	—	$141,021

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 March 31, 2011.

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

(3) From the date of the loan agreement and until all obligations to the lender and its agents under the terms of the 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, 2013 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥ 5,454	$ 57,990
2015	4,566	48,549
2016	2,030	21,584
2017	1,000	10,633
2018	—	—
Total	¥13,050	$138,756

10 Trade Payables

Trade payables as of March 31, 2012 and 2013 are summarized as follows:

	2012	2013	2013
	Millions of yen		Thousands of U.S. dollars
Notes payable	¥ 8,624	¥ 4,776	$ 50,781
Accounts payable–trade	40,118	41,696	443,339
Total	¥48,742	¥46,472	$494,120

11 Retirement and Severance Benefits

The plans' funded status and amounts of accrued retirement and severance benefits as of March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Projected benefit obligations	¥(15,891)	¥(18,798)	$(199,872)
Plan assets at market value	10,354	11,070	117,703
Projected benefit obligation in excess of plan assets	(5,537)	(7,728)	(82,169)
Unrecognized loss	2,668	4,231	44,987
Unrecognized prior service cost	(266)	(227)	(2,414)
Net retirement and severance benefits recognized on the consolidated balance sheets	(3,135)	(3,724)	(39,596)
Prepaid pension cost	6	—	—
Total accrued retirement and severance benefits	¥ (3,141)	¥ (3,724)	$ (39,596)

Notes: 1. In addition to the above plan assets, plan assets of ¥277 million and ¥148 million ($1,574 thousand) as of March 31, 2012 and 2013, 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 fiscal years ended March 31, 2012 and 2013 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Service cost for benefits earned, net of employee contributions	¥1,597	¥1,691	$17,980
Interest cost on projected benefit obligations	266	280	2,977
Expected return on plan assets	(269)	(154)	(1,637)
Amortization of unrecognized actuarial gain or loss	368	356	3,785
Amortization of prior service cost	(42)	(28)	(298)
Net periodic cost	¥1,920	¥2,145	$22,807

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 ¥15 million and ¥8 million ($85 thousand) were charged to "Cost of sales" and "Selling, general and administrative expenses" in the fiscal years ended March 31, 2012 and 2013, respectively. Also, additional discretionary retirement allowances of ¥199 million and ¥560 million ($5,954 thousand) were charged to "Selling, general and administrative expenses" in the fiscal years ended March 31, 2012 and 2013, respectively.
In addition, for certain consolidated subsidiaries, additional retirement allowances of ¥542 million and ¥51 million ($542 thousand) were recorded for the fiscal years ended March 31, 2012 and 2013, 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.

Actuarial assumptions and the basis for the calculation of retirement and severance benefits in 2012 and 2013 are as follows:

	2012	2013
Method of benefit attribution	"Benefits/years-of-service" approach	"Benefits/years-of-service" approach
Discount rate	1.25%~2.00%	0.60%~1.40%
Expected rate of return on plan assets	2.50%~3.02%	1.62%~2.50%
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, 2012 and 2013, designated large customers were counterparties for 13.7% and 12.0% 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 Note "2 Summary of Significant Accounting Policies—(l) Derivatives and Hedging Activities" in the Notes to Consolidated Financial Statements.

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 market value of financial instruments

The market 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. Market Value of Financial Instruments

The carrying amounts of financial instruments as stated in the consolidated balance sheets, their market values as of March 31, 2012 and 2013, and the differences between carrying amounts and market values are as stated below. This table does not include assets for which it was judged extremely difficult to assess the market value (Note 2 below).

	Millions of yen						Thousands of U.S. dollars		
	2012			2013			2013		
	Carrying amount	Market value	Difference	Carrying amount	Market value	Difference	Carrying amount	Market value	Difference
(1) Cash and time deposits	¥106,959	¥106,959	¥ —	¥119,133	¥119,133	¥ —	$1,266,699	$1,266,699	$ —
(2) Trade receivables	69,102	69,102	—	77,069	77,069	—	819,447	819,447	—
(3) Short-term investments and investment securities	21,187	22,597	1,410	26,292	28,027	1,735	279,553	298,001	18,448
Total assets	¥197,248	¥198,658	¥1,410	¥222,494	¥224,229	¥1,735	$2,365,699	$2,384,147	$18,448
(1) Trade payables	48,742	48,742	—	46,472	46,472	—	494,120	494,120	—
(2) Short-term borrowings	6,773	6,773	—	5,596	5,596	—	59,500	59,500	—
(3) Accrued income taxes	9,360	9,360	—	7,853	7,853	—	83,498	83,498	—
(4) Long-term borrowings	12,883	12,883	—	7,500	7,500	—	79,745	79,745	—
Total liabilities	¥ 77,758	¥ 77,758	¥ —	¥ 67,421	¥ 67,421	¥ —	$ 716,863	$ 716,863	$ —
Derivative financial instruments*	¥ 270	¥ 270	¥ —	¥ 964	¥ 964	¥ —	$ 10,250	$ 10,250	$ —

* 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 market value of financial instruments and derivative transactions

Assets

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

Their market values are almost identical with the carrying amount, since these assets will be settled within a short period of time.

(3) Short-term investments and investment securities

The market 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 Note "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

Their market values are almost identical with the carrying amount, since these assets are readily convertible into cash.

(4) Long-term borrowings

The market 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 Note "21 Foreign Exchange Risk Management and Interest Rate Risk Management" in the Notes to Consolidated Financial Statements.

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

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
	Carrying amount	Carrying amount	Carrying amount
Unlisted stocks	¥1,443	¥1,527	$16,236
Stocks of affiliated companies (unlisted stocks)	1,534	1,883	20,021
Contributions to investment partnerships	87	83	883

As these instruments do not have readily available market values, and their market 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			
	2012				2013				2013			
	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	¥106,959	¥ —	¥—	¥—	¥119,133	¥ —	¥—	¥—	$1,266,699	$ —	$—	$—
Trade receivables	68,300	802	—	—	75,772	1,297	—	—	805,656	13,791	—	—
Total	¥175,259	¥802	¥—	¥—	¥194,905	¥1,297	¥—	¥—	$2,072,355	$13,791	$—	$—

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% and 38.0% for the fiscal years ended March 31, 2012 and 2013, respectively.

Income tax expenses reflected in the accompanying consolidated statements of income for the fiscal years ended March 31, 2012 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Income taxes–current	¥15,583	¥19,649	$208,920
Income taxes–deferred	(4,634)	(3,611)	(38,394)
Total	¥10,949	¥16,038	$170,526

Reconciliation of the normal tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the fiscal years ended March 31, 2012 and 2013 is as follows:

	2012	2013
Normal tax rate	40.6%	38.0%
Entertainment expenses not deductible for tax purposes	1.0	0.7
Corporate inhabitant tax on per capita basis	0.8	0.4
Directors' bonuses	1.9	1.2
Change in valuation allowance for deferred tax assets	(2.0)	(2.3)
Amortization of goodwill	0.5	0.2
Differences of tax rates of foreign consolidated subsidiaries	(0.8)	(0.3)
Reversal of revaluation reserve for land, net of tax	—	(0.6)
Tax credit for research and development expenses	(3.2)	(5.4)
Impact of adoption of consolidated tax payment system	(7.0)	—
Effect of changes in tax rates on net deferred tax assets	4.0	—
Other	0.2	1.2
Effective tax rate	36.0%	33.1%

Significant components of deferred tax assets and liabilities as of March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Deferred tax assets:			
Losses carried forward	¥ 15,790	¥ 14,504	$ 154,216
Inventory valuation losses	7,459	7,376	78,426
Excess depreciation of fixed assets	4,894	6,364	67,666
Accrued employee bonuses	3,957	4,167	44,306
Accrued retirement and severance benefits	1,098	1,300	13,822
Accrued enterprise taxes and others	885	1,256	13,355
Loss on valuation of advance payments	959	1,022	10,867
Loss on impairment of fixed assets	853	838	8,910
Research and development expenses	546	488	5,189
Allowance for doubtful receivables	453	456	4,848
Unrealized gains or losses on other securities	2	—	—
Revaluation reserve for land	2,662	2,377	25,274
Other	7,246	7,874	83,722
Total gross deferred tax assets	46,804	48,022	510,601
Valuation allowance	(30,605)	(27,994)	(297,650)
Total deferred tax assets	16,199	20,028	212,951
Deferred tax liabilities:			
Reserve for advanced depreciation of fixed assets	(96)	(91)	(968)
Retained earnings of foreign consolidated subsidiaries	(296)	(284)	(3,020)
Unrealized gains or losses on other securities	(765)	(1,463)	(15,556)
Revaluation reserve for land	(591)	(591)	(6,284)
Other	(296)	(209)	(2,221)
Total deferred tax liabilities	(2,044)	(2,638)	(28,049)
Net deferred tax assets	¥ 14,155	¥ 17,390	$ 184,902

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

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Current assets–Deferred tax assets	¥ 8,734	¥10,580	$112,493
Investments and other assets–Deferred tax assets	6,427	8,399	89,304
Current liabilities–Other (deferred tax liabilities)	(23)	—	—
Long-term liabilities–Deferred tax liabilities	(983)	(1,589)	(16,895)
Total	¥14,155	¥17,390	$184,902

14 Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Advertising expenses	¥ 33,385	¥ 32,600	$ 346,624
Directors' remuneration and employees' wages	34,337	36,160	384,476
Employees' retirement and severance benefits	1,593	2,159	22,956
Provision for directors' bonuses	1,365	1,172	12,461
Research and development expenses	17,866	16,619	176,704
Other	44,350	45,726	486,189
Total	¥132,896	¥134,436	$1,429,410

15 Other Comprehensive Income

The components of "Other comprehensive income" for the fiscal years ended March 31, 2012 and 2013 is as follows:

	Millions of yen				
	2012				
	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
Deferred gains or losses on hedges	(138)	436	298	(72)	226
Revaluation reserve for land	—	—	—	83	83
Foreign currency translation adjustments	(756)	119	(637)	—	(637)
Share of other comprehensive income of associates accounted for using equity method	(37)	5	(32)	—	(32)
Total	¥ 789	¥1,890	¥2,679	¥(587)	¥2,092

	Millions of yen					Thousands of U.S. dollars				
	2013					2013				
	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	¥ 2,865	¥ 7	¥2,872	¥(547)	¥2,325	$30,463	$ 75	$ 30,538	$(5,817)	$24,721
Deferred gains or losses on hedges	1,233	(744)	489	(77)	412	13,110	(7,911)	5,199	(818)	4,381
Revaluation reserve for land	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	6,237	46	6,283	—	6,283	66,315	490	66,805	—	66,805
Share of other comprehensive income of associates accounted for using equity method	16	17	33	—	33	170	180	350	—	350
Total	¥10,351	¥(674)	¥9,677	¥(624)	¥9,053	$110,058	$(7,166)	$102,892	$(6,635)	$96,257

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

Diluted net income per common share is not presented for the fiscal years ended March 31, 2012 and 2013 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 ($17,491 thousand) at March 31, 2012 and 2013, 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 fiscal year ended March 31, 2013 were cash dividends of ¥7,254 million ($77,129 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 fiscal year ended March 31, 2013 was ¥2,638 million ($28,049 thousand).

18 Revaluation Reserve for Land

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 "Revaluation reserve for land, net of tax" was reported in "Net assets" in the consolidated balance sheets.

Revaluation method:

The market 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 ¥1,122 million ($11,930 thousand) were recognized based on the difference between the land carrying amount, which was revalued as of March 31, 2002, and the market value of the land as of March 31, 2013.

19 Common Stock and Treasury Stock

The changes in the number of common stock and treasury stock for the fiscal years ended March 31, 2012 and 2013 were as follows:

Common stock (number of shares)	2012	2013
Number of shares at beginning of year	240,000,000	222,000,000
Retirement of treasury stock	(18,000,000)	—
Number of shares at end of year	222,000,000	222,000,000

Treasury stock (number of shares)	2012	2013
Number of shares at beginning of year	3,497,884	**2,308,176**
Purchase of treasury stock as per a decision made by the Board of Directors	16,806,264	**—**
Retirement of treasury stock	(18,000,000)	**—**
Other	4,028	**1,166**
Number of shares at end of year	2,308,176	**2,309,342**

20 Leases

As lessee

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

Operating leases

Future minimum payments required under operating leases as of March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Within one year	¥1,158	¥2,478	$26,348
Over one year	5,044	6,246	66,411
Total	¥6,202	¥8,724	$92,759

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, market values, and gains or losses from valuation of forward foreign exchange contracts outstanding as of March 31, 2012 and 2013 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		
	2012			2013			2013		
	Contract amount	Estimated market value	Unrealized gain (loss)	Contract amount	Estimated market value	Unrealized gain (loss)	Contract amount	Estimated market value	Unrealized gain (loss)
Forward foreign exchange contracts									
Sold:									
Yen	¥1,886	¥ 1	¥ 1	¥2,208	¥156	¥156	$23,477	$1,658	$1,658
Euro	—	—	—	345	8	8	3,668	85	85
U.S. dollars	696	(34)	(34)	331	1	1	3,519	11	11
Purchased:									
Yen	1	(0)	(0)	—	—	—	—	—	—
U.S. dollars	—	—	—	224	6	6	2,382	64	64
Total	¥2,583	¥(33)	¥(33)	¥3,108	¥171	¥171	$33,046	$1,818	$1,818

Notes: 1. Method of calculating market 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

			Millions of yen				Thousands of U.S. dollars	
			2012		2013		2013	
Hedge accounting method	Hedging method	Hedged items	Contract amount	Estimated market value	Contract amount	Estimated market value	Contract amount	Estimated market value
Deferred	Forward foreign exchange contracts							
	Sold:							
	Yen	Accounts receivable–trade	¥4,509	¥ 76	¥ 7,835	¥586	$ 83,307	$6,232
	Polish zloty	Accounts receivable–trade	23	(0)	—	—	—	—
	U.S. dollars	Accounts receivable–trade	7	(0)	—	—	—	—
	Purchased:							
	U.S. dollars	Accounts payable–trade	3,482	210	6,249	217	66,443	2,307
	H.K. dollars	Accounts payable–trade	89	7	60	2	638	21
	Yen	Accounts payable–trade	70	3	61	(9)	649	(96)
	Chinese yuan	Accrued expenses	1,011	7	2,061	(4)	21,914	(43)
Total			¥9,191	¥303	¥16,266	¥792	$172,951	$8,421
Foreign exchange allocation method	Forward foreign exchange contracts							
	Purchased:							
	U.S. dollars	Accounts payable–trade	230	12	199	28	2,116	298
Total			¥ 230	¥ 12	¥ 199	¥ 28	$ 2,116	$ 298

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

22 Commitments and Contingent Liabilities

Commitments as of March 31, 2012 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Guarantee of obligation resulting from rental contracts of unconsolidated subsidiary	¥172	¥136	$1,446

23 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 ("SBUs"), 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 SBUs. The major company of each SBU leads the planning and promotion of the business strategies of the SBU 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 distributes network content, manufactures and sells arcade game machines, and produces home 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" in the Notes to Consolidated Financial Statements. 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.

Change in depreciation method

In accordance with revision of the Corporation Tax Act, from the fiscal year ended March 31, 2013, the Company and its consolidated domestic subsidiaries have changed their depreciation and amortization method based on the revised Corporation Tax Act for property, plant and equipment acquired on or after April 1, 2012.

As a result of this change, the effect on the segment income of respective reportable segments for the fiscal year ended March 31, 2013 is as follows:

Millions of yen

	2013							
	Reportable Segment							
	Toys and Hobby	Content	Amusement Facility	Subtotal	Other	Total	Adjustments (note)	Consolidated total
Segment income	**¥249**	**¥132**	**¥1**	**¥382**	**¥19**	**¥401**	**¥(19)**	**¥382**

Thousands of U.S. dollars

	2013							
	Reportable Segment							
	Toys and Hobby	Content	Amusement Facility	Subtotal	Other	Total	Adjustments (note)	Consolidated total
Segment income	**$2,647**	**$1,404**	**$11**	**$4,062**	**$202**	**$4,264**	**$(202)**	**$4,062**

Note: The adjustment to segment income of –¥19 million (–$202 thousand) includes elimination of inter-segment transactions of –¥45 million (–$478 thousand), and corporate expenses not allocated to reportable segments of ¥26 million ($276 thousand).

Change in calculation method for increase in property, plant and equipment and intangible assets

Until the previous fiscal year, transfers from inventories were not included in increase in property, plant and equipment and intangible assets. However, from the fiscal year ended March 31, 2013, transfers from inventories are included in increase in property, plant and equipment and intangible assets.

Increase in property, plant and equipment and intangible assets for the previous fiscal year has been restated to reflect this change.

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	12,406	3,675	5,444	21,525	541	22,066	1,692	23,758

Millions of yen

2013	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	¥165,957	¥251,790	¥60,113	¥477,860	¥ 9,381	¥487,241	¥ —	¥487,241
Inter-segment sales and transfers	7,020	11,806	73	18,899	16,407	35,306	(35,306)	—
Total	¥172,977	¥263,596	¥60,186	¥496,759	¥25,788	¥522,547	¥(35,306)	¥487,241
Segment income	11,255	36,438	1,684	49,377	1,693	51,070	(2,427)	48,643
Segment assets	103,784	152,130	34,745	290,659	21,348	312,007	62,196	374,203
Other items:								
Depreciation and amortization	¥ 12,289	¥ 2,539	¥ 5,692	¥ 20,520	¥ 482	¥ 21,002	¥ (586)	¥ 20,416
Amortization of goodwill	—	151	—	151	—	151	142	293
Loss on impairment of fixed assets	179	12	230	421	—	421	85	506
Investments in associates accounted for using equity method	517	—	131	648	7,581	8,229	—	8,229
Increase in property, plant and equipment and intangible assets	11,561	4,636	5,017	21,214	489	21,703	2,133	23,836

Thousands of U.S. dollars

2013	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	$1,764,562	$2,677,192	$639,160	$5,080,914	$ 99,745	$5,180,659	$ —	$5,180,659
Inter-segment sales and transfers	74,641	125,529	776	200,946	174,450	375,396	(375,396)	—
Total	$1,839,203	$2,802,721	$639,936	$5,281,860	$274,195	$5,556,055	$(375,396)	$5,180,659
Segment income	119,670	387,433	17,905	525,008	18,001	543,009	(25,805)	517,204
Segment assets	1,103,498	1,617,544	369,431	3,090,473	226,986	3,317,459	661,308	3,978,767
Other items:								
Depreciation and amortization	$ 130,665	$ 26,996	$ 60,521	$ 218,182	$ 5,125	$ 223,307	$ (6,231)	$ 217,076
Amortization of goodwill	—	1,605	—	1,605	—	1,605	1,510	3,115
Loss on impairment of fixed assets	1,903	128	2,445	4,476	—	4,476	904	5,380
Investments in associates accounted for using equity method	5,497	—	1,393	6,890	80,606	87,496	—	87,496
Increase in property, plant and equipment and intangible assets	122,925	49,293	53,344	225,562	5,199	230,761	22,679	253,440

Notes: 1. The "Other" business segment is not a reportable segment and includes logistics services and printing services for the Group's SBUs.
2. Details of "Adjustments" are as follows:
(1) The adjustment to segment income of -¥2,941 million for the fiscal year ended March 31, 2012 includes elimination of inter-segment transactions of -¥149 million and corporate expenses not allocated to reportable segments of -¥2,792 million. The adjustment to segment income of -¥2,427 million (-$25,805 thousand) for the fiscal year ended March 31, 2013 includes elimination of inter-segment transactions of ¥842 million ($8,953 thousand) and corporate expenses not allocated to reportable segments of -¥3,269 million (-$34,758 thousand). Principal corporate expenses are expenses related to administrative divisions not belonging to reportable segments.
(2) The adjustment to segment assets of ¥50,573 million for the fiscal year ended March 31, 2012 includes elimination of inter-segment transactions of -¥11,715 million and corporate assets not allocated to reportable segments of ¥62,288 million. The adjustment to segment assets of ¥62,196 million ($661,308 thousand) for the fiscal year ended March 31, 2013 includes elimination of inter-segment transactions of -¥19,159 million (-$203,711 thousand) and corporate assets not allocated to reportable segments of ¥81,355 million ($865,019 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 -¥1,484 million for the fiscal year ended March 31, 2012 includes elimination of inter-segment transactions of -¥1,697 million and depreciation and amortization expense not allocated to reportable segments of ¥213 million. The adjustment to depreciation and amortization expense of -¥586 million (-$6,231 thousand) for the fiscal year ended March 31, 2013 includes elimination of inter-segment transactions of -¥1,644 million (-$17,480 thousand) and depreciation and amortization expense not allocated to reportable segments of ¥1,058 million ($11,249 thousand).
(4) The adjustment to amortization of goodwill of ¥143 million and ¥142 million ($1,510 thousand) for the years ended March 31, 2012 and 2013, respectively, are related to goodwill not allocated to reportable segments.
(5) The adjustment to loss on impairment of fixed assets of ¥85 million ($904 thousand) for the fiscal year ended March 31, 2013 is related to corporate assets not allocated to reportable segments.
(6) The adjustment to property, plant and equipment and intangible assets of ¥1,692 million and ¥2,133 million ($22,679 thousand) for the fiscal years ended March 31, 2012 and 2013, respectively, are related to corporate assets not allocated to reportable segments.
3. Segment income is reconciled to operating income on the consolidated statements of income.

For the fiscal years ended March 31, 2012 and 2013, 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

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

Millions of yen

2013	Japan	Americas	Europe	Asia, excluding Japan	Total
Net sales	¥399,261	¥35,803	¥28,569	¥23,608	¥487,241
Property, plant and equipment	39,157	2,039	1,877	4,183	47,256

Thousands of U.S. dollars

2013	Japan	Americas	Europe	Asia, excluding Japan	Total
Net sales	$4,245,200	$380,680	$303,764	$251,015	$5,180,659
Property, plant and equipment	416,343	21,680	19,957	44,476	502,456

3. Information by major customer

Fiscal year ended March 31, 2012	Name	Net sales	Name of related segment
	Happinet Corporation	¥47,522 million	Toys and Hobby, Content

Fiscal year ended March 31, 2013	Name	Net sales	Name of related segment
	—	—	—

Note: There is no outside customer representing 10% or more of the net sales in the consolidated statement of income, for the fiscal year ended March 31, 2013.

4. By reportable segment, information regarding the amount of amortization of goodwill and negative goodwill for the fiscal years ended March 31, 2012 and 2013, and the unamortized balance of goodwill and negative goodwill as of March 31, 2012 and 2013, is as follows:

Millions of yen

	2012					
	Toys and Hobby	Content	Amusement Facility	Other	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

Millions of yen

	2013					
	Toys and Hobby	Content	Amusement Facility	Other	Corporate and eliminations (note)	Total
Amortization of goodwill	¥—	¥151	¥—	¥—	¥142	¥293
Unamortized balance of goodwill	—	4	—	—	57	61
Amortization of negative goodwill	—	3	—	—	—	3
Unamortized balance of negative goodwill	—	3	—	—	—	3

Thousands of U.S. dollars

	2013					
	Toys and Hobby	Content	Amusement Facility	Other	Corporate and eliminations (note)	Total
Amortization of goodwill	$—	$1,605	$—	$—	$1,510	$3,115
Unamortized balance of goodwill	—	43	—	—	606	649
Amortization of negative goodwill	—	32	—	—	—	32
Unamortized balance of negative goodwill	—	32	—	—	—	32

Note: 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.

24 Related Party Disclosures

Transactions with Related Parties

Fiscal 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	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	Accounts receivable–trade	¥9,461 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.

Fiscal year ended March 31, 2013

(1) 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, 2013
Affiliated company	Happinet Corporation	Taito-ku, Tokyo	¥2,751 million ($29,250 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)	¥46,086 million ($490,016 thousand)	Accounts receivable–trade	¥9,241 million ($98,256 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.

(2) Transactions by consolidated subsidiaries of the Company with directors, Audit & Supervisory Board members and principal stockholders (limited to individual stockholders) of the Company

Type	Name	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, 2013
Audit & Supervisory Board member	Kouji Yanase	—	—	Audit & Supervisory Board Member Lawyer	Held directly 0.0%	Corporate lawyer of the Company	Legal fees	¥11 million ($117 thousand)	Accrued expenses	¥1 million ($11 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.
Attorney compensation is based on advisory agreements with the Company's subsidiaries and is determined after deliberations with reference to the compensation standards of the Japan Federation of Bar Associations.

25 Business Combinations

Transactions conducted by commonly controlled entities, and others

1. Names and business content of the companies involved in the combination, the date of combination, legal form of the combination, name of the company after the combination, and outline of the transaction, including its purpose.
   (1) Names and business content of the companies involved in the combination
      (i) NAMCO BANDAI Games Europe S.A.S.
      (a consolidated subsidiary of the Company)
      Sales and marketing of home video game software
      (ii) NAMCO BANDAI Partners S.A.S.
      (a consolidated subsidiary of the Company)
      A holding company and a shared-service company of the NAMCO BANDAI Partners group that carries out sales and other related services of home video game software
   (2) Date of combination
   September 28, 2012
   (3) Legal form of the combination
   An absorption-type merger in which NAMCO BANDAI Games Europe S.A.S. is the surviving company and NAMCO BANDAI Partners S.A.S. was the company absorbed.
   (4) Name of the company after the combination
   NAMCO BANDAI Games Europe S.A.S. (a consolidated subsidiary of the Company)
   (5) Outline of the transaction, including its purpose
   Based on the Mid-term Plan that went into effect in April 2012, the marketing operations of NAMCO BANDAI Games Europe S.A.S. and the sales operations of NAMCO BANDAI Partners S.A.S. were integrated for more efficient operations, aimed at recovering profitability in the Content Business in the European region.
2. Overview of accounting
   The accounting in the consolidated financial statements was conducted as a transaction made by commonly controlled entities, in accordance with the provisions of the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, final revision issued on December 26, 2008).

26 Significant Subsequent Events

A meeting of the Company's Board of Directors convened on May 21, 2013, determined the conditions for offering stock acquisition rights to four directors of the Company and seven directors of its subsidiary NAMCO BANDAI Games Inc. and approved a resolution to offer the said stock acquisition rights to the said directors.

1. Reason for issue of stock acquisition rights as stock options
   With a view to enhancing the morale of directors and heightening their motivation to improve the Company's performance, the 7th General Meeting of Shareholders, held on June 18, 2012, introduced a new remuneration system that grants stock compensation-type stock options on condition that the BANDAI NAMCO Group achieves the targets of its Mid-term Plan. For the year ended March 31, 2013, the Company's operating income surpassed the Mid-term Plan's ¥42.5 billion operating income target, thereby meeting the condition for granting stock compensation-type stock options. As a result, the Company shall issue stock compensation-type stock options to four directors of the Company and seven directors of its subsidiary NAMCO BANDAI Games Inc.

2. Summary of issuance of stock acquisition rights

(1) Name of the stock acquisition rights offered
NAMCO BANDAI Holdings Inc. 7th stock acquisition rights

(2) Total number of the stock acquisition rights offered
361 (100 shares per stock acquisition right)

(3) Class and number of shares to be delivered upon exercise of the stock acquisition rights offered
36,100 shares of the Company's common stock
However, in the event that the Company carries out a share split (including allotments of shares of the Company's common stock without receipt of monetary consideration, with the same applying hereafter for stock split) or share consolidation, the number of shares to be delivered upon exercise of stock acquisition rights shall be adjusted in accordance with the following formula; provided, however, that such adjustment shall only be carried out with respect to the number of shares to be delivered upon exercise of stock acquisition rights that are not 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 shall be rounded down.

Number of shares granted after adjustment = Number of shares granted before adjustment × Stock split or reverse stock split ratio

(4) Value of assets contributed upon exercise of the stock acquisition rights offered
The value of assets contributed upon exercise of each stock acquisition right offered shall be an amount equal to the amount to be paid of one yen per share to be delivered upon the exercise of the stock acquisition rights offered multiplied by the number of shares to be granted.

(5) Exercise period for the stock acquisition rights offered
From June 5, 2013, to June 4, 2033

(6) Matters concerning increase in capital or capital reserves when shares are issued upon the exercise of the stock acquisition rights offered

i) The increase in capital when shares are issued upon the exercise of stock acquisition rights shall be half the limit for capital increases as calculated in accordance with Article 17, Paragraph 1, of the Corporate Accounting Rules. Fractions of less than one yen resulting from the calculation shall be rounded up.

ii) The increase in capital reserves when shares are issued upon the exercise of stock acquisition rights shall be the limit on capital increases stated in i) above less the capital increase stated in i) above.

(7) Restriction on the acquisition of stock acquisition rights offered by transfer
Approval of the Board of Directors of the Company shall be required for the acquisition of stock acquisition rights offered by transfer.

(8) Conditions for acquiring the stock acquisition rights offered
When any of the following proposals i), ii), iii), iv), and v) are approved by the Company's general meeting of shareholders (if approval of the general meeting of shareholders is not required, then when the Board of Directors of the Company determines by resolution), the Company may acquire stock acquisition rights for free on a date separately determined by the Board of Directors.

i) A proposal for a merger agreement where the Company shall be dissolved;

ii) A proposal for a corporate divestiture agreement or corporate divestiture plan where the Company shall become a split company;

iii) A proposal for a stock exchange agreement or stock transfer plan where the Company shall become a wholly owned subsidiary of another company;

iv) A proposal for an approval of amendments to the articles of incorporation to establish new provisions by which any transfer of any shares to be issued by the Company shall be subject to the Company's approval; and

v) A proposal for an approval of amendments to the articles of incorporation to establish new provisions by which any acquisition through transfer of the type of any shares to be issued upon exercise of stock acquisition rights shall be subject to the Company's approval or the Company may acquire all of the shares in the relevant type to be issued upon exercise of stock acquisition rights by resolution of the general meeting of shareholders of the Company.

(9) Policy for determining details of cancellation of the stock acquisition rights offered in an organizational restructuring and granting of stock acquisition rights of a company subject to restructuring

If the Company conducts a merger (only if the Company is to be dissolved as a result of the merger), an absorption-type corporate divestiture or an establishment-type corporate divestiture (only if the Company is to become a split company), or a share exchange or share transfer (only if the Company is to become a wholly owned subsidiary) (the above are hereinafter collectively referred to as "organizational restructuring"), the Company shall grant stock acquisition rights of the Company listed in Article 236, Paragraph 1-8 of the Companies Act of Japan ("the restructured company"), in each respective case, to stock acquisition rights holders with stock acquisition rights remaining ("remaining stock acquisition rights") immediately prior to the day the organizational restructuring takes effect (the date the absorption-type merger takes effect for an absorption-type merger, the date of establishment of the newly established company for an establishment-type merger, the date the absorption-type divestiture takes effect for an absorption-type corporate divestiture, the date the establishment-type corporate divestiture takes effect for an establishment-type corporate divestiture, the date the share exchange takes effect for a share exchange, or the date of establishment of the wholly owning parent company for a share transfer). However, this shall apply only to cases in which the granting of stock acquisition rights of the restructured company in accordance with the items below is provided for in the absorption-type merger agreement, establishment-type merger agreement, absorption-type corporate divestiture agreement, establishment-type corporate divestiture agreement, share exchange agreement, or share transfer plan.

i) Number of stock acquisition rights of the restructured company to be granted
   The same number of stock acquisition rights as the remaining stock acquisition rights held by stock acquisition rights holders
ii) Class of shares of the restructured company to be delivered upon exercise of stock acquisition rights
   Shares of common stock of the restructured company
iii) Number of shares of the restructured company to be delivered upon exercise of stock acquisition rights
   This shall be decided pursuant to (3) above based on consideration of the terms of the organizational restructuring and other factors.
iv) Value of assets contributed upon the exercise of stock acquisition rights
   The value of assets contributed upon the exercise of each stock acquisition right to be granted shall be the amount resulting from multiplying the paid-in amount after restructuring, as specified below, by the number of shares of the restructured company subject to the said stock acquisition rights, as decided pursuant to iii) above. The paid-in amount after restructuring shall be one yen per share of the restructured company issuable upon the exercise of each stock acquisition right granted.
v) Exercise period for stock acquisition rights
   The exercise period shall start at the beginning of the period for exercising the stock acquisition rights offered as stated in (5) above or the date on which the organizational restructuring takes effect, whichever is later, and end on the final day of the period for exercising the stock acquisition rights offered as stated in (5) above.
vi) Matters concerning increase in capital or capital reserves when shares are issued upon the exercise of stock acquisition rights
   These shall be decided pursuant to (6) above.
vii) Restriction on the acquisition of stock acquisition rights by transfer
   Approval of the Board of Directors of the restructured company shall be required for the acquisition of stock acquisition rights by transfer.
viii) Conditions for acquiring stock acquisition rights
   This shall be decided pursuant to (8) above.
ix) Other conditions for exercising stock acquisition rights
   These shall be decided pursuant to (11) below.

(10) Arrangement for fractional shares arising from the exercise of stock acquisition rights offered
   Any fractional shares of shares to be granted to stock acquisition rights holders who have exercised stock acquisition rights offered shall be rounded down.
(11) Other conditions for the exercise of stock acquisition rights offered
   i) A stock acquisition rights holder may, within the period mentioned in (5) above, 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.
   ii) If a stock acquisition rights holder has renounced his or her stock acquisition rights, he or she may not exercise the said stock acquisition rights offered.
(12) Amount to be paid for the stock acquisition rights offered
   ¥121,963 per stock acquisition right
   Instead of cash payment, the Company shall offset subscribers' rights to compensation from the Company against their payment obligations for the paid-in amount for stock acquisition rights offered.
(13) Allotment date for the stock acquisition rights offered
   June 5, 2013
(14) Due date for payment to be made in exchange for the stock acquisition rights offered
   The due date for payment shall be June 5, 2013.

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, 2013 and 2012, and the consolidated statements of income, 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, 2013 and 2012, 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, 2013 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

August 8, 2013
Tokyo, Japan

CORPORATE DATA

As of March 31, 2013

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

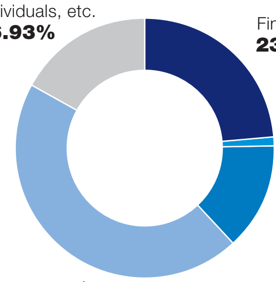
Stock Information:

Number of Shares Authorized:	1,000,000,000 shares
Number of Shares Issued:	222,000,000 shares
Number of Shareholders:	42,800
Number of Shares per Trading Unit:	100 shares

Major Shareholders:

Name	% of Total
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.29%
Japan Trustee Services Bank, Ltd. (Trust Account)	3.34%
MAL Ltd.	3.16%
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	2.98%
XIL, LTD.	2.70%
Masaya Nakamura	2.68%
The Nomura Trust and Banking Co., Ltd. (Retirement and Severance Benefits Trust, The Bank of Tokyo-Mitsubishi UFJ Account)	2.07%
State Street Bank and Trust Company 505225	1.77%
Nintendo Co., Ltd.	1.73%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1.66%

Ownership Breakdown:



OVERVIEW OF MAIN GROUP COMPANIES

As of April 1, 2013

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

Toys and Hobby Strategic Business Unit

Bandai Co., Ltd.	Planning, production, and sales of toys, plastic models, candy toys, vending machine products, apparel, and sundries, etc.
Mega House	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 management functions 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.zo.o	Sales of toy-related products
BANDAI (H.K.) CO., LTD.	Regional management functions; import, export, manufacturing, and sales of toy-related products
BANDAI KOREA CO., LTD.	Manufacturing, import, and sales of toys, games, etc.; licensing operations
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
BANDAI PHILIPPINES INC.	Manufacturing of toy-related products

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
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.

* Companies accounted for by the equity method

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

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*	Based on an optimal distribution system, Happinet distributes toys, visual and music software, video games and amusement products all over Japan
Sotsu Co., Ltd.*	Planning and development of advertising and copyright business
Italian Tomato Ltd.*	Management of directly operated restaurants; franchise operations

* Companies accounted for by the equity method

BANDAI NAMCO Group ANNUAL REPORT 2013

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