BANDAI NAMCO

Drawing Ahead

Annual Report 2008

NAMCO BANDAI Holdings Inc.


BANDAI
NAMCO

Our Vision

To Become the World's Most Inspiring Entertainment Group

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

Contents

Forward-Looking Statements

The forward-looking statements in this annual report are based on the information available to management as of August 6, 2008, and include various risks and uncertainties. Accordingly, actual results may differ materially from these projections for a variety of reasons. Major factors that could influence actual results include changes in the BANDAI NAMCO Group's operating environment, market trends, and exchange rate fluctuations.

Notes

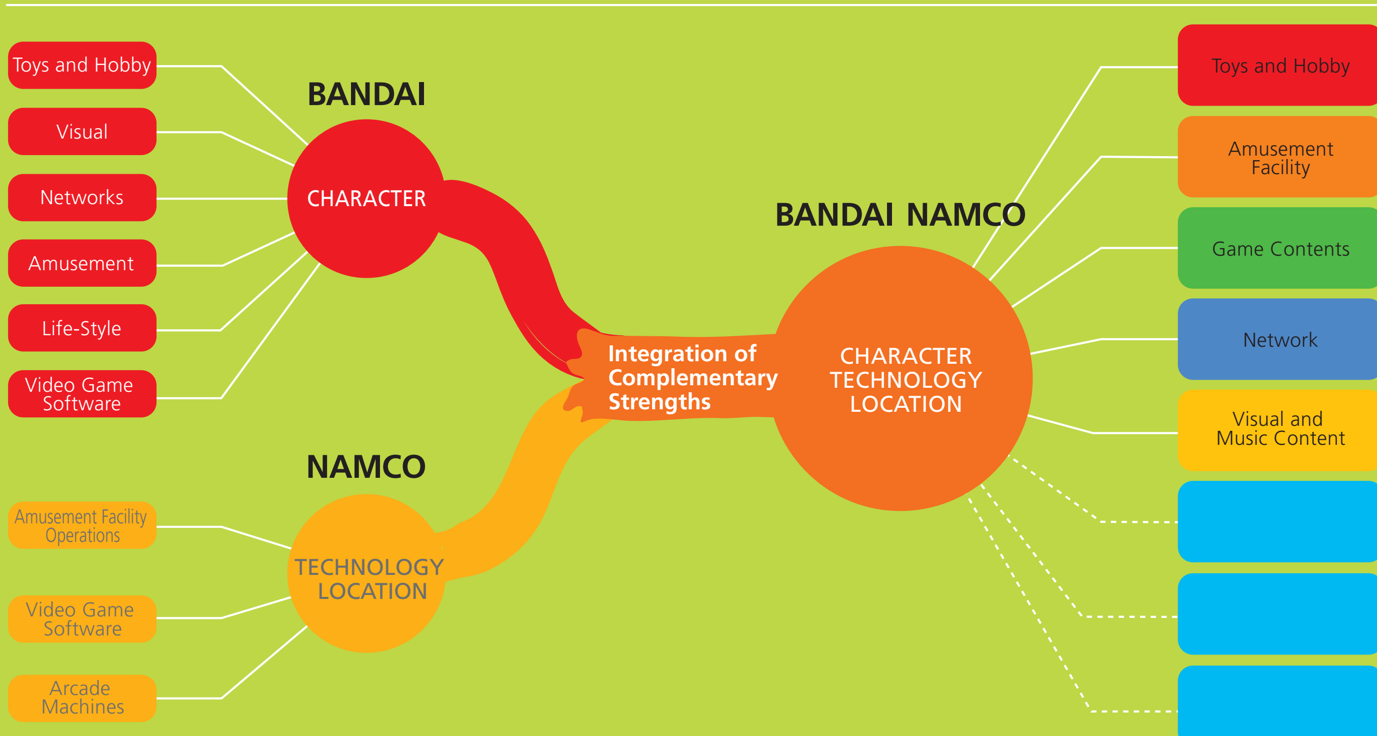
1. All figures in this report are rounded to the nearest unit.
2. Fiscal 2008, FY2008.3, and the year under review represent the one-year period ended March 31, 2008.
3. Figures in this annual report are as of May 2008.

Drawing Ahead

The BANDAI NAMCO Group will continue to create new value through entertainment as it moves toward a new future.

The BANDAI NAMCO Group is developing entertainment-related products and services worldwide in a wide range of fields, including toys, amusement facilities, arcade machines, video game software, network services, and visual products. It has been three years since the management integration of Bandai and NAMCO in September 2005, and over that period the BANDAI NAMCO Group has developed the foundations for targeting the fusion of our respective strengths and the leveraging of Group synergies. By creating new value through entertainment, the BANDAI NAMCO Group will endeavor to achieve further progress in the years ahead in accordance with the Group mission of providing "Dreams, Fun and Inspiration" to people around the world.

The Business Portfolio of the BANDAI NAMCO Group



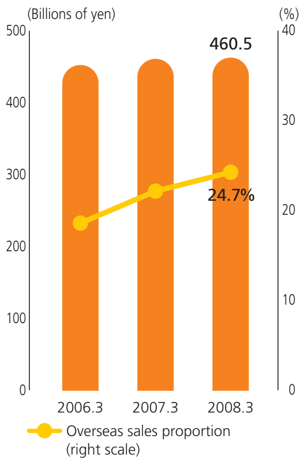
Consolidated Financial Highlights

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

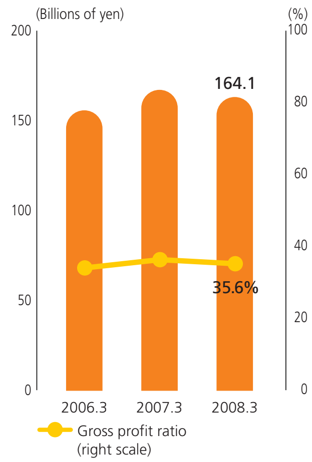
For the years ended March 31	Millions of yen, except per share data and main financial indicators 2006	2007	2008	% Change 2007 vs 2008	Thousands of U.S. dollars*1 except per share data 2008
For the Year					
Net sales	¥450,829	¥459,133	¥460,474	0.3%	$4,596,008
Gross profit	156,565	168,080	164,073	-2.4	1,637,619
Operating income	35,669	42,224	33,411	-20.9	333,476
Recurring income*2	37,122	45,616	36,198	-20.6	361,294
Net income	14,150	24,252	32,679	34.7	326,170
Capital expenditures	24,020	27,925	34,115	22.2	340,504
Depreciation	19,144	21,201	24,759	16.8	247,120
At Year-End					
Total assets	¥386,651	¥408,490	¥413,023	1.1%	$4,122,397
Total net assets	252,244	284,254	289,944	2.0	2,893,941
Per Share Data (yen and U.S. dollars*1)					
Net income (Basic)	¥54.39	¥95.73	¥128.65	34.4%	$1.28
Cash dividends	12.00	28.00	24.00	-14.3	0.24
Main Financial Indicators (%)					
Return on equity (ROE)*3	5.8%	9.4%	11.7%		
Return on assets (ROA)*3	9.6	11.5	8.8		
Overseas sales proportion	18.8	22.4	24.7		
Operating income margin	7.9	9.2	7.3		
Shareholders' equity ratio	63.0	67.1	69.4		

* 1 U.S. dollar amounts have been translated, for convenience only, at the rate of ¥100.19=U.S.$1, the approximate exchange rate on March 31, 2008.
* 2 Recurring income is a Japanese accounting term denoting income before extraordinary items.
* 3 Figures for total shareholders' equity and total assets as of March 31, 2006, are used in calculating ROE and ROA for the fiscal year ended March 31, 2006.

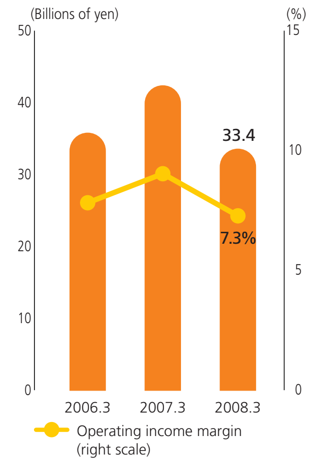
Net Sales / Overseas Sales Proportion



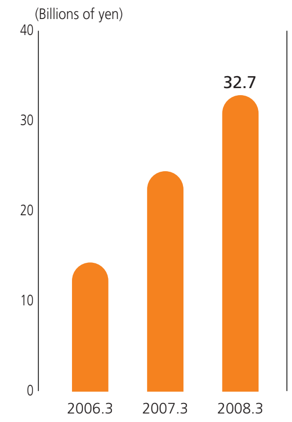
Gross Profit / Gross Profit Ratio



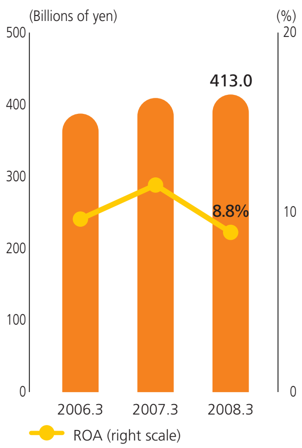
Operating Income / Operating Income Margin



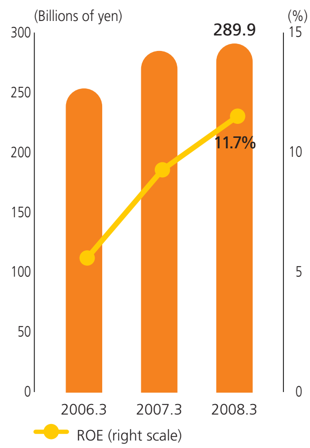
Net Income



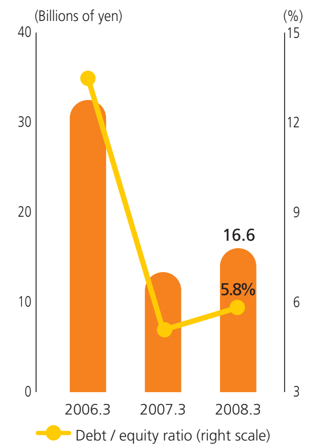
Total Assets / ROA



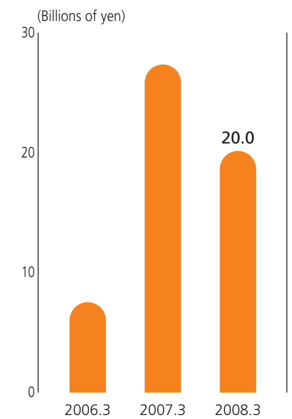
Total Net Assets / ROE



Interest-Bearing Debt / Debt / Equity Ratio

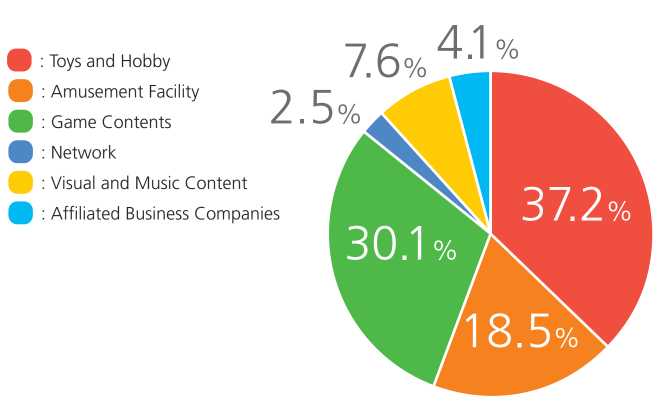


Free Cash Flows

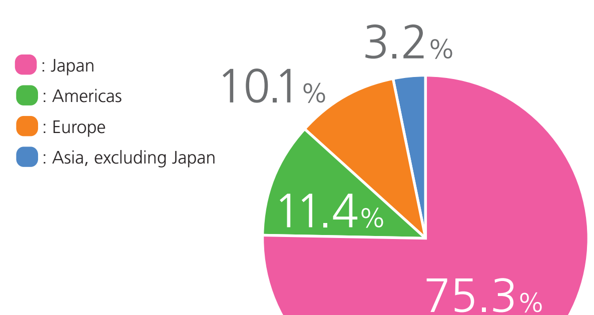


*Free cash flows = Net cash provided by operating activities + Net cash used in investing activities

Contribution to Net Sales by Business Segment



Contribution to Net Sales by Geographic Segment



Note: Percentage figures are calculated based on external sales.

To Our Shareholders and Investors

Drawing up New Value!!

It has been three years since the management integration of Bandai and NAMCO. Over that period, the Group has implemented a variety of operational and organizational initiatives to generate synergies and bolster foundations. Moving forward, we will build a business model utilizing our expertise, and will create new value through entertainment.

For the BANDAI NAMCO Group, the fiscal year ended March 31, 2008, was marked by extremely difficult conditions that affected our financial results. Accordingly, we have positioned the fiscal year ending March 31, 2009, as a period for strengthening our profit, business, and organizational foundations. We are building a flexible, strong management constitution that can respond to changes in the operating environment and a business foundation for the creation of new entertainment, and will use them to foster growth and expansion under our next Medium-term Management Plan, which is now being formulated.

I want to make the BANDAI NAMCO Group into an entertainment company that can compete on a par with industry leaders not only in Japan but around the world. Under the next Medium-term Management Plan, we will clarify our strategy for achieving this objective and build a business model utilizing our expertise, and with that model we will create new value through entertainment. We will strive to formulate a Medium-term Management Plan that transcends the stagnant economic conditions that are currently spreading around the world, and the entire Group will work together as we endeavor to record further growth.

The BANDAI NAMCO Group will continue to draw up new value and record new growth in the years ahead, and I would like to ask our shareholders and investors for their continued support and understanding.

August 2008

Takeo Takasu
President and Representative Director
NAMCO BANDAI Holdings Inc.

Q It has been three years since the management integration of Bandai and NAMCO. How do you evaluate the Group up to this point?

A From the first phase, in which we implemented the management integration of Bandai and NAMCO and reinforced our foundation by generating synergies, we have moved to the second phase, in which we will create a new business model for the BANDAI NAMCO Group.

Today, the Group has reached the position that it targeted three years ago when it implemented the management integration. In fact, in reorganizing and bolstering the Group's organization, we moved quickly in response to dramatically fluctuating market conditions. In the fiscal year ended March 31, 2008, with the objectives of further leveraging synergies and maximizing Group value, we made Bandai Networks and Bandai Visual wholly owned subsidiaries. We also reorganized the Game Contents SBU, and began to consolidate Group administrative functions. In addition, in April 2009, we plan to merge NAMCO BANDAI Games and Bandai Networks in order to integrate mobile content and network operations.

Following the management integration, our major priority in operations was the generation of Group synergies through the integration of Bandai and NAMCO. At this point, sharing content, infrastructure, and know-how between Bandai and NAMCO is very natural. They have been completely integrated. That is, the BANDAI NAMCO Group is a single company that has moved from the first phase, in which it strengthened its foundation through the integration and generation of synergies, to the second phase, in which it is creating a new business model that leverages BANDAI NAMCO's distinctive strengths.

"A business model that leverages our distinctive strengths in the creation of new value and new entertainment." I want to turn this into reality via the next Medium-term Management Plan, which will commence in April 2009.

Reorganization of the BANDAI NAMCO Group Targeting Higher Enterprise Value

For the BANDAI NAMCO Group to survive in global competition in the entertainment industry, which is undergoing substantial change, it is flexibly implementing reorganization initiatives targeting the establishment of the optimal Group organization. In the future, we will continue to pursue the optimal Group organizational structure in line with environmental changes and strategies.

Reorganization Progress in 2008

- **Bandai Networks and Bandai Visual made wholly owned subsidiaries**
  In February 2008, Bandai Networks and Bandai Visual became wholly owned subsidiaries of NAMCO BANDAI Holdings.
  In the future, based on the Groupwide medium-to-long-term management strategies, these two companies will work to maximze Group enterprise value, thereby fostering growth.
- **Reorganization of Game Contents SBU**
  In April 2008, the game operations of consolidated subsidiary Banpresto were transferred from Banpresto to NAMCO BANDAI Games. Banpresto will focus on prize operations, such as prizes for arcade game machines.
- **Consolidation of Group Administrative Departments**
  In April 2008, the functions of the administrative departments of four companies in the BANDAI NAMCO Group were consolidated and the Group Administrative Headquarters was established in NAMCO BANDAI Holdings.
  As a result, we will foster enhanced efficiency and standardization in the Group's indirect operations and build a system that is linked to the Group's management strategy functions.

Q What direction will the Group take under the next Medium-term Management Plan?

A We will compete on a par with the leading companies in the entertainment industry around the world. This is the direction that the Group will take under the next Medium-term Management Plan.

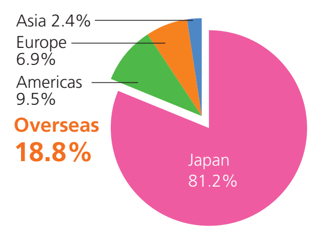
Since the management integration, the BANDAI NAMCO Group's vision has been to become "the World's Most Inspiring Entertainment Group," and its long-term objectives have been sales of ¥1 trillion, operating income of ¥100 billion, and an overseas sales percentage of 50%. However, this vision and these long-term numerical objectives have been general, symbolic targets without a timetable. In the future, we will clearly set the timetable for the achievement of these significant objectives. We will determine the positioning of the next Medium-term Management Plan, as well as its strategies.

Currently, based on our vision and numerical objectives, we are carefully considering Groupwide management challenges, such as the clarification of regions and businesses that will receive priority allocation of management resources and our content and global strategies. In this way, under the next Medium-term Management Plan, we will strive to create a business model that leverages the strengths of the BANDAI NAMCO Group based on the positioning of the plan with respect to long-term objectives and the clarification of specific strategies to achieve our goals.

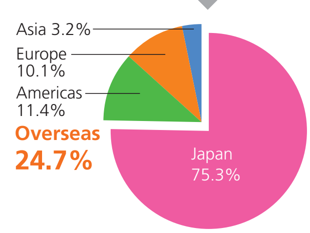
We will compete on a par with the leading companies in the entertainment industry around the world. This is the direction that the BANDAI NAMCO Group will take as we strive to be the "World's Most Inspiring Entertainment Group." Under the next Medium-term Management Plan, our fundamental approach to bolstering the Strategic Business Units (SBUs) and leveraging synergies among the SBUs will remain the same. The key to competing with leading companies around the world will be enhancing our overseas strategy, and implementing the Entertainment Hub concept together with partners in Japan and overseas. Furthermore, in striving to achieve our long-term objectives, we need to create new approaches and business models. Building the foundation for competition in global markets will be a central part of the next Medium-term Management Plan. Specifically, we are targeting sales of ¥1 trillion, operating income of ¥100 billion, and an overseas sales percentage of 50%. Our schedule for the plan is to settle the details within 2008 and to make an announcement around February 2009.

In any event, we want to formulate a dynamic Medium-term Management Plan that will guide us as we strive to overcome the pessimism that is spreading around the world as a result of the rising prices of crude oil and raw materials and of the U.S. subprime loan problem.

Contribution to Net Sales by Geographic Segment



FY2006.3



FY2008.3

Note: Percentage figures are calculated based on external sales.

The Entertainment Hub Concept

The Entertainment Hub Concept entails a total system, ranging from content creation to product development and sales, that is similar to the hub airport of an airline route network. By advancing a Content Strategy, Domain Strategy, and Channel Strategy, and not only strengthening tie-ups within the Group but also pursuing alliances and collaboration with other partners in Japan and overseas, we will build open relationships that are flexible and mutually beneficial. In this way, we will bolster hub functionality, and we will strive to create entirely new businesses, products, and services.

Progress in 2007 and 2008

- Strengthened capital and business relationships with the Toei Group and Kadokawa Holdings in March 2007
  Strengthening relationships with the Toei Group, as a strategic partner in the character business, such as in the *POWER RANGERS* series, and with the Kadokawa Group, as a media mix partner.
- Acquisition of a portion of Fujiya stock in May 2007
  Aiming to further expand candy toy operations and to promote collaboration with amusement facility operations.
- Capital and business tie-up with the Ishimori Group in May 2007
  Aiming to strengthen content development and to establish and activate markets in Japan and overseas for Ishinomori Shotaro productions.
- Capital and business tie-ups with TYO and Tsuburaya Productions Co., Ltd., in January 2008
  Aiming to further expand and invigorate the *Ultraman* Series content business.

Q **Would you give us an overview of the Group's consolidated results in the fiscal year ended March 31, 2008?**

A **We achieved a small increase in net sales, but due to a lack of major hit products, our gross profit margin declined, and the Amusement Facility SBU faced difficult conditions. As a result, operating income declined.**

In the entertainment industry, we are in the "between seasons" transition period accompanying the shift to next-generation hardware, and the market environment for amusement facilities has worsened. As a result, the outlook for the operating environment remains unclear.

In this setting, in the fiscal year ended March 31, 2008, net sales increased slightly, rising 0.3%, to ¥460.5 billion, while operating income was down, declining 20.9%, to ¥33.4 billion. The principal reasons for the decline in operating income included lower gross profit margins due to a shortage of major industry-leading, hit products. In addition, due to difficult operating conditions, the Amusement Facility business faced difficult conditions, and the Visual and Music Content business decided, as a matter of policy, to accept returns of unsold products from retail outlets. Also, costs increased due to the consolidation of bases in the Game Contents business, and a change in the method of accounting for depreciation and amortization. As a result, we did not reach the levels of performance forecast at the beginning of the fiscal year, net sales of ¥480 billion and operating income of ¥45 billion.

On the other hand, we did achieve a substantial increase in net income, which was up 34.7%, to ¥32.7 billion. Although we recorded an impairment loss due to the closure of domestic amusement facilities and an impairment loss on poorly performing amusement facilities overseas, which were recorded as other losses, a huge contribution of ¥16.8 billion was made by gain on the sale of land in Minato-ku, Tokyo, undertaken for asset securitization, which was recorded as other income.

Q What is the outlook for the fiscal year ending March 31, 2009?

A We have positioned the fiscal year ending March 31, 2009, as a period for strengthening our foundation for growth and development under the next Medium-term Management Plan. With each SBU working to respond rapidly to the challenges it faces, and with the Group taking steps to determine the optimal organizational system, we will lay a solid foundation in both performance and organizational areas.

In consideration of our results in the fiscal year ended March 31, 2008, we have positioned the fiscal year ending March 31, 2009, as a period of reinforcing the foundation for growth and expansion under the next Medium-term Management Plan. Accordingly, each SBU will strive to overcome the challenges it faces with the lessons learned from the previous year's performances. In the Amusement Facility SBU, for example, we will close facilities and improve profitability through restructuring measures, while in the Visual and Music Content SBU we will bolster our business in Blu-ray Discs. In these ways, we will reinforce our revenue/profit foundation. We will also consider the optimal organizational system for implementing our content strategy. In this way, we will prepare for expansion and growth under the next Medium-term Management Plan.

For the fiscal year ending March 31, 2009, we are forecasting net sales of ¥470 billion, an increase of 2.1%; operating income of ¥38 billion, up 13.7%; and net income of ¥22.5 billion, down 31.1%. Following the fiscal year ended March 31, 2008, when we did not achieve our initial plan, we are forecasting sales and profits that do not meet the targets announced at the time the current Medium-term Management Plan was formulated.

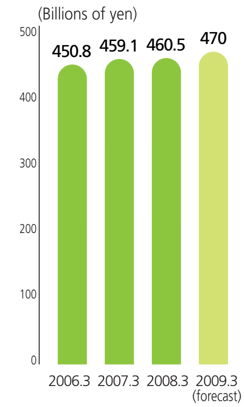
Q In the final year of the plan, the Group is forecasting results that fall short of the plan's targets. Would you explain the circumstances behind these forecasts?

A The penetration of next-generation home-use game consoles has been slower than expected, which has had an influence on the video game industry. Other factors were the influence on the Visual and Music Content SBU of the "between seasons" transition period accompanying the shift to next-generation video standards, as well as the poor performance in Amusement Facility SBU. Under these circumstances, we will strive to meet our revised objectives for the fiscal year ending March 31, 2009.

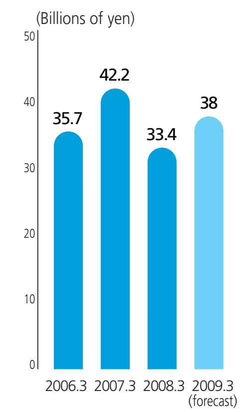
The reasons are clear. First, the Game Contents SBU was not able to record growth as planned. An assumption of the current Medium-term Management Plan was that the Game Contents SBU would record major growth. However, the penetration of next-generation home-use game consoles has been slower than expected, which has had a major influence. Another reason is that the Amusement Facility SBU did not record positive results. We were unable to rapidly adapt to changes in the market environment, and faced difficult conditions especially in existing facilities. Also, the "between seasons" period accompanying the transition from DVD to Blu-ray Disc had an effect on the Visual and Music Content SBU. These are the major reasons why we are forecasting results that fall short of the targets in the Medium-term Management Plan.

In consideration of these factors, the entire Group will work together to do its utmost to achieve the forecasted results for the fiscal year ending March 31, 2009, which have been revised to reflect the current market environment.

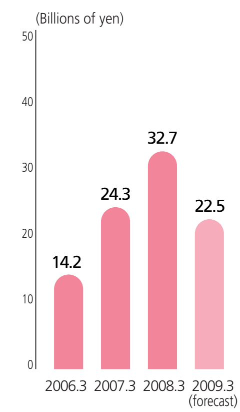
Net Sales



Operating Income



Net Income



Q What initiatives is the Group implementing to create new value?

A To create new entertainment, which is the source of competitive strength over the medium to long term, we have established a framework that we call the "Dream Fund."

The BANDAI NAMCO Group strives to create entertaining products in accordance with its mission of providing "Dreams, Fun and Inspiration" to people around the world, and accordingly, we create value through entirely new products and services. To that end, we have worked to establish an open corporate culture that supports the development of fresh ideas from the employees and to build various frameworks, such as a proposal system. In addition, we have established the new Dream Fund framework.

For example, we target technology development from a medium-to-long-term perspective that transcends the SBU framework or the creation of new operations and business models that extend across SBUs. NAMCO BANDAI Holdings will use the new framework in the determination of budgets and in resource allocation and investment decisions. Utilizing this new framework, we will reinforce our organizational and operational foundations as well as develop ideas for the new entertainment and new businesses that will be the source of our competitive strength over the medium-to-long-term perspective.

Q Would you discuss the policy for returns to shareholders, especially dividends?

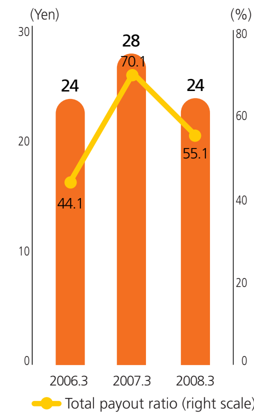
A For the fiscal year ended March 31, 2008, we decided to pay dividends of ¥24 per share, a level that corresponds to the stable portion of our dividend policy. In addition, we decided to use a portion of the remaining balance of net income, which in previous years had been allocated to internal reserves, for the purchase of our own shares.

Our fundamental policy for providing a return to shareholders is to aim for a payout ratio of 30% in accordance with consolidated operational results, based on a stable annual dividend payment of ¥24 per share. For the fiscal year ended March 31, 2008, in consideration of our under-performance, we decided to pay dividends of ¥24 per share (interim dividend of ¥12 per share and year-end dividend of ¥12 per share), a level that corresponds to the stable portion of our dividend policy.

In addition, we clarified our approach to the allocation of profits. In the past, after appropriation of an amount equivalent to a 30% dividend payout ratio from the consolidated periodical net income, we, in principle, allocated the remaining balance of net income to retained earnings as a reserve for future investments and for strengthening our financial position. We have resolved to attribute a portion of this remaining balance to the acquisition of our 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.

In accordance with this approach, between April 1 and July 30, 2008, we acquired 8 million of our own shares, and on August 18, 2008, we retired 6,080,191 shares of treasury stock.

Cash Dividends / Total Payout Ratio



Note 1:
Dividends for the fiscal year ended March 31, 2006, include share transfer payments made in lieu of interim dividends.
Note 2:
Total payout is calculated on the basis of total dividends plus total aquisitions of treasury stock.

Q Please tell us about the Group’s CSR initiatives.

A Without the support of society, the Company will not be able to grow. We are working at both business activities and CSR activities in accordance with our strong commitment to providing “Dreams, Fun and Inspiration” and existing as a Group together with society.

The Group’s corporate philosophy is to provide “Dreams, Fun and Inspiration” to people around the world through entertainment based on creativity and boundless enthusiasm. Accordingly, we have formulated Groupwide CSR initiatives that include three types of responsibilities—environmental and social, economic, and legal and ethical. Centered on the CSR Committee, which I lead, we are working to implement a range of CSR activities unique to the BANDAI NAMCO Group.

In regard to legal and ethical responsibilities, we have taken steps to ensure that Group companies in Japan and overseas and all directors and employees understand the fundamental elements of compliance. At the same time, we are thoroughly implementing legal and ethical compliance under our own corporate governance system.

However, it is more important to increase the awareness of each employee about CSR in a wide range of fields, including compliance, product and service safety, environmental considerations, and other CSR activities. I am working to foster that awareness through my own actions.

Without the support of society, the Company will not be able to grow. We are working at both business activities and CSR activities in accordance with our strong commitment to providing “Dreams, Fun and Inspiration” and existing as a Group together with society.

August 2008

Special Feature

Strategic Business Units—R

The BANDAI NAMCO Group comprises five SBUs and the Affiliated Business Companies, which support the SBUs. NAMCO BANDAI Holdings manages and oversees the Group as a whole, and the SBUs, which are composed of the operating companies, formulate and implement business strategies in Japan and overseas. In this section, each SBU's results and growth strategies are presented.

BANDAI NAMCO Group At a Glance

Toys and Hobby

Amusement Facility

Game Contents

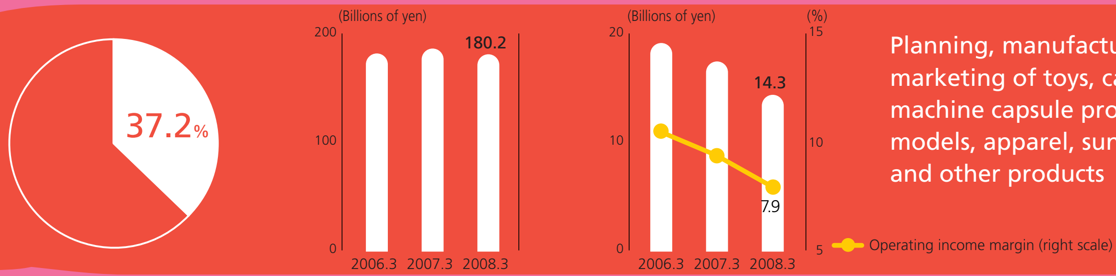
Network

Visual and Music Content

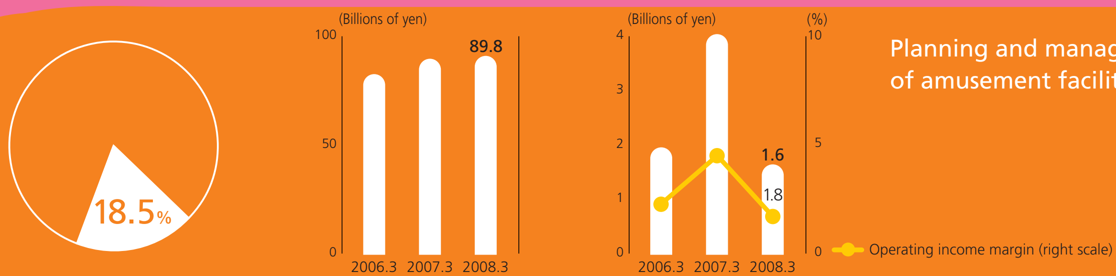
Affiliated Business Companies

esults & Growth Strategies

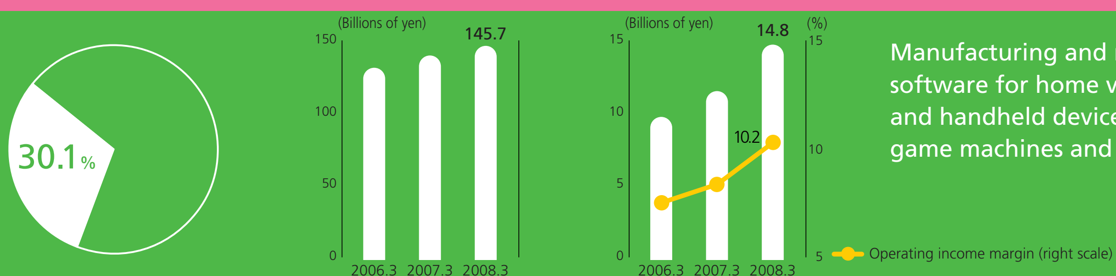
Contribution to Sales (FY2008.3) | Net Sales | Operating Income | Business Activities



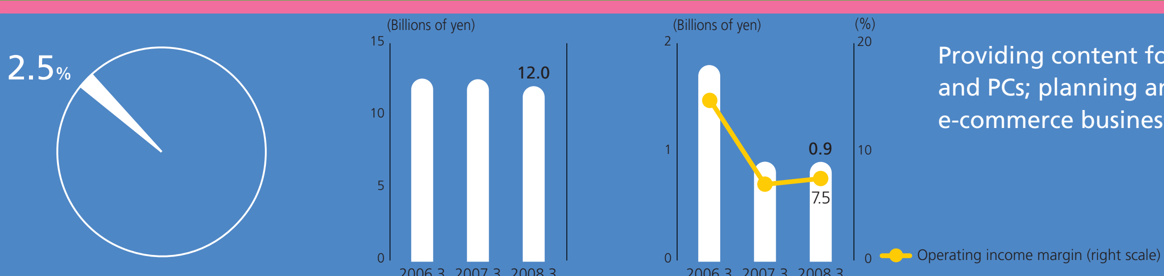
Planning, manufacturing, and marketing of toys, candy toys, vending machine capsule products, cards, plastic models, apparel, sundries, stationery, and other products



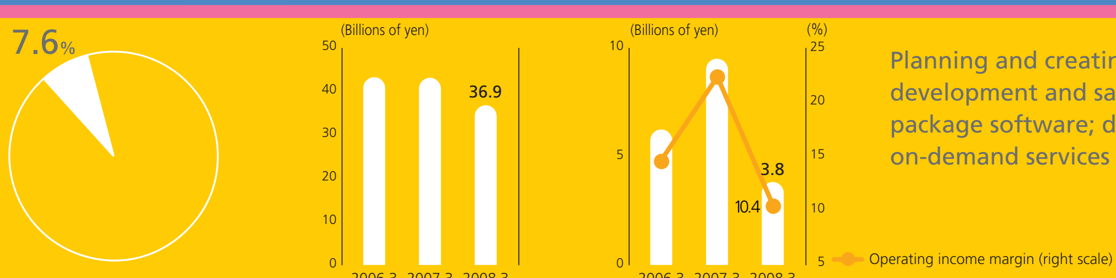
Planning and managing of a full range of amusement facilities



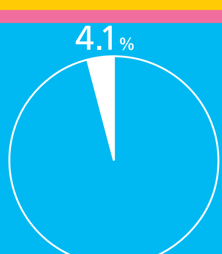
Manufacturing and marketing of game software for home video game consoles and handheld devices and of arcade game machines and prizes



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

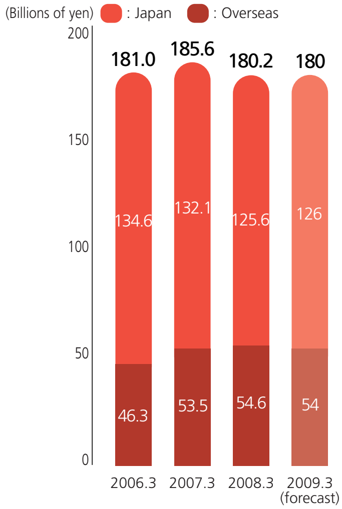


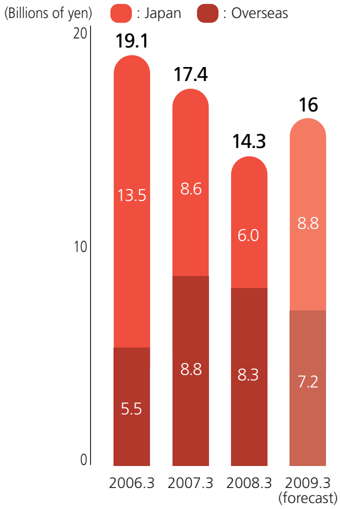
Planning and creating visual content; development and sales of visual package software; distribution of video on-demand services



Providing support for SBUs in such areas as distribution, logistics, leasing, and printing

Toys and Hobby





Results in Fiscal Year Ended March 31, 2008

Net Sales ¥180.2 billion (down 2.9%)

Operating Income ¥14.3 billion (down 17.8%)

In the toy market, consumer needs are diversifying, and there is a risk that the market will be affected over the medium-to-long-term by the falling birthrate. In this setting, long-established character toys performed well, but the SBU's results were down from the previous year, when the *DATA CARDDASS* and *Tamagotchi Plus* series recorded favorable results. Overseas, *POWER RANGERS* and *Tamagotchi* recorded strong performances, and *BEN10* character toys were popular not only in the Americas but also in Europe.

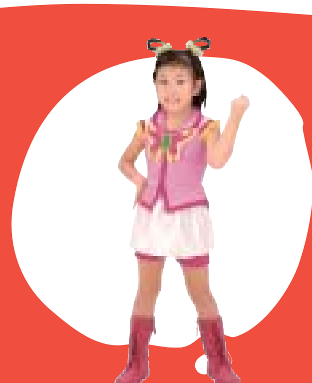
Growth Strategy

We are working to strengthen long-established character toys, expand our target customer range, and strengthen overseas operations.

In the year under review, our results were sluggish, and in the fiscal year ending March 31, 2009, principal strategies will include strengthening development of long-established characters to achieve stable profit, expanding our customer target range, and strengthening overseas development. We are targeting net sales of ¥180 billion and operating income of ¥16 billion, an increase of ¥1.7 billion.

To strengthen long-established characters, the latest entries in the *POWER RANGERS* series and *Pretty Cure* series have gotten off to strong starts, and we will strengthen product development from summer 2008 through the end of the year. Moreover, in regard to *DATA CARDDASS,* which has become a new operational pillar in the card business, we will introduce a range of new content in stages, such as *One*

The *Super Sentai (POWER RANGERS)* products have remained highly popular among children for more than 30 years in Japan and more than 15 years overseas.



Our wide range of character apparel for children, which extends from innerwear to outerwear, incorporates a playful spirit.

Combining digital data with a card game, the *DATA CARDDASS* machine has been highly popular with elementary school children.

Originating in the United States, *BEN10* is being developed globally as a character for boys.

Piece, and work for stable business development.

Next, to broaden our target customer range, with the objective of strengthening products for adults, we established a new Bandai division handling collectible toys for adult consumers and *Real B Voice* Surf Brand operations in April 2008. In Japan, in addition to strengthening our core toy operations, we will move ahead with multifaceted development initiatives in consideration of the problem of the falling birthrate.

As a means of strengthening overseas development, we will focus on expanding overseas development regions and strengthening content. Specifically, in addition to long-established characters such as *POWER RANGERS* and *Tamagotchi, BEN10* was launched two years ago. *BEN10* has been popular in Europe and the Americas, and we have begun to market it in Asia. In addition, we are implementing development in line with specific regional characteristics. Examples include new *Dragon Ball* toys in Europe and the Americas and original *Mobile Suit Gundam* products matched to regional tastes in Asia. Moreover, we have acquired a master license in the United States and Europe for *KAMEN RIDER DRAGON KNIGHT*, which will be broadcast in the United States from 2009, and in the future we will develop it as a new core character overseas.

Furthermore, in the year under review we took aggressive steps to bolster tie-ups with external partners under the Entertainment Hub concept that is being advanced by the BANDAI NAMCO Group. We have strengthened the character business by investing in Tsuburaya Productions Co., Ltd., establishing a strategic partner relationship with the Toei Group, and forming a capital and business tie-up with the Ishimori Group. Moreover, through a tie-up with Fujiya, we are strengthening our candy toy operations. By strengthening tie-ups with these external partners, we will leverage our distinctive strengths in character merchandising and synergies within the Group.

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

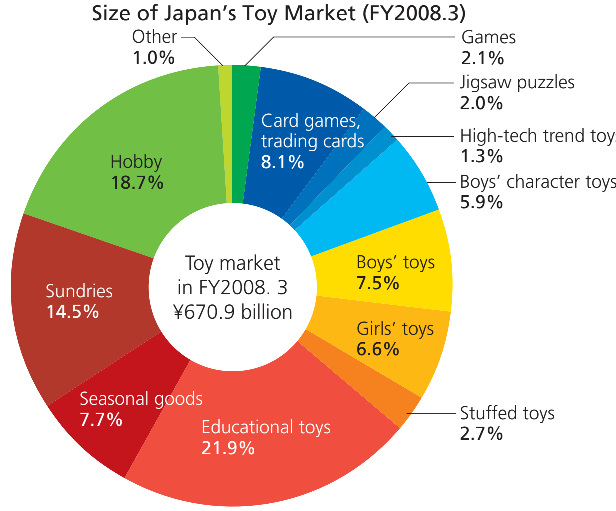
Sales of Major Characters (Bandai Co., Ltd.)

(Billions of yen)

	2007.3	2008.3
Mobile Suit Gundam series	17.8	18.8
Masked (Kamen) Rider series	7.1	11.5
Pretty Cure series	6.0	10.5
Anpanman	8.8	9.3
POWER RANGERS series	10.1	7.7
Ultraman series	3.6	5.7
Dragon Ball	7.9	5.5
Pokémon	3.4	4.5
Cinnamoroll	3.7	2.7
Tamagotchi	12.4	1.8

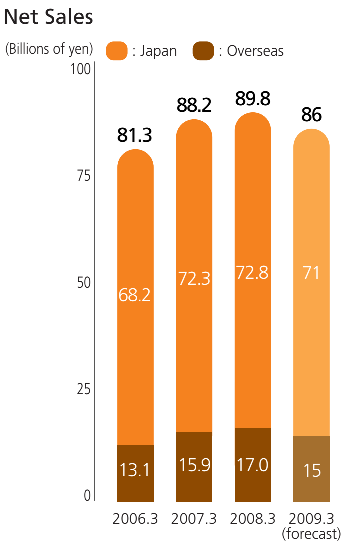
Market Data

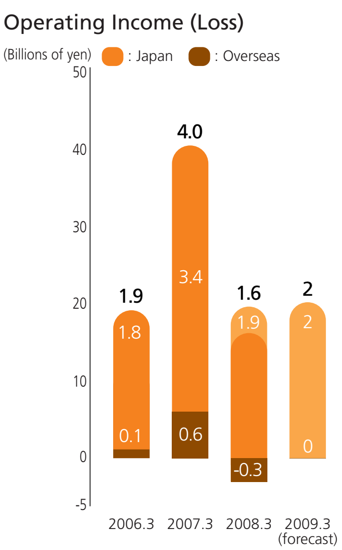
Size of Japan's Toy Market (FY2008.3)



Source: Survey by the Japan Toy Association

Amusement Facility





Results in Fiscal Year Ended March 31, 2008

Net Sales	¥89.8 billion	(up 1.9%)
Operating Income	¥1.6 billion	(down 59.3%)

The domestic amusement facility market remains sluggish, and customer needs are diversifying, leading to changes in the revenue/profit structure. In light of this situation, the Amusement Facility SBU recorded sluggish sales at existing domestic facilities, down 5.9%, but this decline was basically offset by new facilities, which recorded generally favorable performances. Looking at profits, however, the gross margin declined accompanying difficult conditions at existing facilities and changes in the composition of sales. As a result, operating profit declined substantially, and we recorded a provision for impairment losses accompanying the closure of domestic facilities.

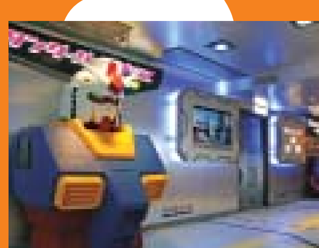
Growth Strategy

With improving profitability as a key issue, we will pursue Group synergies and implement overseas development in line with regional characteristics.

In the year under review, due to a worsening of the market environment and our slow response to these conditions, our results were not satisfactory. Accordingly, for the fiscal year ending March 31, 2009, we have positioned the improvement of profitability as a priority issue. Therefore, we will take such steps as closing some struggling domestic facilities and revising our standards for the opening of amusement facilities. On the other hand, we are also working to pursue Group synergies, develop facilities with added value that leverage distinctive Group strengths, and conduct overseas development in line with regional characteristics.

For the fiscal year ending March 31, 2009, we are targeting sales of ¥86 billion

NAMCO Wonder Park Hero's Base is a large-scale entertainment facility that integrates amusement and characters.



Leveraging Group synergies, we opened *Wonder Park Plus*, a large-scale amusement facility, in a major district in Hong Kong.

Wonder Bowl incorporates entertainment elements based on NAMCO's original strengths.

The popular *Crayon Shinchan* movie is the theme of this character amusement facility.

and operating income of ¥2 billion.

NAMCO, the SBU's core company, implemented an organizational reform with the objective of responding quickly to environment changes. By flattening the organization, we have increased the speed of management decision making and execution through the elimination of organizational layers.

Strategically, we will close or sell about 20% of domestic facilities in order to improve domestic profitability. In the fiscal year ending March 31, 2009, we plan to open 12 domestic facilities and close 69, for a net reduction of 57 facilities. For the majority of the facilities that will be closed or sold, the transactions will be completed in the first half of the fiscal year. We will make facility opening standards more rigorous, continue to implement the scrap-and-build policy in accordance with the new standards, and work to bolster our revenue/profit foundation.

Also, in the pursuit of Group synergies, we will move forward in Japan and overseas with the development of facilities that integrate characters and locations and leverage distinctive Group strengths. In particular, the know-how acquired through the success of *NAMCO Wonder Park Hero's Base,* a large-scale amusement facility that has attracted more than 3.7 million visitors since it opened, will be applied to other facilities. In this way, we will differentiate our facilities from those operated by competitors.

We continue to implement overseas development in line with regional characteristics. In April 2008, we opened *Wonder Park Plus,* a large-scale amusement facility, in a major district in Hong Kong. This is the first overseas facility that showcases the synergies of the BANDAI NAMCO Group. In addition to the first overseas installation of *Mobile Suit GUNDAM Senjo no Kizuna,* the park includes about 200 amusement machines as well as character goods shops. It is also playing a role as a source of character information in the Asia region.

On the other hand, in the Americas, conditions were difficult in the year under review. The subprime loan problem and rising oil prices resulted in a decline in market conditions that was worse than the decline in Japan. At this point, we are examining the situation considering operational restructuring measures to enhance profitability. In Europe, continued favorable results are being recorded by multipurpose facilities, such as our hybrid bowling alleys in the United Kingdom. In the future, we will continue to take steps to develop facilities in line with regional characteristics, including the acquisition of new facilities.

NAMCO LIMITED
President and Representative Director
Masahiro Tachibana

Number of Facilities at the End of 2008.3 (Total for Amusement Facility SBU)

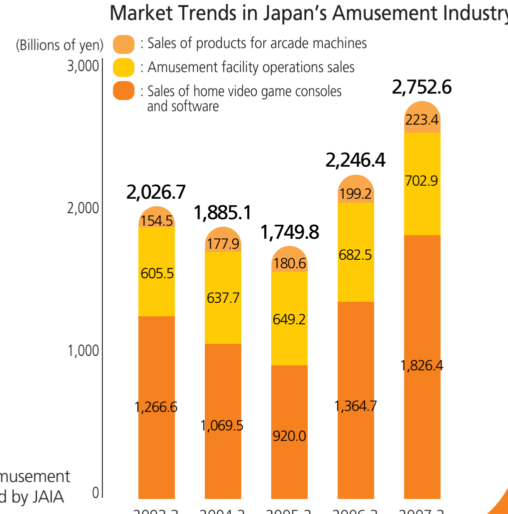
(Facility)

Region	Regional total	of which: Directly managed facilities	Revenue-sharing facilities*	Theme parks	Spa facilities
Japan	381	293	80	5	3
Americas	1,310	88	1,222	0	0
Europe	14	13	1	0	0
Asia	31	14	17	0	0
Total	1,736	408	1,320	5	3

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

Market Data

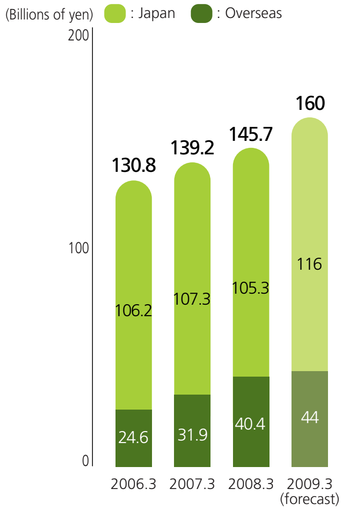
Market Trends in Japan's Amusement Industry



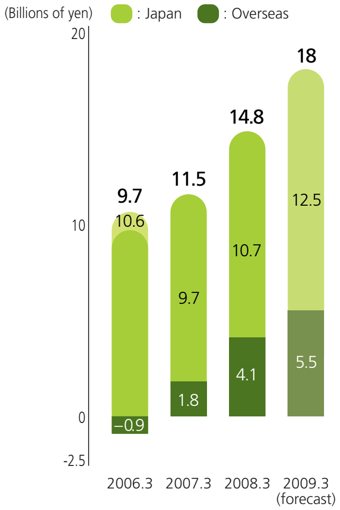
Source: Fact-Finding Survey of the Amusement Machinery Industry, Published by JAIA

Game Contents

Net Sales



Operating Income (Loss)



Results in Fiscal Year Ended March 31, 2008

Net Sales ¥145.7 billion (up 4.7%)

Operating Income ¥14.8 billion (up 28.5%)

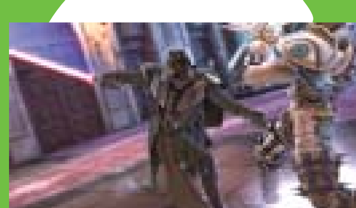
In the markets for software for home video game consoles and arcade game machines, content development expenses continue to increase due to the diversifying customer needs and the advanced platform capabilities.
Home game software performed well overseas and the domestic performance of arcade game machines was favorable. The game contents SBU recorded higher sales and profits.

Growth Strategy

In home game software, we are implementing our global multiplatform strategy, and in arcade game machines, we are striving to develop category number one products.

In home game software, we are working to improve profitability by implementing a multiplatform strategy and reducing titles in line with user preferences around the world. In arcade game machines, meanwhile, we are working to develop category number one products. In April 2008, Banpresto's game division was added to NAMCO BANDAI Games, and in the future, we will further pursue synergies in the areas of operations and costs. In this way, in the fiscal year ending March 31, 2009, we are forecasting net sales of ¥160 billion and operating income of ¥18 billion, an increase of ¥3.3 billion.

The *Sea Story Lucky Marine Theater*, which is highly popular in the pachinko market, was launched in a medal game machine.



Soul Caliber IV, which was developed in cooperation with Lucas Arts, of the United States, is a strategic software title that was launched worldwide for the PS3 and Xbox 360.

Active Life Outdoor Challenge (Family Trainer), a worldwide title, leverages the special characteristics of Wii hardware.

Mobile Suit GUNDAM Senjo no Kizuna, a team-based arcade battle game with a panoramic optical display, is highly popular and continues to generate stable revenues.

Home Game Software

In home game software, our specific operational strategies include improving profitability by implementing a multiplatform strategy and reducing titles in line with user preferences around the world.

Using our abundant content, we will develop a well-balanced lineup that leverages the distinctive characteristics of platforms, targeting handheld devices and console game machines. In the fiscal year ending March 31, 2009, *Soul Caliber IV* will be a key strategic title. Developed with Lucas Arts, *Soul Caliber IV* was launched worldwide in summer 2008 for the PS3 and Xbox 360 under our multiplatform strategy, and we are planning sales of two million units. In addition, we will launch a range of strategic titles from Japan in markets around the world. For example, *Active Life Outdoor Challenge (Family Trainer)* which leverages the distinctive characteristics of the Wii, will be marketed worldwide.

In addition to developing these types of powerful titles, we will also work to reduce the total number of titles. Specifically, in comparison with the fiscal year ended March 31, 2007, when we offered 109 titles, in the fiscal year ended March 31, 2008, we offered 87 titles, a reduction of about 20%. Moreover, in the fiscal year ending March 31, 2009, our initial plan is to offer 84 titles, and we plan to reduce that figure even further during the year. In this way, we will work to expand sales of each title and raise the overall profit margin.

NAMCO BANDAI Games Inc.
President and Representative Director

Shukuo Ishikawa

Arcade Game Machines

In arcade game machines, we are working to develop category number one products. Medal game machines, a field which we had not previously offered any large-scale machines, are a key focus of these initiatives. From the summer 2008, we will work to expand our share with the launch of the *Sea Story Lucky Marine Theater*, a large-scale medal game machine. Moreover, we will take steps to maintain stable revenue/profits from the highly popular *Mobile Suit GUNDAM Senjo no Kizuna* through periodic domestic content updates and through special events. In overseas operations, we are strengthening Asia-related development activities. For the first time, *Mobile Suit GUNDAM Senjo no Kizuna* is available overseas, at *Wonder Park Plus* in Hong Kong. In addition, we are taking steps to expand our development regions, such as developing a *Taiko no Tatsujin Asia Version.* In the future, we will continue working to invigorate arcade game machines and amusement facilities through the development and launch of high-value-added machines.

Unit Sales of Home Game Software by Platform

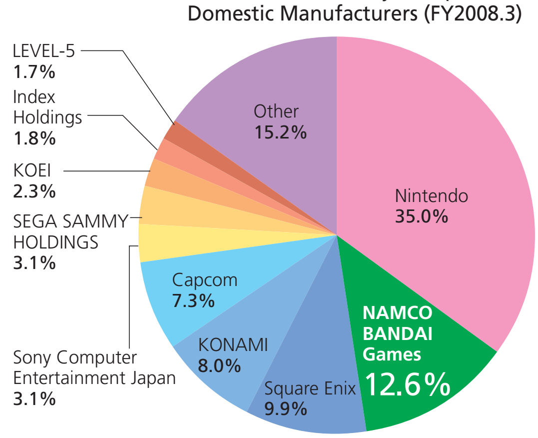
(Thousands of units)

	2007.3		2008.3	
	Number of titles*	Units sold	Number of titles*	Units sold
PlayStation 2	34	10,670	21	9,356
PLAYSTATION 3	3	972	1	1,280
Xbox 360	6	237	5	1,509
Wii	5	492	13	1,568
PlayStation Portable	27	4,641	8	3,829
Nintendo DS	30	4,731	39	6,467
Others	4	1,609	0	205
Total	**109**	**23,352**	**87**	**24,214**

* Number of titles does not include localized versions.

Market Data

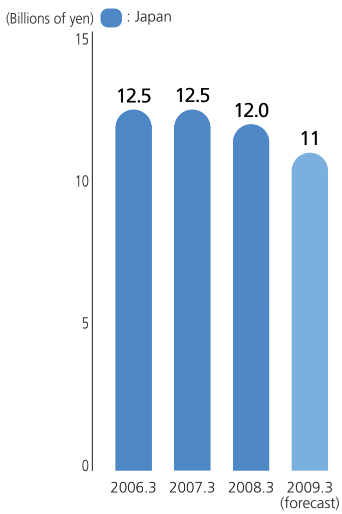
Share of Unit Sales by Group, Domestic Manufacturers (FY2008.3)



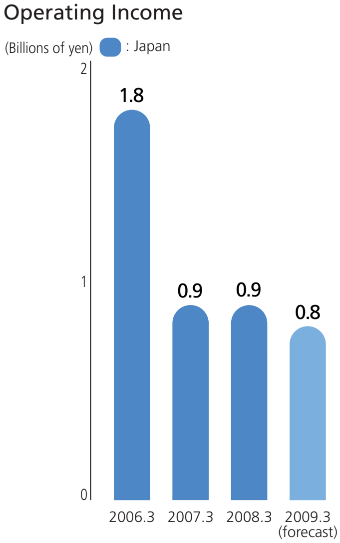
Source: *Famitsu Game White Paper 2008*
Published by: ENTERBRAIN INC. (Period: March 26, 2007 to March 30, 2008)

Network

Net Sales



Operating Income



Results in Fiscal Year Ended March 31, 2008

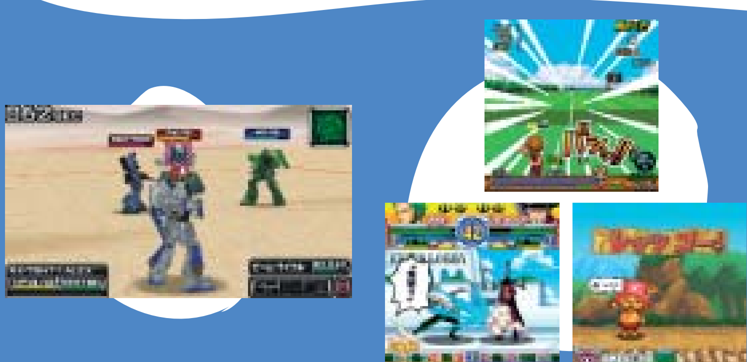
Net Sales	¥12.0 billion	(down 3.6%)
Operating Income	¥0.9 billion	(up 2.7%)

In the mobile content market, key challenges include responding to the rapid advancement of technologies and functions in mobile phones and to a more sophisticated network environment. In this setting, the Network SBU's game content continued to earn high regard. This content, which is developed in line with user needs, ranges from *Dragon Ball Mobile* and other high-value-added offerings to the *SIMPLE100* series and other casual content. As a result, the number of fee-paying subscribers started to increase, and the SBU's results were maintained at about the same level as in the previous year.

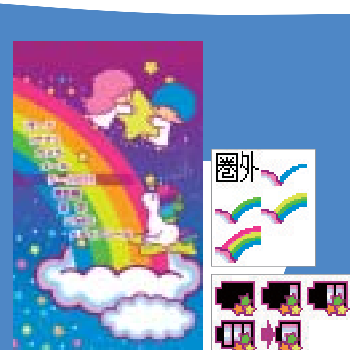
Growth Strategy

We will implement wide-ranging content development, with a focus on profitability, and will bolster solutions operations for corporate customers.

In the network business, we will undertake profit-focused content development and will take steps to bolster our corporate solutions operations. The operating environment in the network business is making remarkable progress. In the fiscal year ended March 31, 2008, NAMCO BANDAI Holdings made Bandai Networks a wholly owned subsidiary with the objective of creating a platform for rapid management decision making and implementation. Currently, we are moving ahead with the consideration of the optimal organizational system as a group, including a merger with the NAMCO BANDAI Games Mobile Content Division. In the future, we will pursue Group synergies in the areas of operations and costs and will endeavor to bolster



With popular mobile character game content, the number of fee-paying subscribers is beginning to increase.



This popular service enables customers to use their favorite characters on their mobile phone standby and menu screens.

Bandai Networks is using advanced technologies to develop services for mobile phones.

our revenue/profit foundation. As a result, in the fiscal year ending March 31, 2009, we are forecasting net sales of ¥11 billion and operating income of ¥0.8 billion, about the same as in the year under review.

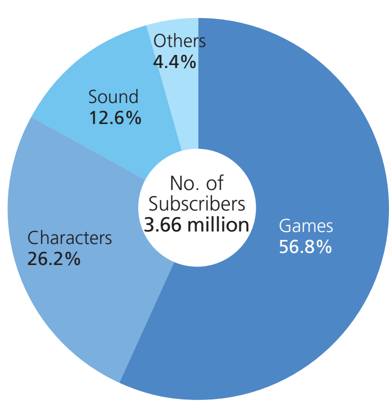
In content development, the number of fee-paying subscribers, which trended downward for several years, has begun to increase. In game content, which has been recording favorable results, we will strive to develop high-value-added content as well as simple, casual content. At the same time, we will develop a varied content lineup, including such customized content as popular character standby screens. In these ways, we will work to meet diverse user needs. In our solutions business, we are leveraging our accumulated system development and operations know-how and providing support, such as for the official sites of various companies. These operations are making favorable progress. Recently, we began to provide *Camera de Kensaku*, a pattern recognition and searching service that utilizes the cameras on mobile phones. With this service, product information can be accessed simply by taking a picture, such as a picture of media, products, or advertisements. We will bolster our B-to-B operations through content business development using our original technical skills and by proposing services that make mobile phones fun and convenient.

Furthermore, we will move ahead with preparations for a merger* with NAMCO BANDAI Games. NAMCO BANDAI Games has strengths in leveraging its in-house technical development capabilities and effectively utilizing content. On the other hand, Bandai Networks has strengths in the comprehensive development of operations, such as e-commerce, centered on the distribution of mobile phone content and the provision of technical solutions. After the merger, as a new division in NAMCO BANDAI Games, we will strive to strengthen our comprehensive capabilities as a content provider and will work to create new content and operations through the combination of the different strengths.

* A merger of NAMCO BANDAI Games and Bandai Networks is planned for April 1, 2009, with the objective of combining each company's mobile content distribution and network operations. NAMCO BANDAI Games will be the surviving company, and Bandai Networks will be the disappearing company.

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

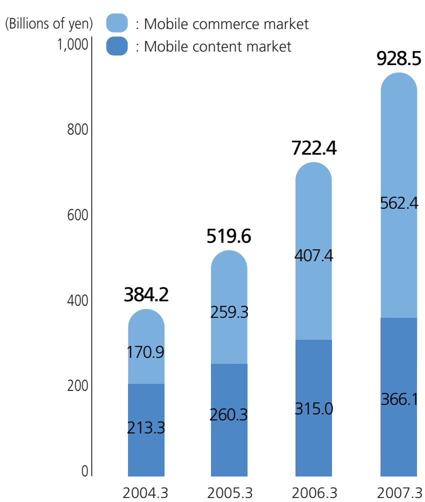
Network SBU's Fee-Paying Subscribers to Mobile Phone Services



(As of March 31, 2008)

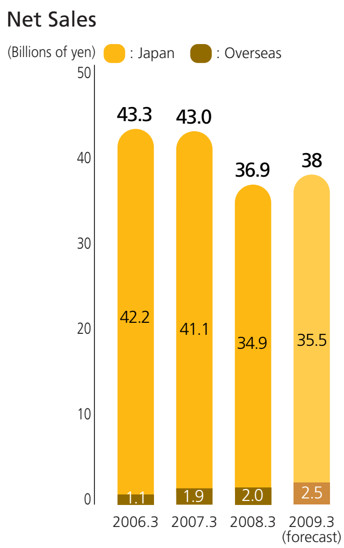
Market Data

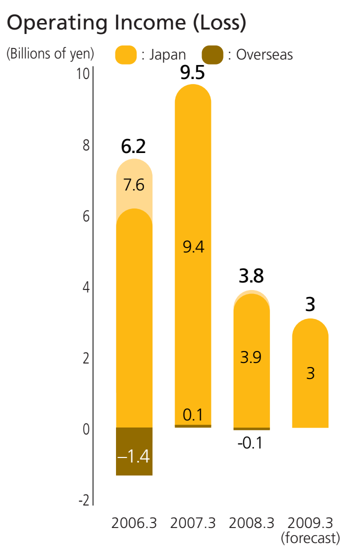
Domestic Mobile Content-Related Market



Source: *Mobile Content Forum*

Visual and Music Conte





Results in Fiscal Year Ended March 31, 2008

Net Sales ¥36.9 billion (down 14.1%)

Operating Income ¥3.8 billion (down 59.7%)

In visual and music content markets, progress in the network environment is driving changes in the content business, and there is a need to respond to next-generation standards for visual products. In this setting, the market is in the "between seasons" period in the shift to Blu-ray Discs, so the DVD market overall is sluggish. The competitive environment is challenging, and our visual and music operations faced difficult conditions. Also, in visual and music operations, with the objective of accelerating the shift to Blu-ray Discs, we decided to accept returns of market inventories of DVDs at the end of the fiscal year. Accordingly, we made a provision of ¥2.4 billion, and recorded lower sales and profits.

Growth Strategy

We will work to strengthen Blu-ray Disc products and bolster our content media and distribution strategy.

In the fiscal year ended March 31, 2008, we were in the "between seasons" period accompanying the shift to next-generation hardware, and market conditions were challenging. In the fiscal year ending March 31, 2009, we will work to strengthen Blu-ray Disc products and bolster our content media and distribution strategy. We are planning sales of ¥38 billion and operating income of ¥3 billion in a market environment that is expected to remain difficult.

In the visual products market, user needs are diversifying. In consideration of investment recovery, we need to move away from our previous business model, which was centered on DVD packages, and to build a new business model. Given these

The *Mobile Suit Gundam* series continues to attract new fans, more than 30 years after its launch.

CODE GEASS Lelouch of the Rebellion R2, a popular animation, is being simultaneously developed for DVD and Blu-ray Disc.

SERGEANT KERORO is a popular animation series with a wide base of support, ranging from children to adults.

Lantis is offering music content, such as theme songs, through tie-ups with animated TV programs.

market needs, we will aggressively move ahead with a full-fledged shift to Blu-ray Disc products. In addition to conventional DVDs, we will also offer Blu-ray Disc versions and take a comprehensive approach to bolstering sales of new TV series, such as *CODE GEASS Lelouch of the Rebellion R2*. Moreover, in July 2008 we started to launch rental Blu-ray Disc products, centered on theatrical releases, offering users increased opportunities to experience high-definition quality.

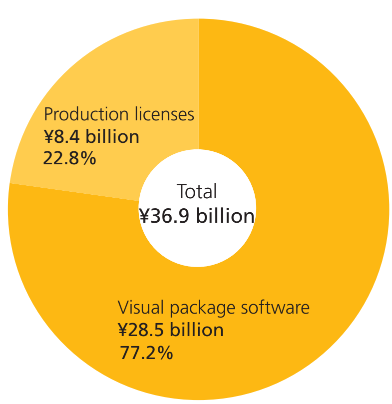
As a means of enhancing our content media and distribution strategy, we will approach the entire world as a single market and build a business model based on an overall strategy that integrates operations, including packaging, distribution, and licensing. For example, by combining package sales and network distribution, we will increase investment recovery opportunities on a product-by-product basis and strive to cultivate new users. Furthermore, through simultaneous worldwide release of a common format with subtitles, we will focus on both expanding sales and decreasing costs.

In these ways, in the fiscal year ending March 31, 2009, we will strive to strengthen Blu-ray Disc products and to enhance our content media and distribution strategy. However, there will be no change in our basic strategy of creating and nurturing high-quality content that is used around the world.

Moreover, having made Bandai Visual a wholly owned subsidiary of NAMCO BANDAI Holdings, we will consider the optimal system for utilizing the Group's management resources more efficiently and implementing strategies more effectively. We will approach the current challenging market environment as an opportunity, and on that basis we will build a new business model for growth over the medium-to-long-term.

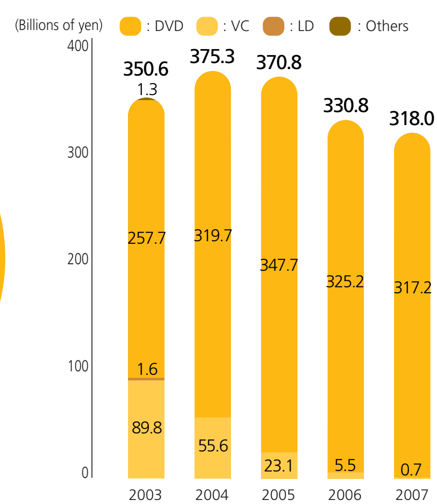
Bandai Visual Co., Ltd.
President and Representative Director
Kazumi Kawashiro

Net Sales by Category (FY2008.3)



Market Data

Sales of Video Content



Source: JVA Report 2007.4
Published by: *JAPAN VIDEO SOFTWARE ASSOCIATION*

Corporate Governance

Fundamental Approach to Corporate Governance

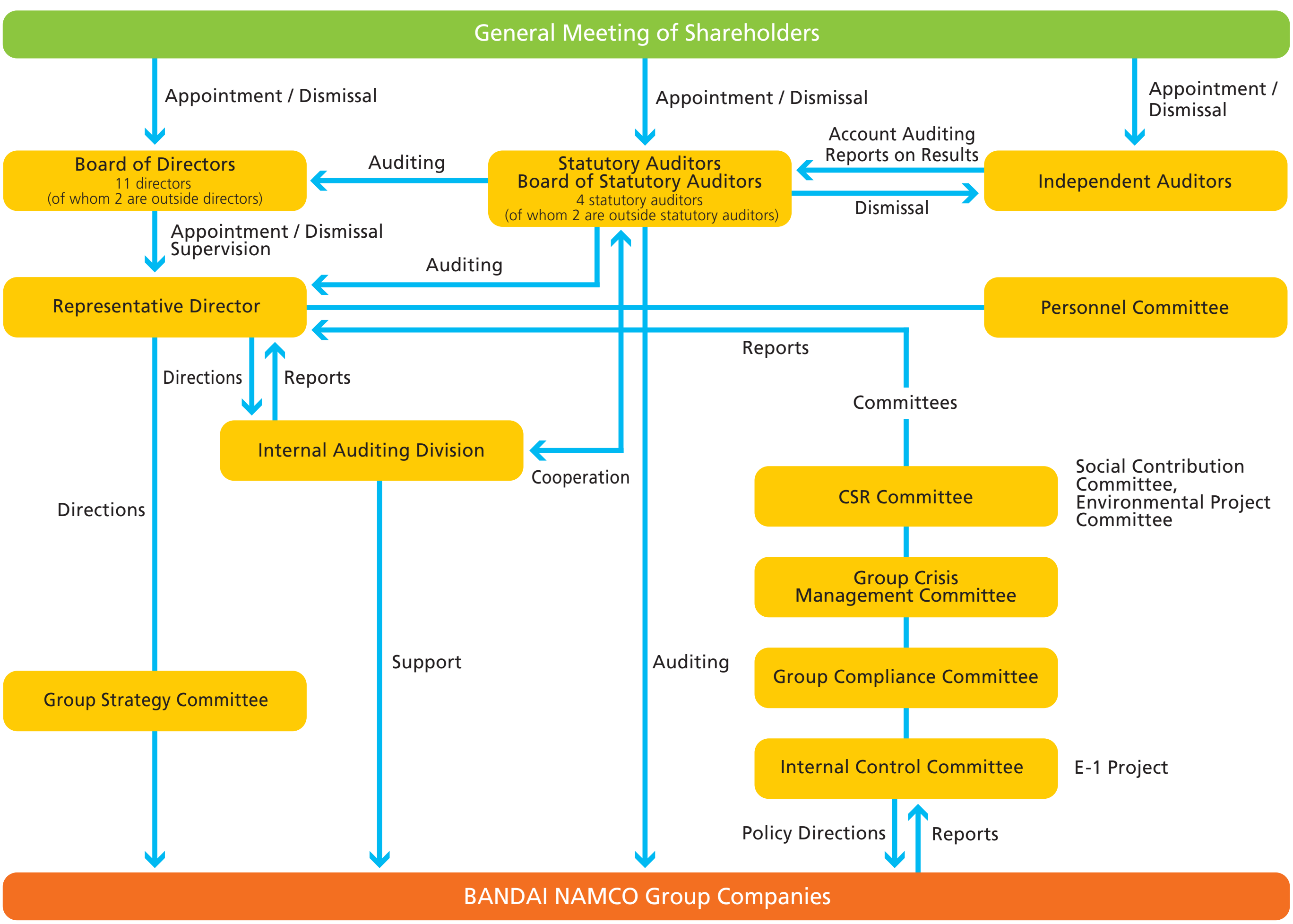
As the "World's Most Inspiring Entertainment Group," BANDAI NAMCO will continue to provide "Dreams, Fun and Inspiration" to people around the world through entertainment based on creativity and boundless enthusiasm. Our highest priority is the provision of benefits to all stakeholders who support our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

Corporate Governance System

The Company is working to enhance the supervision of management. The Board of Directors includes 11 members, of whom two are outside directors. Moreover, in order to ensure that the Company responds to changes in the management environment as promptly as possible and to further clarify the responsibilities and awareness of directors, the term of directors has been set at one year or less.

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

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



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

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

As shown in the table above, the Company holds a variety of top management meetings and has established a system that facilitates rapidly tracking and responding to Group management information. We hold timely meetings of the Group Compliance Committee, which is led by the president. This committee is in charge of monitoring and supervising important issues related to compliance and has established a system to prevent violations of laws and regulations and to ensure prompt action in the event of any incidents that could be a legal or regulatory violation.

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

The Group comprises five Strategic Business Units (SBUs), and the affiliated business companies which principally provide support service within the Group. In each SBU, operating strategies in Japan and overseas are formulated and implemented, centered on the SBU's core company.

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

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

Internal Control Systems

From the fiscal year ended March 31, 2007, to further enhance its internal control systems and to provide a sound foundation for internal control on a Groupwide basis, the Group has established basic policies in each of the following areas and is working to bolster its internal control systems.

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

The BANDAI NAMCO Group's CSR Initiatives

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

In accordance with these fundamental principles, a range of measures are implemented by the Groupwide CSR Committee and its sub-committees—the Social Contribution Committee and the Environmental Project Committee—as well as by the Group Crisis Management Committee and the Group Compliance Committee.

1
Environmental and Social Responsibilities
(safety / quality, environmental conservation, cultural / social support activities)

2
Economic Responsibilities

3
Legal and Ethical Responsibilities
(compliance)

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

Safety / quality initiatives

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

Environmental conservation initiatives

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

Cultural / social support activities

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

Economic Responsibilities

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

Legal and Ethical Responsibilities
(compliance)

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

Topics

"BANDAI NAMCO Forest" at Shiga Kogen

"BANDAI NAMCO Forest" at Shiga Kogen

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

Materials for Products, Containers, and Packaging

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

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

Social Contribution Activities

Omocha-no-Machi Bandai Museum

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

Barrier-Free Entertainment Operations

NAMCO's *TalkingAid Light*

We are conducting activities targeting the integration of entertainment and well-being. For example, we developed *TalkingAid Light*, which is a mobile device for people who have difficulty with conversations, reading, or writing, and machines that combine entertainment with rehabilitation. We also operate day service centers to help senior citizens be active in mind and body.

Manufacture of Safe, Reliable Products

Dropping products to test for quality

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

Entertainment Support Activities

Yosakoi Soran Festival

Through sponsorship of the Yosakoi Soran Festival, which is held in Hokkaido and other locations around Japan, we are supporting people who are striving to create entertainment. We are also participating in the planning of the Yosakoi Chappy image character.

Wide-Ranging Environmental Impact Reduction Activities

One of the low-emission trucks used by LOGIPAL EXPRESS

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

Overview of Main Group Companies

(As of July 31, 2008)

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

• Toys and Hobby Strategic Business Unit

Bandai Co., Ltd.	Planning, production, and sales of toys, apparel, and vending machine products, etc.
Megahouse Corporation	Planning, manufacturing, and sales of toys, etc.
Seika Co., Ltd.	Planning, development, and sales of stationery and sundries, etc.
CCP Co., Ltd.	Planning, development, manufacturing, and sales of toys, hobby commodities, and home electric appliances
Seeds Co., Ltd.	Manufacturing of toys, etc.
Plex Co., Ltd.	Planning and designing of character-based products
People Co., Ltd.*	Planning, manufacturing, and sales of toys for infants (JASDAQ)
Bandai America Incorporated	Sales of toy-related products
BANDAI S.A.	Regional management functions; sales of toy-related products
BANDAI UK LTD.	Sales of toy-related products
BANDAI ESPAÑA S.A.	Sales of toy-related products
BANDAI (H.K.) CO., LTD.	Regional management functions; import, export, manufacturing, and sales of toy-related products
BANDAI ASIA CO., LTD.	Sales of toy-related products
BANDAI (SHENZHEN) CO., LTD.	Quality assurance and control for toys and other products
BANDAI INDUSTRIAL CO., LTD.	Manufacturing of toy-related products
BANDAI KOREA CO., LTD.	Manufacturing, import, and sales of toys, etc., and licensing operations
CREATIVE B WORKS CO., LTD.	Sales of toy-related products

• Amusement Facility Strategic Business Unit

NAMCO LIMITED	Management of amusement facilities
Pleasure Cast Co., Ltd.	Operation of amusement facilities
Hanayashiki Co., Ltd.	Operation of *Asakusa Hanayashiki* amusement park
NAMCO SPA RESORT LTD.	Operation of spa facilities
NAMCO CYBERTAINMENT INC.	Management of amusement facilities
NAMCO OPERATIONS EUROPE LTD.	Management of amusement facilities
NAMCO OPERATIONS SPAIN S.L.	Management of amusement facilities
NAMCO ENTERPRISES ASIA LTD.	Management of amusement facilities
SHANGHAI NAMCO LTD.*	Management of amusement facilities; production and sales of amusement machines, etc.

* Companies accounted for by the equity method

Notes 1. Liquidation of BANDAI VISUAL USA INC. is scheduled for completion by the end of September 2008.
2. Accompanying the transfer of shares of Sunlink Co., Ltd., Sunlink is no longer a company accounted for by the equity method as of August 6, 2008.
3. A merger of NAMCO BANDAI Games Inc. and Bandai Networks Co., Ltd., is planned for April 1, 2009, with NAMCO BANDAI Games as the surviving company and Bandai Networks as the disappearing company.

• Game Contents Strategic Business Unit

NAMCO BANDAI Games Inc.	Planning, development, and sales of game software and arcade machines, etc.
Banpresto Co., Ltd.	Planning, development, and sales of prizes for arcade machines.
Bec Co., Ltd.	Planning and development of game software
Banpresto Sales Co., Ltd.	Sales of arcade machines and prizes, etc.
Banpresoft Co., Ltd.	Planning, development, and sales of game software
NAMCO TALES STUDIO LTD.	Planning, development, and sales of game software
NAMCO TRADING LTD.	Installation and management of vending machines; purchase and sales of used arcade game machines; distribution of mobile contents
BANPRESTO (H.K.) LTD.	Manufacturing and production management of arcade machines and prizes
NAMCO BANDAI Games America Inc.	Planning, development, and sales of game software
NAMCO AMERICA INC.	Sales of arcade machines
NAMCO NETWORKS AMERICA INC.	Development and distribution of content for mobile platforms
NAMCO BANDAI Games Europe S.A.S.	Sales and marketing of game software
NAMCO EUROPE LTD.	Sales of arcade machines
NAMCO BANDAI Networks Europe LTD.	Development and distribution of content for mobile platforms

• Network Strategic Business Unit

Bandai Networks Co., Ltd.	Development and provision of network content and network solutions
VIBE Inc.	Development and provision of network content

• Visual and Music Content Strategic Business Unit

Bandai Visual Co., Ltd.	Planning, production, and sales of visual software, etc.
Sunrise Inc.	Planning and production of animation
Bandai Channel Co., Ltd.	On-demand delivery of content, such as animations
Lantis Co., Ltd.	Planning, manufacturing, sales, and management of musical content
EMOTION CO., LTD.	Planning and development of visual products; control and administration of copyrighted music
ANIME CHANNEL CO., LTD.	Operation of comprehensive animation content sites
SUNRISE Music Publishing Co., Ltd.	Management and licensing of music copyrights, production and publishing of musical content, etc.
BANDAI ENTERTAINMENT INC.	Planning, manufacturing, sales, and copyright management of visual content
BANDAI VISUAL USA INC.	Operation of visual packaged software
BEEZ ENTERTAINMENT S.A.S.	Production and sales of visual programming and movies; video and DVD sales; copyright management

• Affiliated Business Companies

BANDAI LOGIPAL INC.	Cargo trucking operations, logistics management, etc.
LOGIPAL EXPRESS INC.	Transportation, distribution, warehousing, etc.
NAMCO BANDAI Business Services Inc.	Support of Group operations and administration, etc.
Artpresto Co., Ltd.	Planning and designing of various printed materials
NAMCO ECOLOTECH LTD.	Development and sales of environmental equipment
Happinet Corporation*	Wholesale of toys and video game consoles (Tokyo Stock Exchange, First Section)
Sunlink Co., Ltd.*	Operation and sales of vending machine products, etc.
Sotsu Co., Ltd.*	Planning and development of advertising and copyright business (JASDAQ)
Italian Tomato Ltd.*	Management of directly operated restaurants; franchise operations

Directors and Corporate Auditors

(As of June 23, 2008)

President and Representative Director
Takeo Takasu

Director
Jun Higashi

Director
Shuji Ohtsu

Director
Yusuke Fukuda

Director (Part-time)
Kazunori Ueno

Director (Part-time)
Masahiro Tachibana

Director (Part-time)
Shukuo Ishikawa

Director (Part-time)
Satoshi Oshita

Director (Part-time)
Kazumi Kawashiro

Director (Outside)
Masatake Yone

Director (Outside)
Kazuo Ichijo

Statutory Auditor (Full-time)
Koichiro Honma

Statutory Auditor (Full-time)
Katsutoshi Hirasawa

Statutory Auditor (Outside)
Osamu Sudo

Statutory Auditor (Outside)
Kouji Yanase

Financial Section

Contents

Consolidated Six-Year Financial Summary

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

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

For the years ended March 31		2003*1	2004*1	2005*1	2006	2007	2008
					NAMCO BANDAI Holdings Inc. (Consolidated)	NAMCO BANDAI Holdings Inc. (Consolidated)	NAMCO BANDAI Holdings Inc. (Consolidated)
For the Year:							
Net sales	BANDAI	¥244,950	¥263,175	¥269,946	¥450,829	¥459,133	¥460,474
	NAMCO	¥154,777	¥172,594	¥178,552			
Gross profit	BANDAI	106,801	116,258	116,801	156,565	168,080	164,073
	NAMCO	37,529	49,088	47,555			
Selling, general and administrative expenses	BANDAI	80,932	88,607	92,403	120,896	125,856	130,662
	NAMCO	28,059	33,658	32,469			
Operating income	BANDAI	25,869	27,651	24,398	35,669	42,224	33,411
	NAMCO	9,470	15,430	15,086			
Recurring income*2	BANDAI	26,435	27,222	25,724	37,122	45,616	36,198
	NAMCO	8,777	14,428	14,589			
Net income	BANDAI	12,667	14,207	11,225	14,150	24,252	32,679
	NAMCO	4,116	7,546	9,465			
Capital expenditures	BANDAI	8,593	11,576	11,539	24,020	27,925	34,115
	NAMCO	10,376	14,009	13,155			
Depreciation	BANDAI	6,885	7,149	7,947	19,144	21,201	24,759
	NAMCO	11,227	11,104	11,173			
Cash flows from operating activities	BANDAI	28,009	20,033	14,839	31,809	42,493	35,000
	NAMCO	15,890	12,931	3,172			
At Year-End:							
Total assets	BANDAI	¥225,683	¥228,076	¥240,290	¥386,651	¥408,490	¥413,023
	NAMCO	¥143,214	¥148,117	¥154,474			
Total current assets	BANDAI	158,782	163,131	173,402	240,635	257,209	267,713
	NAMCO	68,089	73,614	82,666			
Total current liabilities	BANDAI	67,215	61,319	68,862	107,528	110,829	101,649
	NAMCO	35,920	33,860	33,219			
Total net assets	BANDAI	130,683	137,739	150,410	252,244	284,254	289,944
	NAMCO	98,400	104,619	110,935			
Per Share Data (yen):							
Net income per share (basic)	BANDAI	¥254.09	¥142.28	¥111.13	¥54.39	¥95.73	¥128.65
	NAMCO	¥ 72.35	¥133.00	¥ 83.63			
Cash dividends	BANDAI	40.00	22.50	30.00	12.00*6	28.00	24.00
	NAMCO	30.00	40.00	40.00			
Main Financial Indicators (%):							
Return on equity (ROE)*3, 5	BANDAI	11.3%	12.0%	8.9%	5.8%	9.4%	11.7%
	NAMCO	4.3%	7.6%	9.0%			
Return on assets (ROA)*4, 5	BANDAI	12.5	12.0	11.0	9.6	11.5	8.8
	NAMCO	6.1	9.9	9.6			
Selling, general and administrative expenses to net sales	BANDAI	33.0	33.7	34.2	26.8	27.4	28.4
	NAMCO	18.1	19.5	18.2			
Operating income to net sales	BANDAI	10.6	10.5	9.0	7.9	9.2	7.3
	NAMCO	6.1	8.9	8.4			
Net income to net sales	BANDAI	5.2	5.4	4.2	3.1	5.3	7.1
	NAMCO	2.7	4.4	5.3			
Shareholders' equity ratio	BANDAI	51.5	53.1	54.8	63.0	67.1	69.4
	NAMCO	67.5	68.7	69.8			
Debt/equity ratio	BANDAI	31.6	21.1	21.4	13.5	5.1	5.8
	NAMCO	16.3	6.7	6.7			

*1 Figures for FY2003.3 to FY2005.3 are the consolidated figures for Bandai and NAMCO prior to the management integration.
*2 Recurring income is a Japanese accounting term denoting income before extraordinary items.
*3 ROE = Net income / Average total shareholders' equity (= Net assets – Stock subscription rights – Minority interests)
*4 ROA = Recurring income / Average total assets
*5 Figures for shareholders' equity and total assets as of March 31, 2006, are used in calculating ROE and ROA for the fiscal year ended March 31, 2006.
*6 In lieu of interim dividends, share transfer payments of ¥18 per share were paid to shareholders of Bandai and ¥12 were paid to shareholders of NAMCO.

Financial Review

■ Overview of Performance in the Fiscal Year Ended March 31, 2008

In the year under review, there was an increasing sense of wariness about the future course of business conditions due to such factors as rising crude oil prices and global financial concern stemming from the U.S. subprime loan problem. In the entertainment industry, overall conditions were also uncertain, as a result of a similar sense of wariness about the economy and the influence of the "between seasons" period accompanying the transition to next-generation hardware specifications.

In this setting, the BANDAI NAMCO Group pushed ahead with strengthening, enriching, and expanding its portfolio management, based on the three-year medium-term management plan it began in April 2006.

In the Game Contents SBU, sales were favorable, particularly domestic sales of arcade game machines and overseas sales of home video game software. However, the Toys and Hobby SBU and Visual and Music Content SBU were unable to repeat the strong performances that they recorded in the previous fiscal year, when they enjoyed hit products and Group synergies. In a difficult operating environment, the Amusement Facility SBU recorded sluggish sales, particularly at existing facilities. As a result, the Amusement Facility SBU reconsidered its business strategy with an eye to future market trends, and has decided to close certain facilities with the objective of increasing profitability. In expenses, factors that increased expenses included the integration of operational bases by the Game Contents SBU and a change to the Company's system for accounting for depreciation and amortization.

Net Sales

The Company reported consolidated net sales of ¥460,474 million, a year-on-year increase of 0.3%. Looking at sales by region, sales in the domestic market were ¥360,697 million, down 1.8%. Overseas, sales were ¥54,566 million in the Americas, up 1.1%; ¥46,398 million in Europe, a gain of 22.9%; and ¥37,933 million in Asia, excluding Japan, a rise of 2.4%.

Cost of Sales

Cost of sales was ¥296,401 million, and the ratio of cost of sales to net sales increased to 64.4%, from 63.4% a year earlier. Gross profit was ¥164,073 million, and the gross margin ratio declined to 35.6%, from 36.6% in the previous year.

SG&A Expenses

Selling, general and administrative (SG&A) expenses were ¥130,662 million, up 3.8%, and the ratio of SG&A expenses to net sales increased to 28.4%, from 27.4% in the previous year. Principal items included marketing of ¥30,550 million, directors' remuneration and employees' wages of ¥30,884 million, retirement and severance benefits of ¥1,116 million, and research and development of ¥17,583 million.

Operating Income

Operating income was ¥33,411 million, a decrease of 20.9%, and the operating income margin fell from 9.2% in the previous year to 7.3%. By region, operating income declined 26.1% in Japan, to ¥24,480 million; fell 31.4% in the Americas, to ¥2,318 million; increased 30.0% in Europe, to ¥6,831 million; and rose 4.6% in Asia, excluding Japan, to ¥2,855 million. Eliminations totaled ¥3,073 million.

Other Income (Loss)

Other income was ¥12,554 million, principally due to a gain on sales and disposal of fixed assets, net of ¥16,105 million, which exceeded a loss on impairment of fixed assets of ¥4,248 million that accompanied that closure of domestic amusement facilities.

Net Income

Net income was up 34.7%, to ¥32,679 million, and the net margin increased to 7.1%, from 5.3% a year earlier. This was largely attributable to a gain on sales of fixed assets recorded in other income. Net income per share (basic) increased to ¥128.65, from ¥95.73 in the previous year.

Results by Business Segment

	Net sales (Millions of yen)			Operating income (Millions of yen)		
	FY2008.3	FY2007.3	Year on year	FY2008.3	FY2007.3	Year on year
Toys and Hobby	¥180,165	¥185,586	¥(5,421)	¥14,310	¥17,403	¥(3,093)
Amusement Facility	89,829	88,196	1,633	1,631	4,004	(2,373)
Game Contents	145,673	139,187	6,486	14,794	11,510	3,284
Network	12,044	12,490	(446)	904	880	24
Visual and Music Content	36,950	43,007	(6,057)	3,832	9,497	(5,665)
Other Businesses	19,811	20,901	(1,090)	754	1,018	(264)

Note: Due to the reorganization accompanying the management integration, the percentages of corporate expenses allocated to the Toys and Hobby, Amusement Facility, and Game Contents SBUs in the fiscal year ended March 31, 2008, have increased in comparison with the previous year.

Toys and Hobby SBU

In Japan, the *Masked Rider Den-o* series character toys for boys and the *Yes! Pretty Cure 5* character toys for girls both posted solid sales. However, sales did not reach the levels of the previous fiscal year, which benefited from strong sales of hit products such as *Tamagotchi Plus* and *DATA CARDASS*. Overseas, the *Tamagotchi* series and *POWER RANGERS* series performed well, principally in the Americas and Europe, and the *BEN10* character toys for boys also proved popular in these regions.

As a result, the Toys and Hobby SBU recorded net sales of ¥180,165 million, a decrease of 2.9%, and operating income of ¥14,310 million, down 17.8%.

Amusement Facility SBU

The challenging conditions in the Japanese market meant existing store sales declined 5.9% year on year. However, this fall was counteracted by the strong start made by the new large-scale stores opened in both the previous fiscal year and the fiscal year under review. However, in addition to the challenging environment faced by existing stores, the decline in the gross margin ratio that accompanied changes to the composition of sales adversely affected profits. Overseas, hybrid facilities performed well, particularly in Europe. In the Americas, however, although we worked to increase efficiency from directly managed stores and to expand revenue-sharing locations, the impact of slack market conditions and an increase in costs that accompanied measures to strengthen sales of prizes meant that performance was sluggish.

As a result, the Amusement Facility SBU recorded net sales of ¥89,829 million, an increase of 1.9%, and operating income of ¥1,631 million, a decrease of 59.3%. At the end of the fiscal year, we had a total of 1,736 facilities. By type, we had 408 directly managed facilities, 1,320 revenue-sharing facilities, 5 theme parks, and 3 spa facilities.

Game Contents SBU

In home video game software, we took steps to strengthen business development around the world, centered on sales of *ACE COMBAT 6: Fires of Liberation* for the Xbox 360 and the multi-player *Dragon Ball Z: Sparking! METEOR* for the PlayStation2 and the Wii. In addition, domestic sales of PlayStation2 software were brisk, including *SD Gundam Generation Spirits*. Overseas sales were solid, specifically *NARUTO*-related titles in the Americas and *Dragon Ball Z*-related titles in Europe.

In coin-operated game machines, *Tekken 6* and *MIDNIGHT MAXIMUM TUNE 3* sold well, while repeat purchases of machines launched in the previous fiscal year contributed to results. Also, in game content for mobile devices, such as mobile phones, a variety of rich content to meet diversified customer needs was developed, resulting in steady growth.

As a result, the Game Contents SBU recorded net sales of ¥145,673 million, an increase of 4.7%, and operating income of ¥14,794 million, a rise of 28.5%.

Network SBU

In the mobile content business, games tailored to match user preferences performed well, including high-value-added content such as *Dragon Ball Mobile*, and content for casual gamers, including the comprehensive mini game site, *Simple 100* series. Ring tones registered a sluggish performance, but customized wallpaper content for mobile phones proved popular, and we were able to halt the downward trend in the number of fee-paying subscribers, which began to increase. In solutions services for corporations, outsourcing operations for developing and managing mobile content sites performed well.

As a result, the Network SBU recorded net sales of ¥12,044 million, a decrease of 3.6%, and operating income of ¥904 million, an increase of 2.7%.

Visual and Music Content SBU

Visual software packages, such as TV animation *CODE GEASS: Lelouch of the Revolution*, and music software packages related to the TV animation *Raki-Suta* were popular. In addition, the *Mobile Suit Gundam* theatrical version commemorative boxed set and the DVD software package *Mobile Suit Gundam OO (Double O)* were launched. However, the industry as a whole has been undergoing a downturn, reflected in sluggish sales of the Group's DVD software.

In addition, to prepare for the fully fledged shift to the Blu-ray Disc format, at the end of the fiscal year we accepted the return of certain products from retail outlets, further exacerbating conditions in an already difficult operating environment.

Consequently, the Visual and Music Content SBU recorded net sales of ¥36,950 million, a decrease of 14.1%, and operating income of ¥3,832 million, a decline of 59.7%.

Other Businesses

Other businesses comprises companies that provide services to the Group's SBUs, such as logistics, leasing, and building management. In the year under review, we focused on efficiently operating these Group support activities.

As a result, Other Businesses recorded net sales of ¥19,811 million, down 5.2%, and operating income of ¥754 million, a decrease of 25.9%.

■ Results by Geographic Segment

	Net sales (Millions of yen)			Operating income (Millions of yen)		
	FY2008.3	FY2007.3	Year on year	FY2008.3	FY2007.3	Year on year
Japan	¥360,697	¥367,448	¥(6,751)	¥24,480	¥33,128	¥(8,648)
Americas	54,566	53,990	576	2,318	3,377	(1,059)
Europe	46,398	37,763	8,635	6,831	5,253	1,578
Asia	37,933	37,061	872	2,855	2,730	125

Note: Due to the reorganization accompanying the management integration, the percentage of corporate overhead expenses allocated to Japan in the fiscal year ended March 31, 2008, has increased in comparison with the previous year.

Japan

In the Toys and Hobby SBU, the *Masked Rider* series character toys for boys and the *Yes! Pretty Cure 5* character toys for girls posted solid results. However, the SBU's sales did not reach the levels of the previous fiscal year, which benefited from the strong sales of hit products such as *Tamagotchi Plus* and *DATA CARDASS*.

Amusement Facility SBU sales were sluggish, as it continued to face a challenging marketing environment, particularly at its existing stores. In addition, the decline in the gross margin ratio that accompanied changes to the composition of sales adversely affected profits.

In the Game Contents SBU, solid sales were recorded by home video game software for the PlayStation2, such as *SD Gundam Generation Spirits*. In coin-operated game machines, *Tekken 6* and *MIDNIGHT MAXIMUM TUNE 3* sold well, while repeat purchases of machines sold in the previous fiscal year contributed to performance.

In the Network SBU, the mobile content business released games tailored to match user preferences that performed well, including high-value-added content. Content for casual gamers performed strongly, and customized wallpaper content for mobile phones became popular. As a result, we were able to halt the downward trend in the number of fee-paying subscribers, which began to increase.

In the Visual and Music Content SBU, some package software titles performed strongly. However, the industry as a whole has been undergoing a downturn, reflected in sluggish sales of the Group's DVD software. In addition, to prepare for the fully fledged shift to the Blu-ray Disc format, at the end of the fiscal year under review we accepted the return of certain unsold products from retail outlets, further exacerbating conditions in an already difficult operating environment.

As a result, net sales in Japan totaled ¥360,697 million, a 1.8% decrease, and operating income was ¥24,480 million, a 26.1% decline.

The Americas

In the Toys and Hobby SBU, the *Tamagotchi* series performed well and the *BEN10* character toys for boys also contributed to results. However, the *POWER RANGERS* series sales did not match the high levels reached in the previous fiscal year.

In the Amusement Facility SBU, despite increased efficiency through directly managed stores and expanded revenue-sharing locations, the impact of slack market conditions and higher costs accompanying strengthened prize campaigns meant a downturn in performance.

The Game Contents SBU posted solid sales, particularly *ACE COMBAT 6: Fires of Liberation* for the Xbox 360 and *NARUTO*-related titles and repeat purchases for home video game software.

As a result of these factors, the Americas recorded net sales of ¥54,566 million, a 1.1% increase, and operating income of ¥2,318 million, a decline of 31.4%.

Europe

In the Toys and Hobby SBU, the *POWER RANGERS* and *Tamagotchi* series continued to perform well and the *BEN10* character toys for boys, launched in Europe in the fiscal year under review, also proved popular. In the Amusement Facility SBU, the hybrid facilities purchased in the previous fiscal year contributed to sales, while in the Game Contents SBU, home video game software sales were favorable, particularly for *Dragon Ball Z*-related titles.

As a result, net sales in Europe amounted to ¥46,398 million, an increase of 22.9%, and operating income totaled ¥6,831 million, up 30.0%.

Asia

In the Toys and Hobby SBU, results were solid, centered on strong sales of *POWER RANGERS* and *Masked Rider* character toys for boys and models in the *Mobile Suit Gundam* series. In the Amusement Facility SBU, initiatives surrounding prize games and Group products continued to do well.

As a result, net sales in Asia were ¥37,933 million, up 2.4%, and operating income was ¥2,855 million, up 4.6%.

■ Financial Position

At the fiscal year-end, total assets were up ¥4,533 million year on year, to ¥413,023 million. This gain was primarily due to a ¥12,392 million increase in cash and time deposits, which exceeded a ¥11,510 million decrease in net property, plant and equipment, including land and amusement facilities and machines.

Total liabilities were down ¥1,157 million, to ¥123,079 million, mainly because an increase of ¥9,529 million in long-term debt was counteracted by decreases of ¥6,832 million in short-term borrowings and ¥4,494 in trade payables.

Total net assets grew ¥5,690 million year on year, to ¥289,944 million, principally because a ¥32,679 million rise in retained earnings due to an increase in net income counteracted a ¥9,196 million fall in additional paid-in capital due to retirement of treasury stock, etc., and a ¥1,502 million decrease in retained earnings due to a reversal of land revaluation. As a result, the shareholders' equity ratio increased to 69.4%, from 67.1% a year earlier.

The current ratio* was 263.4%, compared with 232.1% a year earlier; the quick ratio* was 203.0%, compared with 184.4%; and the interest coverage ratio* was 200.0 times, compared to 180.1 times.

* Current ratio: Total current assets / Total current liabilities

Quick ratio: (Cash and time deposits + Short-term investments + Trade receivables) / Total current liabilities

Interest coverage ratio: Cash flows from operating activities / Interest paid

■ Cash Flows

Cash and cash equivalents at the end of the fiscal year totaled ¥129,290 million, a year-on-year increase of ¥5,134 million.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥35,000 million, down 17.6%. Principal cash outflows were an increase in income taxes paid from ¥13,671 million a year earlier to ¥16,286 million and acquisition of amusement facilities and machines of ¥9,286 million, compared to ¥10,601 million in the previous fiscal year. However, income before income taxes and minority interests was ¥45,965 million, compared to ¥43,714 million in the previous fiscal year, and overall net cash provided by operating activities increased.

Cash flows from Investing Activities

Net cash used in investing activities was ¥14,981 million, down 1.8%. Sales of property, plant and equipment totaled ¥22,425 million, up from ¥568 million, but acquisition of shares in consolidated subsidiaries, net of cash acquired was ¥15,983 million, compared to ¥1,103 million in the previous year, primarily due to acquisition of shares in consolidated subsidiaries through tender offers for Bandai Visual Co., Ltd., and Bandai Network Co., Ltd. Purchases of property, plant and equipment and of intangible assets were ¥14,670 million, up from ¥14,521 million, and purchases of investment securities, in Toei Co., Ltd., and others were ¥4,994 million, down from ¥7,595 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥15,067 million, down 20.1% year on year. Proceeds from long-term debt were ¥16,000 million, while in the previous year no proceeds were recorded. A decrease in treasury stock—total purchases of treasury stock less proceeds from disposal of treasury stock—of ¥10,236 million was recorded, compared to ¥8,084 million in the previous fiscal year. Repayment of long-term debt was ¥12,542 million, up from ¥7,434 million, while dividends paid totaled ¥7,163 million, compared to ¥6,073 million in the previous fiscal year.

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

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

Furthermore, as a basic principle the Company plans to use profits remaining after dividends have been paid to supplement retained earnings, which in turn are used for continued investment and strengthening of the financial structure. After taking into account current levels of shareholders' equity, going forward we will use some retained earnings to purchase treasury stock. Any decision will be based on a comprehensive consideration of such factors as the Company's level of capital, performance and share price trends, and whether any major investment projects are being undertaken.

In accordance with the Company's basic policy, dividends for the year was ¥24 per share, comprised of the base component of ¥12 per share for both interim and year-end dividends. The consolidated payout ratio was 18.7%.

Targets and Management Indicators

The Group has adopted return on assets (ROA) and return on equity (ROE) as medium-term management performance indicators. The Group believes that it can reinforce and stabilize its management foundation over the medium-to-long term by striving to consistently utilize all of its assets and shareholders' equity effectively.

Specifically, the Group aims to attain consolidated ROA of 10% and consolidated ROE of 8.0% in the fiscal year ending March 2009, and will work to enhance management efficiency in parallel with business expansion.

Outlook for the Fiscal Year Ending March 31, 2009

We expect business conditions to remain unstable, due to the effect on exports of the U.S. economic slowdown, the high price of crude oil, the strong yen, and sluggish consumer spending due to the rising prices of daily necessities. For the Group, the operating environment in the entertainment industry is expected to undergo further change as consumer trends continue to diversify and more new technologies and services are introduced. Consequently, the outlook for the industry remains unclear.

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

In the Toys and Hobby SBU, in Japan we will utilize long-established, popular character series to further cultivate existing customers, such as *Engine Sentai Go-onger* and *Masked Rider* for young boys and *Yes! Pretty Cure 5* for young girls. We will also expand our target customer groups by strengthening product development for adult consumers. Overseas, as well as continuing to focus on *POWER RANGER* and *BEN10* character toys for boys, we will also develop new character products, such as for the *Dragon Ball* series.

In the Amusement Facility SBU, in Japan we will close approximately 20% of existing facilities, focusing on closures of non-profitable facilities. We are revising our standards for the opening and closing of amusement facilities, aiming to strengthen our revenue/profit foundation by sharing management know-how of low-cost operations. Overseas, we intend to maintain a balance between efficiency and expansion tailored to the characteristics of each region. Also, domestically the Group will develop new facilities and continue to provide its customers with the Group's unique added value.

In the Game Contents SBU, we will strengthen our multiplatform strategy on a global level and in a balanced manner while targeting user preferences, such as through sales of *Soul Caliber IV* for the PLAYSTATION 3 and Xbox 360 and *Active Life Outdoor Challenge (Family Trainer)* for the Wii. In addition, we will develop operations with a focus on profitability, concentrating efforts into increasing sales of selected titles from within our lineup. In coin-operated game machines, we will bolster linkages between amusement facilities and will target increased share by concentrating resources into the development of large-scale machines, including the large-scale medal machines *Sea Story Lucky Marine Theater*.

In the Network SBU, focusing on profitability, we will enhance diverse content and reinforce our revenue/profit foundation by bolstering synergies between Group companies. We will also devote our energies into the continued provision of new technologies for mobile phone handsets and for corporate solutions, such as the development of systems for mobile sites.

In the Visual and Music Content SBU, we will conduct platform business development in line with the distinctive characteristics of products, including for the Blu-ray Disc format, such as *CODE GEASS: Lelouch of the Rebellion R2*, *Mobile Suit Gundam 00 (Double O)*, and *Macross F (Frontier)* TV animations. Also, from the summer we will begin fully fledged Blu-ray Disc rental operations.

As a result of these factors, for the fiscal year ending March 31, 2009, we are forecasting net sales of ¥470,000 million, a year-on-year increase of 2.1%; operating income of ¥38,000 million, a gain of 13.7%; recurring income of ¥39,500 million, up 9.1%; and net income of ¥22,500 million, a decrease of 31.1%.

Fiscal Year Ending March 31, 2009 (Consolidated Plan)

Business Segments (Millions of yen)

	Net sales	Operating income
Toys and Hobby	¥180,000	¥16,000
Amusement Facility	86,000	2,000
Game Contents	160,000	18,000
Network	11,000	800
Visual and Music Content	38,000	3,000
Other Businesses	18,000	700
Eliminations and corporate	(23,000)	(2,500)
Total	¥470,000	¥38,000

Geographic Segments (Millions of yen)

	Net sales (after eliminations)	Operating income
Japan	¥354,500	¥27,800
Americas	55,000	3,800
Europe	47,000	6,400
Asia	13,500	2,500
Eliminations and corporate	—	(2,500)
Total	¥470,000	¥38,000

Note: Figures in these tables are as of August 6, 2008.

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, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2007	2008	2008
Assets			
Current assets:			
Cash and time deposits (note 4)	¥113,711	¥ 126,103	$ 1,258,639
Short-term investments (notes 4 and 5)	12,191	7,069	70,556
Trade receivables (note 6)	78,430	73,141	730,023
Allowance for doubtful receivables	(1,948)	(607)	(6,058)
Inventories (note 7)	34,318	36,429	363,599
Deferred tax assets (note 12)	5,718	5,909	58,978
Other current assets	14,789	19,669	196,316
Total current assets	257,209	267,713	2,672,053
Investments and other assets:			
Investment securities (note 5)	28,817	26,143	260,934
Guarantee money deposited	21,023	20,112	200,739
Deferred tax assets (note 12)	4,142	6,291	62,791
Other investments and assets	4,171	3,542	35,352
Allowance for doubtful receivables	(1,296)	(1,216)	(12,137)
Total investments and other assets	56,857	54,872	547,679
Property, plant and equipment:			
Buildings and structures	30,286	26,316	262,661
Amusement facilities and machines	85,262	81,042	808,883
Land	20,598	14,347	143,198
Other property, plant and equipment	65,094	66,575	664,488
Total	201,240	188,280	1,879,230
Less accumulated depreciation	(126,284)	(124,834)	(1,245,973)
Net property, plant and equipment	74,956	63,446	633,257
Intangible assets:			
Goodwill	9,739	15,800	157,700
Other intangible assets	9,729	11,192	111,708
Total intangible assets	19,468	26,992	269,408
Total assets	¥ 408,490	¥ 413,023	$ 4,122,397

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (note 3)
	2007	2008	2008
Liabilities and net assets			
Current liabilities:			
Short-term borrowings (note 9)	¥ 12,170	¥ 5,338	$ 53,279
Trade payables (note 10)	47,097	42,603	425,222
Accrued expenses	31,869	33,765	337,010
Accrued income taxes (note 12)	10,875	9,263	92,454
Other current liabilities (note 12)	8,818	10,680	106,597
Total current liabilities	110,829	101,649	1,014,562
Long-term liabilities:			
Long-term debt (note 9)	1,133	10,662	106,418
Accrued retirement and severance benefits (note 11)	2,749	1,598	15,950
Deferred tax liabilities (note 12)	5,786	4,732	47,230
Other long-term liabilities	3,739	4,438	44,296
Total long-term liabilities	13,407	21,430	213,894
Total liabilities	124,236	123,079	1,228,456
Net assets:			
Common stock (notes 17 and 18)			
Authorized 1,000,000,000 shares;			
issued 256,080,191 shares	10,000	10,000	99,810
Additional paid-in capital (note 18)	97,142	87,946	877,792
Retained earnings (note 15)	182,389	192,865	1,924,993
Treasury stock, at cost; 2,731,047 shares in 2007 and 1,766,271 shares in 2008 (note 17)	(3,952)	(2,840)	(28,346)
Subtotal	285,579	287,971	2,874,249
Other securities valuation difference (notes 5 and 12)	4,101	193	1,926
Deferred gains or losses on hedges, net of tax	92	(113)	(1,128)
Land revaluation (notes 12 and 16)	(21,286)	(6,284)	(62,721)
Translation adjustments	5,684	5,029	50,195
Subtotal	(11,409)	(1,175)	(11,728)
Stock subscription rights (note 18)	577	1,531	15,281
Minority interests	9,507	1,617	16,139
Total net assets	284,254	289,944	2,893,941
Contingencies (note 21)			
Total liabilities and net assets	¥408,490	¥413,023	$4,122,397

Consolidated Statements of Income

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2007	2008	2008
Net sales	¥459,133	¥460,474	$4,596,008
Cost of sales	291,053	296,401	2,958,389
Gross profit	168,080	164,073	1,637,619
Selling, general and administrative expenses (note 13)	125,856	130,662	1,304,143
Operating income	42,224	33,411	333,476
Other income (loss):			
Interest and dividend income	2,088	2,553	25,482
Interest expense	(237)	(202)	(2,016)
Gain (loss) on sales of investment securities, net	4,827	288	2,875
Loss on valuation of investment securities	(701)	(225)	(2,246)
Gain (loss) on sales and disposal of fixed assets, net	(267)	16,105	160,745
Loss on impairment of fixed assets (note 8)	(5,070)	(4,248)	(42,399)
Other	850	(1,717)	(17,139)
	1,490	12,554	125,302
Income before income taxes and minority interests	43,714	45,965	458,778
Income taxes (note 12)	17,570	12,635	126,110
Minority interests	1,892	651	6,498
Net income	¥ 24,252	¥ 32,679	$ 326,170

	Yen		U.S. dollars (note 3)
Data per common share (note 14):			
Net assets at March 31	¥1,063.29	¥1,127.72	$11.26
Net income:			
Basic	95.73	128.65	1.28
Diluted	95.67	128.47	1.28
Dividend applicable to period (note 15)	28.00	24.00	0.24

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2007	2008	2008
Common stock (notes 17 and 18):			
Balance at beginning of year	¥ 10,000	¥ 10,000	$ 99,810
Balance at end of year	10,000	10,000	99,810
Additional paid-in capital (note 18):			
Balance at beginning of year	95,772	97,142	969,578
Disposal of treasury stock	868	—	—
Retirement of treasury stock	—	(8,184)	(81,685)
Purchase of treasury stock from consolidated subsidiaries	502	—	—
Decrease in treasury stock due to a share exchange	—	(1,012)	(10,101)
Balance at end of year	97,142	87,946	877,792
Retained earnings (note 15):			
Balance at beginning of year	164,504	182,389	1,820,432
Net income	24,252	32,679	326,170
Effect from newly consolidated subsidiaries	31	(104)	(1,038)
Decrease due to the deconsolidation of subsidiaries	—	(27)	(269)
Decrease from merger of consolidated subsidiaries	(29)	—	—
Effect from the reduction of investments reported under the equity method	295	—	—
Increase due to change of consolidated subsidiaries into investments reported under the equity method	—	93	928
Reversal of land revaluation	(173)	(15,002)	(149,736)
Cash dividends	(6,073)	(7,163)	(71,494)
Bonuses to directors and corporate auditors	(418)	—	—
Balance at end of year	182,389	192,865	1,924,993
Treasury stock (note 17):			
Balance at beginning of year	(11,156)	(3,952)	(39,445)
Net change during year	7,204	1,112	11,099
Balance at end of year	(3,952)	(2,840)	(28,346)
Other securities valuation difference (notes 5 and 12):			
Balance at beginning of year	4,145	4,101	40,932
Net change during year, net of tax	(44)	(3,908)	(39,006)
Balance at end of year	4,101	193	1,926
Deferred gains or losses on hedges, net of tax:			
Balance at beginning of year	—	92	918
Net change during year	92	(205)	(2,046)
Balance at end of year	92	(113)	(1,128)
Land revaluation (notes 12 and 16):			
Balance at beginning of year	(21,460)	(21,286)	(212,457)
Net change during year, net of tax	174	15,002	149,736
Balance at end of year	(21,286)	(6,284)	(62,721)
Translation adjustments:			
Balance at beginning of year	1,802	5,684	56,733
Net change during year	3,882	(655)	(6,538)
Balance at end of year	5,684	5,029	50,195
Stock subscription rights (note 18):			
Balance at beginning of year	—	577	5,759
Net change during year	577	954	9,522
Balance at end of year	577	1,531	15,281
Minority interests:			
Balance at beginning of year	8,637	9,507	94,889
Net change during year	870	(7,890)	(78,750)
Balance at end of year	9,507	1,617	16,139
Total net assets at end of year	¥284,254	¥289,944	$2,893,941

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2007	2008	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 43,714	¥ 45,965	$ 458,778
Depreciation	21,201	24,759	247,120
Loss on impairment of fixed assets	5,070	4,248	42,399
Loss (gain) on sales and disposal of fixed assets, net	267	(16,105)	(160,745)
Loss on disposal of amusement facilities and machines	1,129	1,215	12,127
Gain (loss) on sales of investment securities, net	(4,827)	(288)	(2,875)
Loss on valuation of investment securities	701	225	2,246
Decrease (increase) in trade receivables	(3,111)	6,129	61,174
Decrease (increase) in inventories	(3,588)	(3,936)	(39,285)
Acquisition of amusement facilities and machines	(10,601)	(9,286)	(92,684)
Increase (decrease) in trade payables	3,465	(4,203)	(41,950)
Other	902	217	2,166
Subtotal	54,322	48,940	488,471
Interest and dividends received	2,078	2,521	25,162
Interest paid	(236)	(175)	(1,747)
Income taxes paid	(13,671)	(16,286)	(162,550)
Net cash provided by operating activities	42,493	35,000	349,336
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	133	(2,218)	(22,138)
Purchases of property, plant and equipment	(9,731)	(10,471)	(104,511)
Sales of property, plant and equipment	568	22,425	223,825
Purchases of intangible assets	(4,790)	(4,199)	(41,910)
Purchases of investment securities	(7,595)	(4,994)	(49,845)
Sales of investment securities	6,165	26	260
Acquisition of shares in consolidated subsidiaries, net of cash acquired	(1,103)	(15,983)	(159,527)
Sales of shares in consolidated subsidiaries	1	—	—
Purchase of subsidiary shares affecting the scope of consolidation	(417)	—	—
Sales of subsidiary shares affecting the scope of consolidation	445	(63)	(629)
Payment of guarantee money deposited	(2,578)	(1,588)	(15,850)
Collection of guarantee money deposited	1,556	2,260	22,557
Other	2,093	(176)	(1,758)
Net cash used in investing activities	(15,253)	(14,981)	(149,526)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	(13,113)	(739)	(7,376)
Proceeds from long-term debt	—	16,000	159,697
Repayment of long-term debt	(7,434)	(12,542)	(125,182)
Decrease (increase) in treasury stock	8,084	(10,236)	(102,166)
Dividends paid	(6,073)	(7,163)	(71,494)
Dividends paid to minority interests	(320)	(387)	(3,863)
Net cash used in financing activities	(18,856)	(15,067)	(150,384)
Effect of exchange rate changes on cash and cash equivalents	2,550	(304)	(3,034)
Net increase in cash and cash equivalents	10,934	4,648	46,392
Cash and cash equivalents at beginning of year	113,186	124,156	1,239,205
Increase in cash and cash equivalents due to consolidation of additional subsidiaries	15	486	4,851
Increase in cash and cash equivalents due to merger of consolidated subsidiaries	21	—	—
Cash and cash equivalents at end of year (note 4)	¥124,156	¥129,290	$1,290,448

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

1 Basis of Presentation

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

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

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

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

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the presentation used for the year ended March 31, 2008.

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 discussed in the previous paragraph 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. The excess of cost over the underlying fair value of the net assets of consolidated subsidiaries from acquisition is being amortized over a five-year period.

(b) Cash and Cash Equivalents

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

(c) Foreign Currency Translation

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

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

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

(d) Accounting Standards for Income and Expenses

Accounting for video game software production expenses:

A distinctive characteristic of video game software is the process through which the software is combined with the 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 (which include inventories) are amortized to cost of sales based on projected sales volumes.

(e) Short-Term Investments and Investment Securities

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

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

(f) Allowance for Doubtful Receivables

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

(g) Inventories

Domestic consolidated subsidiaries:

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

Foreign consolidated subsidiaries:

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

Both domestic and foreign consolidated subsidiaries state game software work-in-process by the specific-cost method.

(h) Income Taxes

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

(i) Property, Plant and Equipment

The Company and its domestic consolidated subsidiaries:

Depreciation of property, plant and equipment is principally computed by the declining-balance method based on estimated useful 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 2–50 years and 3–15 years, respectively.

From fiscal 2008, due to the revision of the Japanese Corporation Tax Law, the Company and some of its domestic consolidated subsidiaries changed the method of calculating the depreciation of property, plant and equipment acquired on or after April 1, 2007, based on the revised Japanese Corporation Tax Law.

As a result of this change, operating income and income before income taxes and minority interests each decreased by ¥989 million ($9,871 thousand).

From fiscal 2008, due to the revision of the Japanese Corporation Tax Law, the Company and some of its domestic consolidated subsidiaries, depreciate the difference between the original residual value of 5% of acquisition cost of assets acquired on or before March 31, 2007, and the new residual value of ¥1 (memorandum value) by the straight line method over 5 years commencing from the fiscal year following the year in which the asset becomes fully depreciated to the original residual value.

As a result of this change, operating income and income before income taxes and minority interests each decreased by ¥187 million ($1,866 thousand).

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 2–7 years, respectively.

(j) Intangible Assets

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

Goodwill is amortized over 5 years using the straight-line method, except for goodwill recognized by foreign subsidiaries which is accounted for in conformity with accounting principles and practices generally accepted in the respective country of incorporation.

(k) Impairment of Fixed Assets

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

(l) Derivatives and Hedging Activities

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

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

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

The Company assesses the effectiveness of hedging transactions from the start of the transaction to the point at which effectiveness is assessed by comparing the cumulative changes in the fair value or the cumulative changes in the cash flows of the hedged item with the cumulative changes in the fair value or the cumulative changes in the cash flows of the hedging instrument. In the event that critical terms are the same for the hedging instrument and the hedged assets, liabilities, or forecast transaction, it is assumed that the hedge is 100% effective, so the assessment of effectiveness is not performed. Also, for interest rate swaps for which the specific allowed methods are applied, 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

The "Accounting Standard for Directors' Bonus" (The Accounting Standards Board of Japan (ASBJ) Statement No. 4 Accounting Standard, November 29, 2005) became effective from April 1, 2006.

The Company and its domestic consolidated subsidiaries provide accrued bonuses for directors based on the estimated amounts to be paid in respect of the fiscal year.

(n) Retirement and Severance Benefits

The Company has established a retirement lump-sum benefits system and a defined contribution pension plan. With the exception of certain companies, domestic consolidated subsidiaries have established qualified retirement benefit plans, retirement lump-sum benefits, or comprehensive employee pension funds. At the Company's discretion, additional benefits may be paid at retirement. Certain foreign consolidated subsidiaries have established defined contribution 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 to 17 years). Certain domestic consolidated subsidiaries amortize prior service costs over a fixed period (10 years) that does not exceed the average remaining years of service of employees at the point when the costs are incurred.

To provide for payment of retirement benefits to directors and corporate auditors, certain domestic consolidated subsidiaries record the amount payable at the end of the fiscal year in accordance with internal regulations.

(o) Provision for Losses from Business Restructuring

Certain consolidated subsidiaries make provision for estimated losses on restructuring of operations.

(p) Provision for Sales Returns

Certain consolidated subsidiaries provide for losses on returned goods after the end of the fiscal year based on historic experience.

(q) Leases

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

(r) Appropriation of Retained Earnings

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

(s) Data per Common Share

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

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

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

(t) Presentation of Net Assets

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

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

(u) Stock Options

The "Accounting Standard for Share-based Payment" (The Accounting Standards Board of Japan (ASBJ) Statement No. 8 Accounting Standard, December 27, 2005) and the "Guidance on the Accounting Standard for Share-based Payment" (The Accounting Standards Board of Japan (ASBJ) Guidance No. 11 Guidance on Accounting Standard, May 31, 2006) became effective from April 1, 2006.

3 Financial Statement Translation

The consolidated financial statements are expressed in yen.

However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 2008, have been translated into U.S. dollars at the rate of ¥100.19=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2008.

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

4 Cash and Cash Equivalents

Reconciliations of cash and cash equivalents at March 31, 2007 and 2008 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
	2007	2008	2008
Cash and time deposits	¥113,711	¥126,103	$1,258,639
Short-term investments	12,191	7,069	70,556
Time deposits with maturities in excess of three months	(1,746)	(3,882)	(38,747)
Cash and cash equivalents per consolidated statement of cash flows	¥124,156	¥129,290	$1,290,448

Cash and time deposits of ¥54 million is pledged as collateral for short-term borrowings of ¥23 million at March 31, 2007.

5 Short-Term Investments and Investment Securities

Short-term investments and investment securities at March 31, 2007 and 2008 are summarized as follows:

Held-to-maturity securities at March 31, 2007 and 2008 include marketable governmental bond securities with a carrying amount of ¥6,017 million and ¥30 million ($299 thousand), respectively, which approximates market value.

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Held-to-maturity securities	¥ 6,054	¥ 64	$ 639
Other securities–marketable	17,878	15,102	150,733
Other securities–non-marketable	8,019	8,924	89,071
Investments in unconsolidated subsidiaries and affiliated companies	9,057	9,122	91,047
Total of short-term investments and investment securities	¥41,008	¥33,212	$331,490

The original cost, carrying amount (market value), and gross unrealized holding gain (loss) for marketable other securities at March 31, 2007 and 2008, are summarized as follows:

	Millions of yen			
	2007			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
Other securities–marketable:				
Equity securities	¥9,376	¥8,259	¥(120)	¥17,515
Debt securities	100	—	(2)	98
Other	223	46	(4)	265
Total	¥9,699	¥8,305	¥(126)	¥17,878

	Millions of yen			
	2008			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
Other securities–marketable:				
Equity securities	¥12,410	¥4,932	¥(2,746)	¥14,596
Debt securities	301	—	(2)	299
Other	223	—	(16)	207
Total	¥12,934	¥4,932	¥(2,764)	¥15,102

	Thousands of U.S. dollars			
	2008			
	Original cost	Gross unrealized holding hain	Gross unrealized holding loss	Carrying amount (Market value)
Other securities–marketable:				
Equity securities	$123,865	$49,226	$(27,408)	$145,683
Debt securities	3,004	—	(20)	2,984
Other	2,226	—	(160)	2,066
Total	$129,095	$49,226	$(27,588)	$150,733

Proceeds and gross realized gains and losses from the sale of other securities in the years ended March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Proceeds from the sales of other securities	¥534	¥ 26	$ 260
Gross realized gains from the sales of other securities	499	2	20
Gross realized losses from the sales of other securities	(1)	(12)	(120)

The following is a summary of non-marketable other securities at March 31, 2007 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
	Carrying amount	Carrying amount	Carrying amount
Other securities–non-marketable:			
Unlisted securities	¥1,763	¥1,721	$17,177
Money market fund and others	5,706	5,863	58,519
Other	550	1,340	13,375
Total	¥8,019	¥8,924	$89,071

Other securities with specified maturity dates and held-to-maturity securities at March 31, 2007 and 2008 mature as follows:

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

	Millions of yen		
	2008		
Due:	Within one year	After 1 through 5 years	After 5 through 10 years
Debt securities:			
Governmental bond securities	¥10	¥20	¥—
Corporate bond securities	—	34	—
Total	¥10	¥54	¥ —

	Thousands of U.S. dollars		
	2008		
Due:	Within one year	After 1 through 5 years	After 5 through 10 years
Debt securities:			
Governmental bond securities	$100	$200	$ —
Corporate bond securities	—	339	—
Total	$100	$539	$ —

6 Trade Receivables

Trade receivables at March 31, 2007 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Notes receivable	¥ 8,337	¥ 6,874	$ 68,610
Accounts receivable–trade	70,093	66,267	661,413
Total	¥78,430	¥73,141	$730,023

At March 31, 2007, the Company had ¥684 million of notes receivable which had matured but were still in the process of collection since March 31, 2007, was a public holiday and, therefore, were included in notes receivable as of March 31, 2007.

7 Inventories

Inventories at March 31, 2007 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Finished goods and merchandise	¥12,049	¥11,463	$114,413
Work in process	19,361	21,481	214,402
Raw materials and supplies	2,908	3,485	34,784
Total	¥34,318	¥36,429	$363,599

8 Loss on Impairment of Fixed Assets

Groupings for evaluating fixed asset impairment are made according to management accounting classifications based on strategic business units, excluding significant idle assets, assets scheduled for disposal, and leased assets. Assets are located in Japan and overseas and, therefore, assets in the Amusement Facility Business are grouped mainly by geographical region.

The book values of the following assets, which exclude reusable assets, were reduced to the recoverable amount. The amount of reduction recorded as an impairment loss in, Other income (loss), for the years ended March 31, 2007 and 2008 were as follows:

Location	Items	Classification	Millions of yen 2007	Millions of yen 2008	Thousands of U.S. dollars 2008
Toshima-ku, Tokyo (Note 1)	Amusement facility (Theme park)	Amusement facilities and machines and other assets	¥1,544	¥ —	$ —
Sapporo City, Hokkaido (Note 2)	Amusement facility	Amusement facilities and machines and other assets	161	—	—
Hakodate City, Hokkaido (Note 3)	Amusement facility (Tourist hotel)	Buildings & structures, land	1,338	—	—
Yokohama City, Kanagawa (Note 4)	LAN entertainment business	Other intangible assets, other investments, and assets	220	—	—
Ota-ku, Tokyo (Note 5)	Management, sales, production control, R&D	Buildings & structures, land	1,160	—	—
Shimotsuga-gun, Tochigi (Note 6)	Idle assets, assets scheduled for disposal	Buildings & structures, land, and other assets	486	—	—
Ibaraki City, Osaka (Note 7)	Assets for lease	Buildings & structures, land, and other assets	161	—	—
Yokohama City, Kanagawa, etc. (Note 8)	Amusement facility	Amusement facilities and machines and other assets	—	938	9,362
Kanazawa City, Ishikawa (Note 9)	Amusement facility	Amusement facilities and machines and other assets	—	173	1,727
Ayase City, Kanagawa, etc. (Note 10)	Amusement facility	Amusement facilities and machines and other assets	—	85	848
Hakodate City, Hokkaido (Note 9)	Amusement facility (Tourist hotel)	Buildings & structures and other assets	—	483	4,821
BEDFORDSHIRE, U.K. etc. (Note 9)	Amusement facility	Amusement facilities and machines and other assets	—	948	9,462.
CAUSEWAY BAY, HONG KONG (Note 11)	Assets scheduled for disposal, etc.	Amusement facilities and machines and other assets	—	2	20
ILLINOIS, U.S.A. (Note 12)	Amusement facility	Goodwill	—	662	6,607
Shimotsuga-gun, Tochigi, etc. (Note 13)	Idle assets	Buildings & structures, land, and other assets	—	789	7,875
Bunkyo-ku, Tokyo, etc. (Note 11)	Assets scheduled for disposal and other assets	Buildings & structures, other property, plant and equipment	—	116	1,158
Inashiki-gun, Ibaraki (Note 14)	Warehouse	Buildings & structures, land	—	35	349
Koutou-ku, Tokyo (Note 9)	Software for Internet content business	Property, plant and equipment (others), software	—	17	170
Total			¥5,070	¥4,248	$42,399

Notes:

1. The Company separately classified these assets and recorded an impairment loss since management changed the objective of the asset from income generating to advertising. Furthermore, the assets were categorized differently in the investment decision process since the group contained facilities that aimed to generate income. The assets were determined to have no value.
2. The fair value of these assets was determined to be significantly impaired due to the decision to close the facility and, accordingly, the assets were separated from its group and an impairment loss was recorded. The asset was determined to have no value.
3. A loss was recorded because it was determined that the carrying value of the fixed asset would not be recoverable due to the decline in business profits. Fair value was measured to be the net selling price, which was assessed based on real estate appraisals.
4. Assets used for unprofitable businesses which are proposed to be disposed have been written down and a loss has been recorded. The assets were determined to have no value.
5. Assets that have no foreseeable use in the future due to the integration of business units or a relocation of a subsidiary were written down and an impairment loss recorded. The recoverable amount of real estate assets was measured to be the net selling price, which was assessed based on real estate appraisals.
6. Assets that have no foreseeable use in the future due to integration of business units were written down and an impairment loss was recorded. The recoverable amount of real estate assets was measured to be the net selling price, which was assessed based on real estate appraisals and other market information. The other assets were determined to have no value.
7. Assets planned to be disposed of and leased assets that have no foreseeable use in the future were written down and an impairment loss recorded. The recoverable amount of the assets to be disposed of was assessed based on liquidation value. The fair value of the leased assets was calculated based on market land prices provided by the government (in the Rosenka report) and lease income for the remaining period of the agreement.
8. This asset was separated from its current grouping and an impairment loss was recorded because the recoverable amount of this asset decreased due to the decision to close the facility. The asset was determined to have no value.
9. An impairment loss was recorded because it was forecast that the book value of this fixed asset could not be recovered due to the decline in business profitability. The asset was determined to have no value.
10. These assets were separated from their current grouping and an impairment loss was recorded because it was decided to change the use of the assets from income generating to use for social welfare projects which resulted in a reduction in their recoverable amounts, and because these assets were considered to have lost its mutually complementary function in their current grouping. The assets were determined to have no value.

11. An impairment loss was recorded for this asset which is unlikely to be used because of relocation of facilities. The asset was determined to have no value.
12. An impairment loss was recorded because the book value of this fixed asset could not be recovered due to the decrease in profitability of the acquired business. The asset was determined to have no value.
13. Assets that have no foreseeable use in the future due to integration of business units were written down and an impairment loss was recorded. The recoverable amount of real estate assets was measured to be the net selling price which was assessed based on road rating.
14. An impairment loss was recorded because it was forecast that the book value of this fixed asset could not be recovered due to the decrease in business profitability. The recoverable amounts for real estate were measured by the net sales value and assessed based on fixed assets tax rating.

9 Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2007 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Bank borrowings	¥ 760	¥ —	$ —
Long-term debt due within one year	11,410	5,338	53,279
Total	¥12,170	¥5,338	$53,279

The weighted average interest rates on bank borrowings outstanding at March 31, 2007 and 2008 were 4.13% and 0.76%, respectively.

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Loans, principally from banks, maturing in installments through March 31, 2011; the weighted average interest rates of current and non-current installments at March 31, 2008 was 0.76%	¥ 2,543	¥16,000	$159,697
0.69% debentures, due March 28, 2008	10,000	—	—
Total long-term debt	12,543	16,000	159,697
Less current installments	(11,410)	(5,338)	(53,279)
Total	¥ 1,133	¥10,662	$106,418

The aggregate annual maturities of long-term debt outstanding at March 31, 2008 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥5,338	$ 53,279
2010	5,338	53,279
2011	5,324	53,139
Total	¥16,000	$159,697

10 Trade Payables

Trade payables at March 31, 2007 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Notes payable	¥ 9,079	¥ 8,188	$ 81,725
Accounts payable–trade	38,018	34,415	343,497
Total	¥47,097	¥42,603	$425,222

At March 31, 2007, the Company had ¥1,891 million of notes payable that had matured but were still in the process of payment since March 31, 2007, was a public holiday and, therefore, were included in notes payable as of March 31, 2007.

11 Retirement and Severance Benefits

The plan's funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Employee retirement and severance benefits:			
Projected benefit obligations	¥ 15,381	¥ 13,544	$ 135,183
Plan assets at fair value	(12,811)	(10,531)	(105,110)
Projected benefit obligation in excess of plan assets	2,570	3,013	30,073
Unrecognized loss	(525)	(1,996)	(19,922)
Unrecognized prior service cost	41	413	4,122
Net retirement and severance benefits recognized on the balance sheet	2,086	1,430	14,273
Prepaid pension cost	137	141	1,408
Accrued retirement and severance benefits	2,223	1,571	15,681
Directors' and corporate auditors' retirement and severance benefits:			
Accrued retirement and severance benefits	526	27	269
Total accrued retirement and severance benefits	¥ 2,749	¥ 1,598	$ 15,950

Notes:

1. In addition to the above plan assets, plan assets of ¥1,192 million and ¥539 million ($5,380 thousand) at March 31, 2007 and 2008, respectively, are managed by a governmental welfare pension benefit plan, which was jointly established by the Company and various third-party companies. The aforementioned plan assets are computed on a pro-rata allocation of contributions paid.
2. Certain consolidated subsidiaries use a simplified method for calculating projected benefit obligations.

Net periodic cost of employee retirement and severance benefits for the years ended March 31, 2007 and 2008 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Service cost for benefits earned–net of employee contributions	¥1,545	¥1,471	$14,681
Interest cost on projected benefit obligation	272	237	2,366
Expected return on plan assets	(245)	(254)	(2,535)
Amortization of unrecognized actuarial gain or loss	197	237	2,366
Amortization of prior service cost	16	(40)	(399)
Net periodic cost	¥1,785	¥1,651	$16,479

Notes:
1. In addition to the net periodic cost of employee retirement and severance benefits, additional retirement payments of ¥110 million and ¥118 million ($1,178 thousand) are charged to expense in the years ended March 31, 2007 and 2008, respectively, and are included in "Selling, general and administrative expenses".
2. In addition to the net periodic cost of employee retirement and severance benefits, contributions to the governmental welfare pension benefit plan of ¥102 million and ¥38 million ($379 thousand) are charged to "Cost of sales" and "Selling, general and administrative expenses" in the years ended March 31, 2007 and 2008, respectively.
3. The defined contribution amounts for the Company and certain consolidated subsidiaries that have established defined contribution retirement pension systems is recorded as a service cost.
4. Retirement benefit expenses in the amount of ¥501 million ($5,000 thousand) due to the change in the Company's retirement benefit scheme were recognized as "Other income (loss)."

Actuarial assumptions and the basis for the calculation of retirement and severance benefits in 2007 and 2008 are as follows:

	2007	2008
Method of benefit attribution	"Benefit/year-of-service" approach	"Benefit/year-of-service" approach
Discount rate	1.3%~2.0%	2.0%
Expected rate of return on plan assets	1.5%~3.0%	2.0%~3.0%
Period of amortization of unrecognized prior service cost	10~11 years	10 years
Period of amortization of unrecognized actuarial gain or loss	9~17 years (from the year following the year incurred)	9~17 years (from the year following the year incurred)

12 Income Taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese corporate, inhabitant, and enterprise taxes based on income which, in the aggregate, resulted in a normal tax rate of approximately 40.6% in 2007 and 2008.

Income tax expenses reflected in the accompanying consolidated statements of income for the years ended March 31, 2007 and 2008 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Current	¥17,823	¥14,845	$148,168
Deferred	(253)	(2,210)	(22,058)
Total	¥17,570	¥12,635	$126,110

Reconciliation of the normal tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2007 and 2008 is as follows:

	2007	2008
Normal tax rate	40.6%	40.6%
Amortization of goodwill	1.7	1.9
Entertainment expenses not deductible for tax purposes	1.0	0.8
Corporate inhabitant tax on per capita basis	0.6	0.6
Directors' bonuses	—	0.5
Increase in valuation allowance for deferred tax assets	1.6	(14.1)
Tax credit for R&D expenses	—	(1.3)
Lower tax rates of foreign consolidated subsidiaries	—	(0.9)
Reversal of deferred tax liabilities for retained earnings of foreign consolidated subsidiaries	(5.1)	—
Other	(0.2)	(0.6)
Effective tax rate	40.2%	27.5%

Significant components of deferred tax assets and liabilities at March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets:			
Land revaluation	¥ 9,186	¥ 3,036	$ 30,302
Excess depreciation of fixed assets	4,589	4,830	48,208
Losses carried forward	3,387	2,983	29,773
Loss on valuation of advance payments	1,270	924	9,222
Inventory valuation losses	1,626	1,253	12,506
Accrued employee bonuses	1,348	1,743	17,397
Allowance for doubtful receivables	321	906	9,043
Loss on impairment of fixed assets	1,890	1,537	15,341
Accrued enterprise taxes and others	1,066	801	7,995
Accrued retirement and severance benefits	824	580	5,789
Research and development costs	443	614	6,128
Other	5,058	5,742	57,313
Total gross deferred tax assets	31,008	24,949	249,017
Valuation allowance	(19,514)	(11,714)	(116,918)
Total deferred tax assets	11,494	13,235	132,099
Deferred tax liabilities:			
Retained earnings of foreign consolidated subsidiaries	(3,652)	(4,178)	(41,700)
Other securities valuation difference	(3,325)	(1,294)	(12,915)
Inventory revaluation	(867)	—	—
Land revaluation	(784)	(684)	(6,827)
Reserve for deferred income tax	(147)	(135)	(1,347)
Other	(104)	(76)	(760)
Total gross deferred tax liabilities	(8,879)	(6,367)	(63,549)
Net deferred tax assets	¥ 2,615	¥ 6,868	$ 68,550

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

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Current assets–Deferred tax assets	¥ 5,718	¥ 5,909	$ 58,978
Investments and other assets–Deferred tax assets	4,142	6,291	62,791
Current liabilities–Other (deferred tax liabilities)	(1,459)	(600)	(5,989)
Long-term liabilities–Deferred tax liabilities	(5,786)	(4,732)	(47,230)
Total	¥ 2,615	¥ 6,868	$ 68,550

13 Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Marketing	¥ 31,031	¥ 30,550	$ 304,921
Directors' remuneration and employees' wages	29,426	30,884	308,254
Employees' retirement and severance benefits	1,163	1,116	11,139
Provision for directors' bonuses	658	498	4,971
Directors' and corporate auditors' retirement and severance benefits	138	46	459
Research and development	18,004	17,583	175,497
Allowance for doubtful receivables, investments, and other assets	398	56	559
Other	45,038	49,929	498,343
Total selling, general and administrative expenses	¥125,856	¥130,662	$1,304,143

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

The reconciliation of the differences between basic and diluted net income per common share for the years ended March 31, 2007 and 2008 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Net income	¥24,252	¥32,679	$326,170
Net income available to common stockholders	24,252	32,679	326,170
Effect of dilutive securities:			
Stock options in a consolidated subsidiary	—	—	—
Net income for diluted EPS calculation	¥24,252	¥32,679	$326,170

	Thousands of shares		
Average number of common shares outstanding	253,331	254,025	254,025
Effect of dilutive securities:			
Stock options	183	341	341
Average number of common shares for diluted EPS calculation	253,514	254,366	254,366

	Yen		U.S. dollars
Net income per common share:			
Basic	¥95.73	¥128.65	$1.28
Diluted	95.67	128.47	1.28

15 Retained Earnings and Dividends

In Japan, in the event a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as a legal reserve until the aggregate amount of capital surplus and the legal reserve equals 25% of stated capital.

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

The Company's retained earnings includes legal reserves of ¥1,645 million and ¥1,645 million ($16,419 thousand) at March 31, 2007 and 2008, respectively. Proposed appropriations of retained earnings have not been reflected in the consolidated financial statements at the end of the fiscal year. The Company's approved appropriations of retained earnings at March 31, 2008, were cash dividends of ¥3,057 million ($30,512 thousand). In addition, a mid-year dividend may be paid based on approval by the Board of Directors, which is subject to limitations. The mid-year dividend in 2008 was ¥3,036 million ($30,302 thousand).

16 Land Revaluation

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

Revaluation method:

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

In fiscal 2008, unrealized losses for land of ¥582 million ($5,809 thousand) were recognised based on the difference between the land carrying amount, which was revalued in fiscal 2002, and the fair market value of the land as of March 31, 2008.

17 Common Stock and Treasury Stock

The changes in the number of common stock and treasury stock for the year ended March 31, 2008 were as follows:

Common stock (number of shares)	
March 31, 2007	260,508,191
Retirement of treasury stock	(4,500,000)
March 31, 2008	256,080,191

Treasury stock (number of shares)	
March 31, 2007	2,731,047
Purchase of treasury stock in accordance with a decision made by the Board of Directors	4,980,000
Repurchase of fractional shares	5,646
Purchase of treasury stock through a put for purchase in connection with the share exchange between the Company and Bandai Visual Co., Ltd.	198,600
Increase in the shareholder ratio for affiliates to which the equity method applies	1,765
Retirement of treasury stock	(4,500,000)
Allotment of treasury stock to shareholders of Bandai Networks Co., Ltd., and Bandai Visual Co., Ltd., via the share exchange carried out between those companies and the Company	(1,650,696)
Sale of fractional shares	(91)
March 31, 2008	1,766,271

18 Stock Option Plan

The following are details of the stock option plan at March 31, 2008.

Resolution date of general shareholders' meeting	June 26, 2006	June 26, 2006	June 26, 2006
Position and number of beneficiaries	Directors of the Company (8)	Directors of subsidiaries (14)	Employees of the Company (21) and subsidiaries (570)
Type and number of shares (Note 1)	Common stock 126,300	Common stock 149,700	Common stock 1,805,000
Amount to be paid upon exercise of stock subscription rights (yen)	1	1	1,754
Grant date	July 18, 2006	July 18, 2006	July 18, 2006
Conditions for exercising rights	(Note 2)	(Note 3)	(Note 4)
Required service	Not specified	Not specified	From July 18, 2006 to July 9, 2008
Applicable period for exercising rights	From July 10, 2009 to June 30, 2014	From July 10, 2009 to June 30, 2014	From July 10, 2008 to June 30, 2010
Matters relating to the transfer of stock subscription rights	Approval of the directors of NAMCO BANDAI Holdings Inc. required for the transfer of stock subscription rights	Approval of the directors of NAMCO BANDAI Holdings Inc. required for the transfer of stock subscription rights	Approval of the directors of NAMCO BANDAI Holdings Inc. required for the transfer of stock subscription rights
Fair market price of stock options (yen) (Note 5)	1,550.90	1,550.90	219.07

Resolution date of general shareholders' meeting	June 26, 2006	June 25, 2007	June 25, 2007
Position and number of beneficiaries	Employees of subsidiaries (229)	Directors of the Company (6)	Directors of subsidiaries (85)
Type and number of shares (Note 1)	Common stock 579,000	Common stock 92,600	Common stock 264,700
Amount to be paid upon exercise of stock subscription rights (yen)	1,895	1	1
Grant date	April 18, 2007	July 19, 2007	July 19, 2007
Conditions for exercising rights	(Note 4)	(Note 2)	(Note 3)
Required service	From April 18, 2007 to March 31, 2009	Not specified	Not specified
Applicable period for exercising rights	From April 1, 2009 to June 30, 2010	From July 10, 2010 to June 30, 2015	From July 10, 2010 to June 30, 2015
Matters relating to the transfer of stock subscription rights	Approval of the directors of NAMCO BANDAI Holdings Inc. required for the transfer of stock subscription rights	Approval of the directors of NAMCO BANDAI Holdings Inc. required for the transfer of stock subscription rights	Approval of the directors of NAMCO BANDAI Holdings Inc. required for the transfer of stock subscription rights
Fair market price of stock options (yen) (Note 5)	279.13	1,893.38	1,893.38

Notes:

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

19 Leases

1. Lessee

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

(1) Finance leases

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

The pro-forma original cost and accumulated depreciation of assets under such finance leases as if they had been accounted for as finance leases at March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Original cost at inception of leases	¥1,308	¥1,107	$11,049
Less accumulated depreciation	(649)	(559)	(5,579)
Assets under finance leases, net	¥ 659	¥ 548	$ 5,470

Future minimum payments due under finance leases as of March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥250	¥230	$2,296
Due after one year	409	318	3,174
Total	¥659	¥548	$5,470

The pro-forma lease expense and depreciation expense for such finance leases as if they had been accounted for as finance leases for the years ended March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Lease expense	¥259	¥290	$2,895
Depreciation expense	259	290	2,895

(2) Operating leases

Future minimum payments required under operating leases at March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥ 3,718	¥ 3,487	$ 34,804
Due after one year	13,948	13,528	135,023
Total	¥17,666	¥17,015	$169,827

2. Lessor

Finance leases

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

The acquisition cost, accumulated depreciation, and net value of assets under such finance leases included in fixed assets at March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Acquisition cost	¥1,426	¥1,367	$13,644
Less accumulated depreciation	(714)	(752)	(7,506)
Assets under finance leases, net	¥ 712	¥ 615	$ 6,138

Future minimum payments due under finance leases at March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥267	¥255	$2,545
Due after one year	555	454	4,532
Total	¥822	¥709	$7,077

Lease income and depreciation expense for finance leases for the years ended March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Lease income	¥283	¥284	$2,835
Depreciation expense	238	250	2,495

20 Foreign Exchange Risk Management and Interest Rate Risk Management

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

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

Contract amounts, market values, and gains or losses from valuation of foreign exchange contracts outstanding at March 31, 2007 and 2008 are as follows. The contracted amounts in themselves should not be considered indicative of the market risk associated with the derivative financial instruments.

	Millions of yen						Thousands of U.S. dollars		
	2007			2008			2008		
	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts									
Sold:									
British pounds	¥1,308	¥1,329	¥ (21)	¥ 561	¥ 549	¥ 12	$ 5,599	$ 5,480	$ 119
Yen	965	937	28	856	882	(26)	8,544	8,803	(259)
Won	115	118	(3)	230	223	7	2,296	2,226	70
Purchased:									
U.S. dollars	3,288	3,165	(123)	2,613	2,348	(265)	26,080	23,435	(2,645)
Total	—	—	¥(119)	—	—	¥(272)	—	—	$(2,715)

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

21 Commitments and Contingent Liabilities

Contingent liabilities as of March 31, 2007 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Guarantee for lease agreement made by a business partner of a foreign consolidated subsidiary	¥86	¥83	$828

22 Segment Information

(1) Business segments

Millions of yen

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

Millions of yen

2008	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and corporate	Consolidated
Net sales and Operating income:									
Sales to external customers	¥175,992	¥89,430	¥137,947	¥11,688	¥36,020	¥ 9,397	¥460,474	¥ —	¥460,474
Intersegment transactions	4,173	399	7,726	356	930	10,414	23,998	(23,998)	—
Subtotal	180,165	89,829	145,673	12,044	36,950	19,811	484,472	(23,998)	460,474
Cost of sales and operating expenses	165,855	88,198	130,879	11,140	33,118	19,057	448,247	(21,184)	427,063
Operating income	¥ 14,310	¥ 1,631	¥ 14,794	¥ 904	¥ 3,832	¥ 754	¥ 36,225	¥ (2,814)	¥ 33,411
Assets, Depreciation, Impairment losses, and Capital expenditures:									
Assets	¥160,335	¥62,034	¥118,786	¥11,753	¥52,897	¥20,535	¥426,340	¥(13,317)	¥413,023
Depreciation	9,129	11,313	4,643	223	1,352	1,666	28,326	(562)	27,764
Loss on impairment of fixed assets	940	3,291	17	—	—	—	4,248	—	4,248
Capital expenditures	9,226	9,828	3,439	1,043	10,080	485	34,101	14	34,115

	Thousands of U.S. dollars								
	2008								
	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and corporate	Consolidated
Net sales and Operating income:									
Sales to external customers	$1,756,583	$892,604	$1,376,854	$116,658	$359,517	$ 93,792	$4,596,008	$ —	$4,596,008
Intersegment transactions	41,651	3,982	77,113	3,553	9,282	103,944	239,525	(239,525)	—
Subtotal	1,798,234	896,586	1,453,967	120,211	368,799	197,736	4,835,533	(239,525)	4,596,008
Cost of sales and operating expenses	1,655,405	880,307	1,306,308	111,189	330,552	190,209	4,473,970	(211,438)	4,262,532
Operating income	$ 142,829	$ 16,279	$ 147,659	$ 9,022	$ 38,247	$ 7,527	$ 361,563	$ (28,087)	$ 333,476
Assets, Depreciation, Impairment losses, and Capital expenditures:									
Assets	$1,600,309	$619,164	$1,185,607	$117,307	$527,967	$204,961	$4,255,315	$(132,918)	$4,122,397
Depreciation	91,117	112,915	46,342	2,226	13,494	16,628	282,722	(5,609)	277,113
Loss on impairment of fixed assets	9,382	32,847	170	—	—	—	42,399	—	42,399
Capital expenditures	92,085	98,094	34,325	10,410	100,609	4,841	340,364	140	340,504

Notes:

1. The industry segments used above are those used for internal management purposes.
2. Main products in each business segment:
   (1) Toys and Hobby: toys, candy toys, products for vending machines, cards, plastic models, apparel, sundries, stationery.
   (2) Amusement Facility: amusement facilities operation.
   (3) Game Contents: home-use video game software, commercial-use video game machines, prizes for amusement arcade machines.
   (4) Network: mobile contents.
   (5) Visual and Music Content: video products, video software, on-demand video distribution.
   (6) Other: transportation and storage of products, leases, real estate management, printing, development and sales of environmental devices.
3. Unallocatable operating expenses included in the "Eliminations and Corporate" column under "Operating expenses" were ¥2,539 million and ¥3,253 million ($32,468 thousand) for the years ended March 31, 2007 and 2008, respectively. The majority of these costs represent administrative costs incurred by the general administration department of the Company and NAMCO BANDAI Holdings (USA) Inc.
4. Unallocatable assets included in the "Eliminations and Corporate" column under "Assets" approximated ¥34,674 million and ¥26,151 million ($261,014 thousand) as of March 31, 2007 and 2008, respectively. The significant assets included in the amounts were surplus operating funds (cash and time deposits) of the Company, long-term investment funds (investment securities), and assets held by the administrative sections.
5. Depreciation includes amortization of goodwill, but does not includes extraordinary depreciation of fixed assets.
6. From fiscal 2008, as described in Summary of Significant Accounting Policies (i), the Company and some of its domestic consolidated subsidiaries have, in accordance with the revision of the Japanese Corporation Tax Law, changed their depreciation method with respect to assets acquired on or after April 1, 2007.
   These changes had the following effect on Operating Income for each segment:

	Millions of yen								
	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and corporate	Consolidated
Operating income	(682)	(4)	(175)	(14)	(105)	(9)	(989)	—	(989)

	Thousands of U.S. dollars								
	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and corporate	Consolidated
Operating income	(6,806)	(40)	(1,747)	(140)	(1,048)	(90)	(9,871)	—	(9,871)

7. As described in the Summary of Significant Accounting Policies (i), due to the revision of the Japanese Corporate Tax Law, the Company and some of its domestic consolidated subsidiaries depreciate the difference between the original residual value of 5% of acquisition cost of assets acquired on or before March 31, 2007, and the new residual value of ¥1 (memorandum value) by the straight line method over 5 years commencing from the fiscal year following the year in which the asset becomes fully depreciated to the original residual value.
These changes had the following effect on Operating Income for each segment.

	Millions of yen								
	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and corporate	Consolidated
Operating income	(161)	—	(20)	(3)	—	(3)	(187)	—	(187)

	Thousands of U.S. dollars								
	Toys and Hobby	Amusement Facility	Game Contents	Network	Visual and Music Content	Other	Subtotal	Eliminations and corporate	Consolidated
Operating income	(1,606)	—	(200)	(30)	—	(30)	(1,866)	—	(1,866)

(2) Geographic segments

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

	Millions of yen						
	2008						
	Japan	Americas	Europe	Asia, Excluding Japan	Subtotal	Eliminations and corporate	Consolidated
Net sales and Operating income:							
Sales to external customers	¥346,736	¥52,623	¥46,388	¥14,727	¥460,474	¥ —	¥460,474
Intersegment transactions	13,961	1,943	10	23,206	39,120	(39,120)	—
Subtotal	360,697	54,566	46,398	37,933	499,594	(39,120)	460,474
Cost of sales and operating expenses	336,217	52,248	39,567	35,078	463,110	(36,047)	427,063
Operating income	¥ 24,480	¥ 2,318	¥ 6,831	¥ 2,855	¥ 36,484	¥ (3,073)	¥ 33,411
Assets	¥321,489	¥35,620	¥48,864	¥23,939	¥429,912	¥(16,889)	¥413,023

	Thousands of U.S. dollars						
	2008						
	Japan	Americas	Europe	Asia, Excluding Japan	Subtotal	Eliminations and corporate	Consolidated
Net sales and Operating income:							
Sales to external customers	$3,460,785	$525,232	$463,000	$146,991	$4,596,008	$ —	$4,596,008
Intersegment transactions	139,345	19,393	100	231,620	390,458	(390,458)	—
Subtotal	3,600,130	544,625	463,100	378,611	4,986,466	(390,458)	4,596,008
Cost of sales and operating expenses	3,355,794	521,489	394,920	350,115	4,622,318	(359,786)	4,262,532
Operating income	$ 244,336	$ 23,136	$ 68,180	$ 28,496	$ 364,148	$ (30,672)	$ 333,476
Assets	$3,208,793	$355,525	$487,713	$238,936	$4,290,967	$(168,570)	$4,122,397

Notes:
1. Definition of geographic segments and main countries and regions in geographic segments:
(1) Foreign geographic segments are defined by geographic region, similarity of economic activities, and interrelation of business activities.
(2) The main countries and regions in each geographic segment are as follows:
1) Americas: United States and Canada
2) Europe: France, United Kingdom, and Spain
3) Asia, Excluding Japan: Hong Kong, Thailand, and Korea
2. Unallocatable operating expenses included in the "Eliminations and Corporate" column under "Operating expenses" were ¥2,539 million and ¥3,253 million ($32,468 thousand) for the years ended March 31, 2007 and 2008, respectively. The majority of these costs represent administrative costs incurred by the general administration department of the Company and NAMCO BANDAI Holdings (USA) Inc.
3. Assets included in the "Eliminations and Corporate" column under "Assets" approximated ¥34,674 million and ¥26,151 million ($261,014 thousand) as of March 31, 2007 and 2008, respectively. The significant assets included in the amounts were surplus operating funds (cash and time deposits) of the Company, long-term investment funds (investment securities) and assets held by the administrative sections.
4. From fiscal 2008, as described in Summary of Significant Accounting Policies (i), the Company and some of its domestic consolidated subsidiaries have, in accordance with the revision of the Japanese Corporation Tax Law, changed their depreciation method with respect to assets acquired on or after April 1, 2007.
As a result of this change, consolidated operating expenses in Japan in fiscal 2008 increased ¥989 million ($9,871 thousand) and operating income decreased by the same amount.
5. As described in the "Summary of Significant Accounting Policies (i), due to the revision of the Japanese Corporate Tax Law, the Company and some of its domestic consolidated subsidiaries depreciate the difference between the original residual value of 5% of acquisition cost of assets acquired on or before March 31, 2007 and the new residual value of ¥1 (memorandum value) by the straight line method over 5 years commencing from the fiscal year following the year in which the asset becomes fully depreciated to the original residual value.
As a result of this change, consolidated operating expenses in Japan in fiscal 2008 increased ¥187 million ($1,866 thousand) and operating income decreased by the same amount.

(3) Foreign sales

	Millions of yen							
	2007				2008			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Foreign sales	¥53,719	¥41,267	¥17,814	¥112,800	¥54,835	¥47,855	¥20,233	¥122,923
Consolidated sales				459,133				460,474
Share of sales to customers outside Japan	11.7%	9.0%	3.9%	24.6%	11.9%	10.4%	4.4%	26.7%

	Thousands of U.S. dollars			
	2008			
	Americas	Europe	Asia	Total
Foreign sales	$547,311	$477,642	$201,946	$1,226,899
Consolidated sales				4,596,008
Share of sales to customers outside Japan	11.9%	10.4%	4.4%	26.7%

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

23 Significant Subsequent Events

Transactions conducted by commonly controlled entities

Organizational Restructuring of the Domestic Group

1. Overview of Transaction Including Transaction Objectives, Names and Business Content of Restructured Companies, and Legal Form of Business Combination and Split of Operations

(1) Overview of Transaction including Transaction Objectives

An organizational restructuring of the Group companies in Japan was carried out as of April 1, 2008, to maximize the value of the Group companies.

1. Transfer of Game Operations from Banpresto Co., Ltd., and Merger

The game operations of Banpresto Co., Ltd., which planned and developed home video game software and coin-operated game machines, was transferred and consolidated into NAMCO BANDAI Games, Inc., which integrates the Group game operations; Pleasure Cast Co., Ltd., and Hanayashiki Co., Ltd., subsidiaries of Banpresto engaged in operating amusement facilities, were made subsidiaries of NAMCO LIMITED, which integrates the amusement facilities operations of the Group. Banpresto Co., Ltd., was redefined as focusing on the prize business, with an emphasis on prizes for coin-operated game machines.

2. Consolidation of Subsidiaries with Group Support Functions

   As of April 1, 2008, a Shared Services Division was established within the Company and the shared management operations for NAMCO BANDAI Business Services Inc., and Artpresto Co., Ltd., which had been carried out by Bandai Co, Ltd., and Banpresto Co., Ltd., were transferred to the Company.

(2) Names and Business Content of Restructured Companies

1. NAMCO BANDAI Games Inc.

   Planning, development, and sales of home video game software, coin-operated game machines, and others

2. NAMCO LIMITED

   Management of amusement facilities and others

3. Banpresto Co., Ltd. (a newly-incorporated company in an incorporation-type company split)

   Planning, development, and sales of prizes and others for coin-operated game machines.

4. Bandai Co., Ltd.

   Manufacturing and sales of toys, apparel, and related products.

5. NAMCO BANDAI Holdings Inc.

   Planning and implementation of management strategy and business management and instruction of the Group companies.

(3) Legal Form of the Business Combination and Split of Operations

1. An incorporation-type company split of Banpresto Co., Ltd., with the establishment of a subsidiary, the new Banpresto Co., Ltd.
2. A company split in which Banpresto Co., Ltd., is a split company in an absorption-type company split and NAMCO LIMITED is the successor company in the absorption-type company split.
3. A company split in which Banpresto Co., Ltd., is a split company in an absorption-type company split and the Company is the successor company in the absorption-type company split.
4. A merger in which Banpresto Co., Ltd., is a merged company in an absorption-type merger and NAMCO BANDAI Games, Inc., is the surviving company in the absorption-type merger.
5. A company split in which Bandai Co., Ltd., is a company of an absorption-type company split and the Company is the successor company in the absorption-type company split.

2. Overview of Accounting method

The accounting method for the consolidated financial statements was handled in accordance with the provisions of "Accounting for Transactions Conducted by Commonly Controlled Entities, etc." of Article 3, Paragraph 4 of the "Accounting Standard for Business Combinations."

24 Additional Information

Legal action

The Company and its U.S. consolidated subsidiaries had a suit brought against them on October 5, 2006, in the state of California by Game Ballers Inc., claiming compensatory damages in relation to certain business transactions. However, a settlement was reached and a settlement agreement was concluded in September 2007.

Litigation settlement of ¥283 million ($2,825 thousand) in respect of this settlement is recorded under "Other income (loss)" for the year ended March 31, 2008.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of NAMCO BANDAI Holdings Inc. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NAMCO BANDAI Holdings Inc.and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 10, 2008

Corporate Data

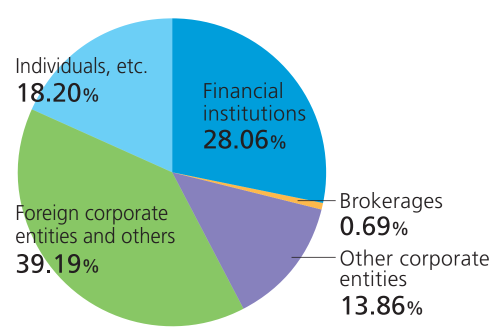
(As of March 31, 2008)

Corporate Name:	NAMCO BANDAI Holdings Inc.
Head Office:	9th Floor, Taiyo Seimei Shinagawa Building, 2-16-2, Konan, Minato-ku, Tokyo 108-0075, Japan URL: www.bandainamco.co.jp
Capital:	¥10 billion
Stock Exchange Listing:	Tokyo Stock Exchange, First Section (Code number: 7832)
Main Business:	Planning and execution of medium- and long-term management strategies for the BANDAI NAMCO Group; provision of support for business strategy implementation by Group companies and management of business activities.
Stock Information:	Number of Shares Authorized: .... 1,000,000,000 shares Number of Shares Issued: .... 256,080,191 shares Number of Shareholders: .... 35,821 Number of Shares per Trading Unit: .... 100 shares

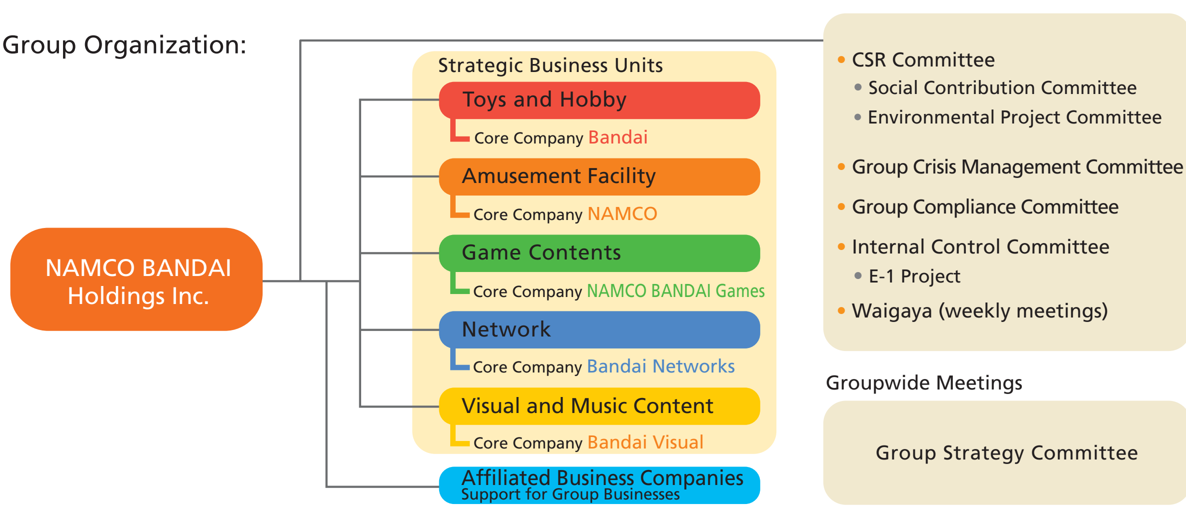
Major Shareholders:

Name	% of Total
The Master Trust Bank of Japan, Ltd. (Trust Account)	8.3
Northern Trust Company (AVFC) Sub-account American Clients	6.7
Masaya Nakamura	5.6
Japan Trustee Services Bank, Ltd. (Trust Account)	4.8
MAL Ltd.	3.9
The Silchester International Investors International Value Equity Trust	3.2
Sanka Ltd.	2.8
State Street Bank and Trust Company	2.0
The Nomura Trust and Banking Co., Ltd. (Retirement and severance benefits trust. The Bank of Tokyo-Mitsubishi UFJ account.)	1.8
Morgan Stanley & Co. Incorporated	1.8

Ownership Breakdown:



Group Organization:



©2008 TV ASAHI・TOEI AG・TOEI ©ABC・Toei Animation ©Cartoon Network ©Eiichiro Oda/Shueisha, Toei Animation ©BANDAI 2008 ©SOTSU・SUNRISE ©Usui Yoshito/Futabasha・shin-ei・TV Asahi ©SOTSU・SUNRISE ©2008NBGI ©1995-2008 NBGI LucasArts, the LucasArts logo, and the STAR WARS characters, names and all related indicia are trademarks of & ©Lucasfilm Ltd. ©2008 Lucasfilm Entertainment Company Ltd. or Lucasfilm Ltd. & © or TM as indicated. All rights reserved. Used with permission. ©SANYO BUSSAN CO., LTD. ©2007 NAMCO BANDAI Games Inc. ©Eiichiro Oda / SHUEISHA ©BANDAI NETWORKS ©SOTSU・SUNRISE ©BANDAI NETWORKS ©1976, 2008 SANRIO CO., LTD. APPROVAL NO.S 9070831 ©BANDAI NETWORKS ©SOTSU・SUNRISE・MBS ©SUNRISE / PROJECT GEASS・MBS Character Design©2006-2008 CLAMP ©Mine Yoshizaki / Kadokawashoten, SUNRISE, TV TOKYO, NAS, BV

NAMCO BANDAI Holdings Inc.
www.bandainamco.co.jp

Printed in Japan