Annual Report 2011

# NAMCO BANDAI Holdings Inc.

The BANDAI NAMCO Group develops entertainment products and services in a wide range of fields, including toys, arcade game machines, game software, visual and music software, and amusement facilities. By building a strong operational foundation in the domestic market, as well as aggressively developing operations in overseas markets to secure future growth, we aim to be a "Globally Recognized Entertainment Group."

Our Mission Statement

# Dreams, Fun and Inspiration

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

Our Vision

# The Leading Innovator in Global Entertainment

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

# The Point

**BANDAI NAMCO Group Annual Report 2011: Key Points**

This annual report explains the initiatives implemented by the Group in FY 2011.3 and the Group's management policies and business strategies in FY 2012.3.

## Progress with the Restart Plan

The Restart Plan was launched in April 2010 with the objective of bolstering the Group's operational foundation to support the implementation of the current Mid-term Business Plan. This section describes the progress that has been made with the Restart Plan.

Page 14: Message from the President

## Second Year of the Current Mid-term Business Plan

Targeting the preparation of a foundation for global growth, the Group advanced the Restart Plan and implemented a range of initiatives. This section covers the results of those efforts.

Page 4: Consolidated Financial Highlights

Page 6: Review of SBU Operations

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## Fiscal 2012.3: The Final Year of the Mid-term Business Plan

This section describes the measures that will be implemented in the final year of the current Mid-term Business Plan, in preparation for the next plan.

Page 14: Message from the President

Page 20: Special Feature: Solid Base—Toys and Hobby SBU

**The BANDAI NAMCO Group will do its utmost to achieve its medium-to-long-term vision of being a "Globally Recognized 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 2011, and include various risks and uncertainties. Accordingly, actual results may differ materially from these projections for a variety of reasons. Major factors that could influence actual results include changes in the BANDAI NAMCO Group's operating environment, market trends, and exchange rate fluctuations.

Notes

1. All figures in this report are rounded to the nearest unit.
2. FY 2011.3 and the year under review represent the one-year period ended March 31, 2011.
3. Figures in this annual report are as of August 2011.

# PROGRESS

## Progress and Results

In FY 2011.3, the Toys and Hobby business recorded strong results in Japan, and the Content business and Amusement Facility business had a certain degree of success with the initiatives implemented under the Restart Plan. Consequently, we recorded substantial year-on-year improvements in our results.

# Consolidated Financial Highlights

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
For the years ended March 31

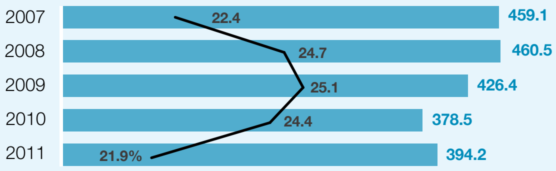
| | Millions of yen | | | % Change | Thousands of U.S. dollars*1 except per share data |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2010 vs 2011 | 2011 |
| **For the Year** | | | | | |
| Net sales | ¥ 426,400 | ¥ 378,547 | ¥ 394,179 | 4.1% | $ 4,740,577 |
| Gross profit | 146,023 | 128,753 | 139,415 | 8.3 | 1,676,668 |
| Operating income | 22,348 | 1,884 | 16,338 | 767.2 | 196,488 |
| Recurring income*2 | 24,513 | 1,908 | 16,399 | 759.5 | 197,222 |
| Net income (loss) | 11,830 | (29,929) | 1,848 | — | 22,225 |
| Capital expenditures | 17,481 | 14,418 | 13,439 | –6.8 | 161,624 |
| Depreciation and amortization | 22,546 | 18,989 | 18,001 | –5.2 | 216,488 |
| Cash flows from operating activities | 19,301 | 10,582 | 22,562 | 113.2 | 271,341 |
| Cash and cash equivalents at end of year | 110,037 | 97,777 | 89,330 | –8.6 | 1,074,324 |
| **At Year-End** | | | | | |
| Total assets | ¥ 363,445 | ¥ 325,936 | ¥ 308,269 | –5.4% | $ 3,707,384 |
| Total net assets | 260,579 | 229,012 | 213,693 | –6.7 | 2,569,970 |

| Per Share Data | Yen | | | % Change | U.S.dollars*1 |
|---|---|---|---|---|---|
| Net income (loss) (Basic) | ¥ 47.95 | ¥ (123.98) | ¥ 7.71 | —% | $ 0.09 |
| Total net assets | 1,067.71 | 938.74 | 896.83 | –4.5 | 10.79 |
| Cash dividends | 24.00 | 24.00 | 24.00 | — | 0.29 |

| Main Financial Indicators | % | | |
|---|---|---|---|
| Return on equity (ROE) | 4.3% | –12.4% | 0.8% |
| Return on assets (ROA) | 6.3 | 0.6 | 5.2 |
| Overseas sales proportion | 25.1 | 24.4 | 21.9 |
| Operating income margin | 5.2 | 0.5 | 4.1 |
| Shareholders' equity ratio | 70.9 | 69.5 | 68.8 |

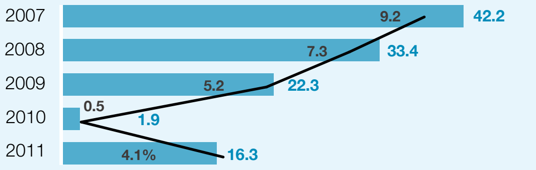
*1 U.S. dollar amounts have been translated, for convenience only, at the rate of ¥83.15=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2011.
*2 Recurring income is a Japanese accounting term denoting income before extraordinary items.

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

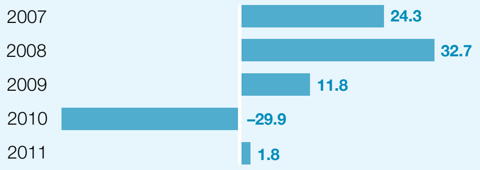



Gross Profit (¥ billion) / Gross Profit Margin (%)

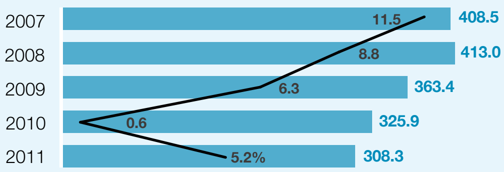

Operating Income (¥ billion) / Operating Income Margin (%)




Net Income (Loss) (¥ billion)

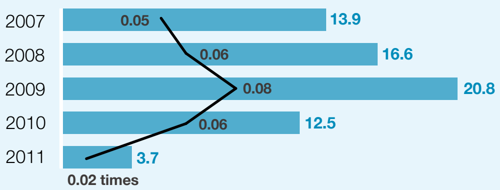



Total Assets (¥ billion) / ROA (%)

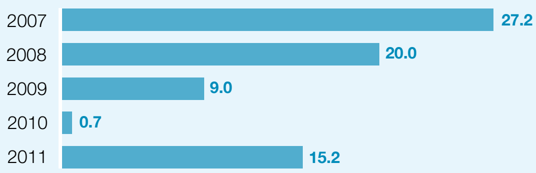



Total Net Assets (¥ billion) / ROE (%)


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

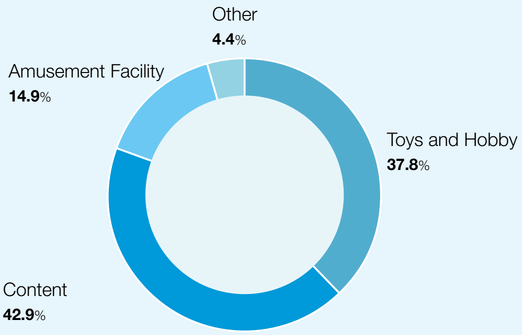



Free Cash Flows (¥ billion)



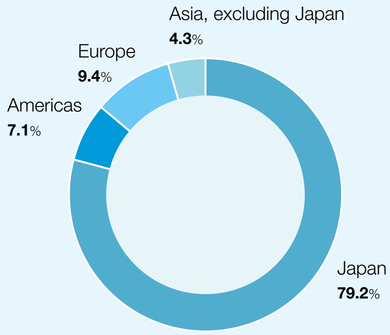

*Free cash flows = Net cash provided by operating activities + Net cash used in investing activities

Contribution to Net Sales by Segment (2011)




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

Consultation: Contribution to Net Sales by Geographic Region (2011)




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

# Toys and Hobby

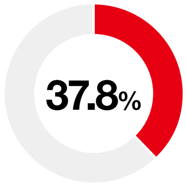
Manufacturing and marketing of toys, cards, plastic models, candy toys, vending machine capsule products, apparel, sundries, and other products

## Business Performance

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| For the fiscal years ended March 31 | Results in 2009 | Results in 2010 | Results in 2011 | % change | Forecasts for 2012 |
| Net sales | ¥165,725 | ¥148,844 | **¥158,374** | 6.4% | ¥160,000 |
| Segment income | 11,533 | 10,787 | **13,813** | 28.1% | 10,500 |
| Segment income margin | 7.0% | 7.2% | **8.7%** | — | 6.6% |

Note: Shows operating income for 2009

## Sales Ratio in the Fiscal Year Ended March 2011




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

**Results in FY 2011.3: Key**

The SBU turned in a strong performance in domestic operations, which offset sluggish results in overseas operations, centered on the United States. As a result, the SBU recorded higher sales and profits.

### Japan

- Long-established character toys, such as *Kamen Rider / OOO* and *HeartCatch PrettyCure*, recorded very strong results.
- A strong start was registered by *Kaizoku Sentai Gokaiger*, in the *Super Sentai (POWER RANGERS)* series that was broadcast from February 2011.
- Strong performances were turned in by digital card games, such as *Dragon Ball Heroes*, and by *PRO BASEBALL OWNERS LEAGUE*, a card game linked with online games.
- In peripheral businesses, such as candy toys and children's apparel, results improved due to product development linked with each category, with a focus on popular characters, such as the *Kamen Rider* series.

### Overseas

- In the Americas and Europe, results were weak as the *POWER RANGERS* series was broadcast on TV less frequently.
- Targeting growth over the medium to long term, we worked to develop new categories and content, but results did not reach the level achieved in the previous year, when *BEN10* recorded a strong performance.

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

This plastic model of the *Mobile Suit Gundam* series, which marked the 30th anniversary of its debut in 2010, has sold more than 400 million units.

The *Tamagotchi* series remains consistently popular as an established product for girls.

Strategic Themes

# We will continue to take the offensive by implementing our strategy of achieving a dominant No.1 position in Japan and by continuing to invest in overseas growth.

## Operating Environment

- In the domestic market, ongoing trend toward fewer children
- Diversification of consumer needs

## Strategic Points in FY 2012.3

**Japan**

Reinforce stable foundation through promotion of long-established character products

Further expand share of card business

Expand targeted customers to include new customer groups, such as adults

**Overseas**

Implement strategy aligned with regional characteristics

Regain popularity of *POWER RANGERS* series

North America: Conduct development centered on three pillars— *POWER RANGERS*, *Thunder Cats,* and *BEN10*

Europe: Implement detailed product promotion and marketing in line with the characteristics of various regions

Asia: Conduct lateral development of content from Japan

Sales of Major Characters (Group total) ¥ billion

| | FY2009.3 | FY2010.3 | FY2011.3 |
|---|---|---|---|
| *Mobile Suit Gundam* series | 42.8 | 34.6 | **38.2** |
| *Kamen Rider* series | 10.4 | 20.0 | **26.4** |
| *POWER RANGERS* series | 25.6 | 17.5 | **13.7** |
| *ONE PIECE* | 4.6 | 4.3 | **15.5** |
| *PrettyCure series* | 11.3 | 12.8 | **13.5** |
| *BEN10* | 13.0 | 17.9 | **12.0** |

Market Data

Size of Japan's Toy Market (¥ billion)


Source: Survey by the Japan Toy Association

These high-quality collectible products are designed for older consumers.

This mini-car series, which is based on the concept of transformation, was launched as a new category, *"VooV."*

In the *POWER RANGERS* series, the heroes from the domestic series in Japan have been remade for overseas markets.

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


# Content

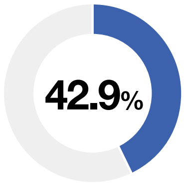
Developing and marketing of arcade game machines, game software, network contents, and prizes for amusement machines; Producing visual and music content; developing and marketing visual package software and music software; distributing of video on demand content; conducting live entertainment operations

Business Performace

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| For the fiscal years ended March 31 | Results in 2009 | Results in 2010 | Results in 2011 | % change | Forecasts for 2012 |
| Net sales | ¥184,529 | ¥167,471 | **¥179,917** | 7.4% | ¥180,000 |
| Segment income (loss) | 11,648 | (7,761) | **3,092** | — | 6,500 |
| Segment income margin | 6.3% | —% | **1.7%** | — | 3.6% |

Notes: Shows operating income for 2009
The Game Contents SBU and the Visual and Music Content SBU were integrated from the fiscal year ended March 31, 2011, and the results in the year ended March 31, 2009 are presented as the simple sum of the results of the two SBUs.

Sales Ratio in the Fiscal Year Ended March 2011




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

Results in FY 2011.3: Key

## Due to the effects of the Restart Plan, earnings improved and the Content SBU recorded a profit.

### Arcade Game Machines

- Favorable results were recorded by *MOBILE SUIT GUNDAM EXTREME VS*. and popular character prizes centered on *ONE PIECE*.

### Game Software

- As a result of quicker responses to customer needs, software, such as *GOD EATER BURST* and *AKB1/48: Idol to Koishitara*... proved popular.
- *NARUTO Shippuden: Ultimate Ninja Storm 2* sold more than a million units worldwide.
- New challenge titles that were developed with the aim of building new franchises, centered on overseas markets, did not achieve the expected level of results.

### Network Content

- The number of dues-paying subscribers declined, but a favorable start was recorded by *Gundam Royale*, a content for SNS (Social Networking Services) platforms that was launched in December 2010.

### Visual and Music Content

- In addition to strong package sales of *Mobile Suit Gundam UC (Unicorn),* profitability was enhanced through selection and concentration in titles.

### Other

- In the previous fiscal year, an impairment loss was taken on goodwill for certain subsidiaries. Consequently, amortization of goodwill declined year on year, and measures to increase efficiency were implemented, leading to a decline in fixed cost.

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

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

Strategic Themes

# We will work to maximize content value by making speedy responses to changes in the business environment.

## Operating Environment

- Dramatic changes in the operating environment
- Diversification of platforms, customers, and customer needs

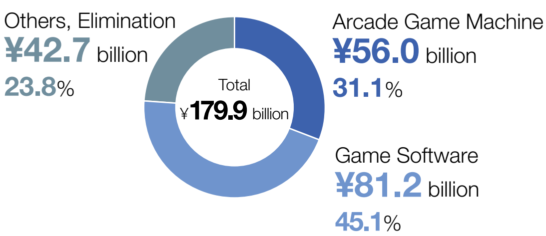
## Strategic Points in FY 2012.3

| | |
|---|---|
| Arcade Game Machines | Leverage synergies with amusement facilities through the introduction of popular game machines and prizes |
| Game Software | Shift to domestic development, increase quality and schedule control<br>Achieve balanced title composition, with a focus on franchise titles |
| Network Content | Strengthen content utilization in new content outlets, such as SNS |
| Visual and Music Content | Focus on creation of new content, and promote popular titles |

### Unit Sales of Game Software by Region

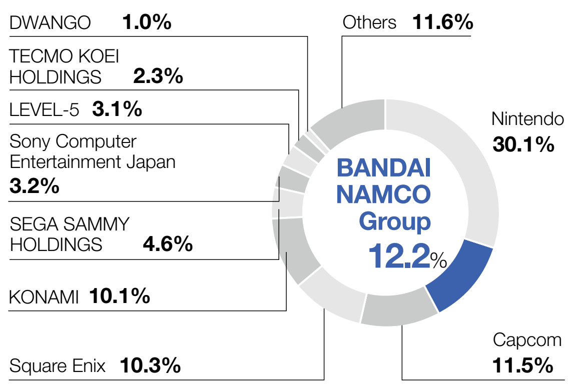
| | FY2010.3 | | FY2011.3 | |
|---|---|---|---|---|
| | Number of new titles | Unit sales (thousand) | Number of new titles | Unit sales (thousand) |
| Japan | 93 | 8,878 | **91** | **9,264** |
| U.S. | 39 | 5,829 | **46** | **7,284** |
| Europe | 52 | 7,326 | **43** | **4,013** |
| Asia | 41 | 704 | **59** | **344** |
| Group total | 225 | 22,737 | **239** | **20,905** |
| Localized versions | 139 | | **151** | |
| Group total (After elimination of localized versions) | 86 | 22,737 | **88** | **20,905** |

### Content SBU Net Sales (FY2011.3)




### Market Data

Share of Unit Sales by Group, Domestic Manufacturer (2010)




Source: Famitsu Game White Paper 2011 Published by: ENTERBRAIN INC.
(Period: December 28, 2009 to December 26, 2010)

**Network Content**
In line with diversifying needs, we introduced content for new outlets, such as SNS.


**Motion Pictures**
Providing diverse motion pictures in a wide range of formats, such as movies, TV broadcasts, Blu-ray Disc, DVD, and on-line distribution.



**Motion Pictures**
Taking on new challenges to create appealing content.

**Prizes for Arcade Game Machines**
We offer popular character goods and original character goods as prizes.

# Amusement Facility

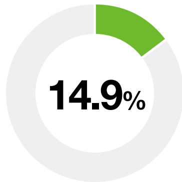
Planning and operating of amusement and other facilities

Business Performace

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| For the fiscal years ended March 31 | Results in 2009 | Results in 2010 | Results in 2011 | % change | Forecasts for 2012 |
| Net sales | ¥77,270 | ¥65,363 | **¥62,338** | –4.6% | ¥61,000 |
| Segment income | 393 | 285 | **1,779** | 524.2% | 1,500 |
| Segment income margin | 0.5% | 0.4% | **2.9%** | — | 2.5% |

Note: Shows operating income for 2009

Sales Ratio in the Fiscal Year Ended March 2011




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

Results in FY 2011.3: Key

## The development of differentiated facilities supported recovery in sales at existing facilities in Japan.

### Japan

- We implemented marketing strategies by customer segment. Favorable results were recorded by differentiated facilities that enable customers to experience the worlds of characters such as *Ultraman, Kamen Rider,* and *Tamagotchi*.
- In March 2011, the Great East Japan Earthquake affected operations, but nonetheless sales at existing facilities in Japan were up 1.0% for the full fiscal year.
- Due to such measures as the withdrawal from related businesses that are unprofitable, sales declined but profitability improved.
- We recorded stable earnings due to continued implementation of measures to increase efficiency.

### Overseas

- In a challenging market environment, results in Europe were sluggish.
- In the Americas, results improved due to initiatives to increase efficiency that were implemented in the previous fiscal year.

Character package entertainment areas draw on the Group’s distinctive strengths.


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

Strategic Themes

# We will strive to cultivate new growth drivers on a foundation of stable earnings, through selection and concentration.

## Operating Environment

- Sluggish consumption due to continued lack of transparency in economic environment
- Diversification of customer preferences

## Strategic Points in FY 2012.3

- Development of differentiated facilities using BANDAI NAMCO's distinctive strengths in characters
- Continued implementation of efficient initiatives in domestic and overseas operations
- Consider the establishment of new earnings drivers for growth over the medium to long term, on a base of earnings stability.

**Total Number of Amusement Facilities** (March 31, 2011) Facilities

| Region | Regional total | of which: Directly managed facilities | of which: Revenue-sharing facilities* | Others |
|---|---|---|---|---|
| Japan | 239 | 217 | 19 | 3 |
| North America | 821 | 29 | 792 | 0 |
| Europe | 13 | 12 | 1 | 0 |
| Asia | 29 | 10 | 19 | 0 |
| Total | 1,102 | 268 | 831 | 3 |

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

**Market Data**

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


Source: Leisure White Paper, Japan Productivity Center

Amusement facilities that enable customers to experience the world's of popular characters.

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

*NAMCO NAMJATOWN* is one of the largest indoor theme parks in Japan, featuring a wide range of attractions and a food theme park.

Mid- to Long-term Group Vision

# Globally Recognized Entertainment Group

## Next Mid-term Business Plan (April 2012–March 2015)

**Substantial growth in global market**

- **Generating returns from our investments**
- **Making further investments for growth**

## Mid-term Business Plan (April 2009–March 2012)

**Developing a global base for growth**

- **Investments in growing business areas**
- **Improving profitability of each business**

Aiming to be a "Globally Recognized Entertainment Group" and to develop the base for global growth in the Mid-term Business Plan, the BANDAI NAMCO Group is pursuing two strategies: **"Focus"** as our business strategy and **"Enhance the Entertainment-Hub"** as our function strategy.

### Strategy A

### Business Strategy: "Focus"

We clarify our missions and advance our strategies in accordance with the market environment and our competitive advantages in each of the Group's SBUs.

**Toys and Hobby SBU**

We will continue to take the offensive by implementing our strategy of achieving a dominant No.1 position in Japan and by continuing to invest in overseas growth.

**Content SBU**

We will work to maximize content value by making speedy responses to changes in the business environment.

**Amusement Facility SBU**

We will strive to cultivate new growth drivers on a foundation of stable earnings, through selection and concentration.

### Strategy B

### Function Strategy: "Enhance the Entertainment-Hub"

The Entertainment-Hub function, which adds a series of functions (from content creation and acquisition through development to use) inside the Group and aims to further strengthen the functions through synergies with external partners, is the greatest strength of the BANDAI NAMCO Group. In the Mid-term Business Plan, we will enhance this model, which was applied mainly in the domestic market, by evolving into a global model through coordination with the strategy for each business.

**Evolve from a domestic model to a global model**

- **Maximize merchandising development capability**
- **Enhance IP marketing capability**
- **Strengthen IP creation / acquisition capability**

More-thorough approach on developing base for global growth

**2010**
RESTART PLAN

Transforming into a Speedy Group

Improving Profitability and Strengthening Financial Standing

# FOCUS

## The Next Step

Under the current Mid-term Business Plan, which was commenced in April 2009, we are working to prepare a foundation for global growth, targeting our medium-to-long-term vision of being a "Globally Recognized Entertainment Group." FY 2012.3 will be the final year of the current plan. During the year, we will complete preparations for the next Mid-term Business Plan, under which we will target full-scale global growth, and will step up our initiatives targeting the preparation of the foundation for that growth.

# Message from the President

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

# Targeting the next stage of growth, we will do our utmost to "rebuild overseas operations" and "fully restructure the Content business."

On behalf of the BANDAI NAMCO Group, I would like to express our condolences to all those who suffered as a result of the Great East Japan Earthquake that occurred on March 11, 2011.

A number of the Group's amusement facilities and distribution facilities in eastern Japan were damaged. In addition to a variety of support activities for the disaster-stricken areas, the Group will also strive to contribute to the recovery by returning smiles to the faces of as many people as possible through our products and services as we reaffirm our responsibility and pride as an entertainment company that offers "Dreams, Fun and Inspiration."

### FY 2011.3—Significant Improvement in Results

In the fiscal year under review, the domestic economy was sluggish as a result of the appreciation of the yen and the substantial gains in crude oil prices that stemmed from the growing tensions in the Middle East. Against this background, the Great East Japan Earthquake occurred in March. Overall, the operating environment in the entertainment industry was marked by uncertainty in the year under review. In this setting, the Toys and Hobby business recorded strong results in Japan, and the Content business and Amusement Facility business had a certain degree of success with the initiatives implemented under the Restart Plan. Consequently, we recorded substantial year-on-year improvements in our results.

As a result, consolidated net sales in the year under review were up 4.1%, to ¥394,179 million, and operating income rose 767.2%, to ¥16,338 million. Due to the recording of other losses and to an increase in income taxes, net income was ¥1,848 million, compared with a net loss of ¥29,929 million in the previous fiscal year. (For further information, please see the Financial Review on page 35.)

### Solid Progress with the Restart Plan

The Restart Plan plays the role of reinforcing the base for the implementation of the Mid-term Business Plan, under which we are working to prepare a foundation for global growth. We have implemented a range of initiatives targeting the Restart Plan's objectives of "improving profitability and strengthening financial standing" and "transforming into a speedy Group."

To "improve profitability and strengthen financial standing," we reduced costs by about ¥6.5 billion in the fiscal year under review, as shown below.

Cost Reductions in FY2011.3

| | |
|---|---|
| Cost reduction due to review of personnel system | about ¥3.0 billion |
| Reduction in amortization of goodwill | about ¥2.5 billion |
| Other (overhauling indirect operations, etc.) | about ¥1.0 billion |
| Total | about ¥6.5 billion |

In addition, we achieved results with the steps that we took to realize our objective of "transforming into a speedy group," such as structural changes, reorganizational measures, and efficiency initiatives. Overall, our progress under the Restart Plan has been generally in line with our plans. Nonetheless, the Restart Plan has not yet been concluded. I believe that we need to continue striving to achieve a speedy organization and a sound, robust financial standing.

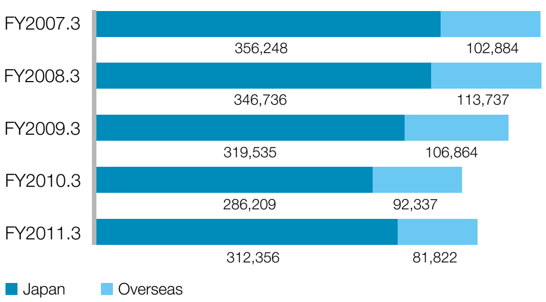
## Implementing Initiatives to Prepare a Foundation for Global Growth

Under the current Mid-term Business Plan, which was commenced in April 2009, we are working to prepare a foundation for global growth, targeting our medium-to-long-term vision of being a "Globally Recognized Entertainment Group." The fiscal year ending March 2012 will be the final year of the current plan. During the year, we will complete preparations for the next Mid-term Business Plan, under which we will target full-scale global growth, and will step up our initiatives targeting the preparation of the foundation for that growth.

In the fiscal year under review, our results improved significantly from the previous year, but certain challenges still remain. First, in the domestic market, basically all of our operations recorded favorable performances, especially the Toys and Hobby business, but in overseas markets, particularly in North America and Europe, both the Toys and Hobby business and the Content business turned in weak results. This performance strongly underscores the importance of further initiatives targeting the preparation of a foundation for global growth. Moreover, in the Content business, multiple new game software titles slated for worldwide development recorded weak performances. In the domestic market, we are seeing the results of the Restart Plan that we have implemented in response to changes in the market environment and user preferences. However, in overseas markets, it is essential that we implement further thoroughgoing initiatives to prepare a foundation for growth. In FY 2012.3, the final year of the current Mid-term Business Plan, we will tackle two priority challenges: "rebuilding overseas operations" and "fully restructuring the Content business," where restructuring initiatives are currently under way.

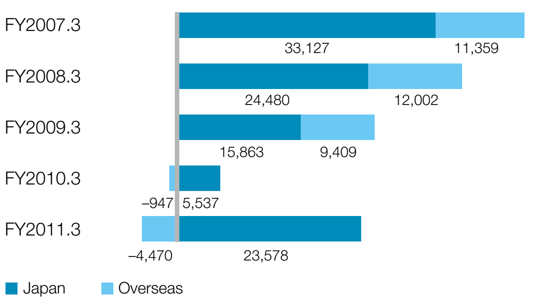
In the entertainment industry, the operating environment in FY 2012.3 is expected to remain uncertain. Adverse factors will likely include concern about the situation in the Middle East, and, in Japan, sluggish consumption due to the Great East Japan Earthquake and the anticipated shortages of electricity. In consideration of these factors, the consolidated projections for FY 2012.3 are as follows: net sales of ¥400.0 billion, a year-on-year increase of 1.5%; operating income of ¥16.5 billion, a gain of 1.0%; and net income of ¥8.0 billion, an increase of 332.9%.

Domestic and Overseas Net Sales (¥ million)




Notes: External sales after elimination
Figures for FY 2011.3 are estimates based on management accounting

Domestic and Overseas Operating Income (loss) (¥ million)



## Key Challenges in FY 2012.3:
## (1) Rebuild Overseas Operations

In rebuilding overseas operations, it is especially important that the Toys and Hobby SBU and Content SBU step up initiatives in the Americas and Europe. In the Toys and Hobby business, we recorded a weak performance overseas in the fiscal year under review, but we made steady progress in preparing a foundation for FY 2012.3 (For further information about the strategies of the Toys and Hobby SBU, please refer to the Special Feature on page 20.). One especially significant achievement has been the favorable start registered in the Americas and Europe by a new product in the *POWER RANGERS* series, an established character series that has faced difficult conditions due to adverse trends in the broadcast environment. This is a character that holds strong potential for success in markets worldwide. As the broadcast environment began to improve, in February 2011 broadcasts of the new series were commenced. In this way, we established a foundation for new initiatives going forward. In FY 2012.3, we will further expand the regions in which we have a presence and will rapidly launch a variety of products. In this way, the Toys and Hobby SBU will move ahead with a proactive approach in overseas markets, centered on efforts to re-energize the mainstay *POWER RANGERS*.

In the Content business, we launched a number of major new titles worldwide, aiming to establish new game franchises. However, unit sales were weak and fell short of our objective. I believe that we will need to reevaluate our development system, steadily reinforce our footing, and establish a solid foundation. Specifically, our policy will be to focus on franchise titles that have strong track records and for which we can expect a certain level of steady sales, while maintaining a balance in development by also taking on the challenge of developing new franchise titles.

## Key Challenges in FY2012.3:
## (2) Fully Restructure the Content Business

In the Content business, we are targeting the full restructuring of the Content business. In order to "maximize content value through rapid development in the optimal content outlet," we believe it is necessary to emphasize the steady implementation of each of our strategies.

In recent years, users have enjoyed a variety of content, such as visual products, games, and music, without limiting themselves to specific content outlets. Moreover, a new trend has emerged, whereby content is enjoyed through the network on a variety of terminals, such as smart phones and tablet PCs. In particular, in the game software business, the conventional packaged software business is increasingly mature. I believe there is still substantial potential in the conventional packaged software business, depending on the method by which value is added. However, we have to move beyond the past framework of investing substantial amounts in the development of packaged software. We need to build a new business model that flexibly accommodates new environments and user preferences. To that end, we must shift from the previous model, where the revenues end with the sale of the packaged product, to a model that also secures ongoing revenues from a single piece of content. This type of business model has been made possible by advancing networks. By combining packaged software with a variety of other content outlets, such as arcade game machines, smart phones, and SNS (Social Networking Services), we can generate synergies and maximize content value. Moving forward, we will take steps to respond flexibly and rapidly to dramatically changing environments and user preferences. For example, we will shift our investment of resources from game software to arcade game machines, which provide

a stable revenue platform, and to network businesses, such as SNS platforms, which offer a new outlet.

Moreover, the most important initiative in the Content business will be reforming our approach to content outlet strategies. Under the Restart Plan, we changed from the previous system, which was organized by content outlet, to a system that is organized by content. As a result, producers and creators can focus on content first and consider the optimal content outlet from the customer's point of view. My role is to give the highest priority to building a system that can continually generate hit products. To maximize content value, we will move toward a more clear, easy-to-understand organizational framework, thereby fostering further evolution in the way we think about our business. To that end, as the president of NAMCO BANDAI Games, I will set the overall direction of the SBU as we proceed to fully restructure the Content business.

## Increasing Profits in the Amusement Facility SBU

While the Great East Japan Earthquake had an effect on the Amusement Facility business, nonetheless the SBU increased its profitability and stabilized its operations through a variety of efficiency improvement and scrap-and-build initiatives. In addition, the Amusement Facility SBU is seeing steady results with facilities that are differentiated from those of competitors. Key means of differentiation include character package entertainment areas and Groupwide campaigns, as well as marketing strategies. In FY 2012.3, because these operations are susceptible to the influence of the economic environment and consumption trends, we will need to pay careful attention to changes in the domestic environment stemming from the disaster. Nonetheless, with our priority on continued revenue stability, we will implement initiatives targeting the establishment of new revenue drivers for the medium to long term. Previously, our strategies were principally defensive, focusing on increasing profitability. Moving forward, however, with a focus on growth over the medium to long term, we will utilize an integrated offensive/defensive framework. On the other hand, we will work to achieve improved profits through continued gains in efficiency in overseas operations, centered on the Americas and Europe.

## Stable Dividends and Acquisition of Treasury Stock

The Company considers the return of profits to shareholders to be one of its most important management issues. Our basic policy for the payment of dividends is to continue to pay dividends and raise enterprise value while further strengthening the Group's competitiveness and maintaining a sound financial position. Specifically, our objectives are to maintain a base level of stable annual per share dividend payments of ¥24 and a consolidated dividend payout ratio of 30%. For FY 2011.3, we have paid dividends of ¥24 per share.

Furthermore, we will consider using a portion of the balance remaining after the appropriation of dividends for the acquisition of our own shares, with comprehensive consideration of aspects such as the level of cash on hand, operating performance, recent share price movement, and plans for large-scale investments. In the year under review, in accordance with a decision of the Board of Directors, we acquired 5 million shares of treasury stock at a total cost of ¥4,169 million. At the end of February 2011, the Board of Directors decided to purchase up to 20 million shares of treasury stock at a total cost of up to ¥20 billion, and plans call for the retirement of all of the treasury stock that is acquired. To efficiently advance the reinforcement of our global growth foundation, we will also consider M&A transactions and up-front investment, such as development investment. We will consider actively implementing M&A transactions in the entertainment field when we believe that mutual synergies can be expected, following careful evaluation of investment conditions.

Cash Dividends per Share (Yen)


## Doing Our Utmost to Build a Foundation for the Next Mid-term Business Plan

Our objective under the next Mid-term Business Plan will be to take steps to achieve full-fledged global growth, centered on initiatives to prepare a growth foundation. It is my intention to target, as soon as possible, the level of profits that we initially recorded after the management integration of Bandai and NAMCO. To create new entertainment, we need a new approach to our business. We need to recognize that a flexible approach to change is needed on that basis.

By moving quickly to take on various challenges, we will steadily expand each of the BANDAI NAMCO Group's entertainment products. With the next Mid-term Business Plan, I would like to show our shareholders and investors the true strength of the BANDAI NAMCO Group. To that end, we have positioned the year ahead as a period for building the foundation for dramatic growth.

The presence of the BANDAI NAMCO Group rests on the continued provision of "Dreams, Fun and Inspiration" to people around the world. We will take on new challenges, targeting the provision of products and services that draw on the distinctive strengths of the BANDAI NAMCO Group, so that we can put smiles on the faces of the people of the world at the point where products and services are provided.

The driving force in the creation of hit products and services is the strong creativity and enthusiasm of individual employees. As I have stressed since I became president, to create "a group centered on human resources management, with unique strengths in entertainment and imagination," we will advance people-centered management. We will strive to make work more rewarding for employees. In these ways, we will continue working to increase the Group's corporate value. Each individual employee at the BANDAI NAMCO Group has unique capabilities. I will continue to focus on building an environment in which everyone can do their jobs with a spirit of independence. In addition, we will strive to respond to changes in the operating environment in a speedy manner, to compete not only against our competitors, but also within the Group in a positive manner, and to repeatedly take on new challenges so that we can move beyond existing boundaries. In this way, we will continue to provide products, services, and business models that draw on the distinctive strengths of the BANDAI NAMCO Group.

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

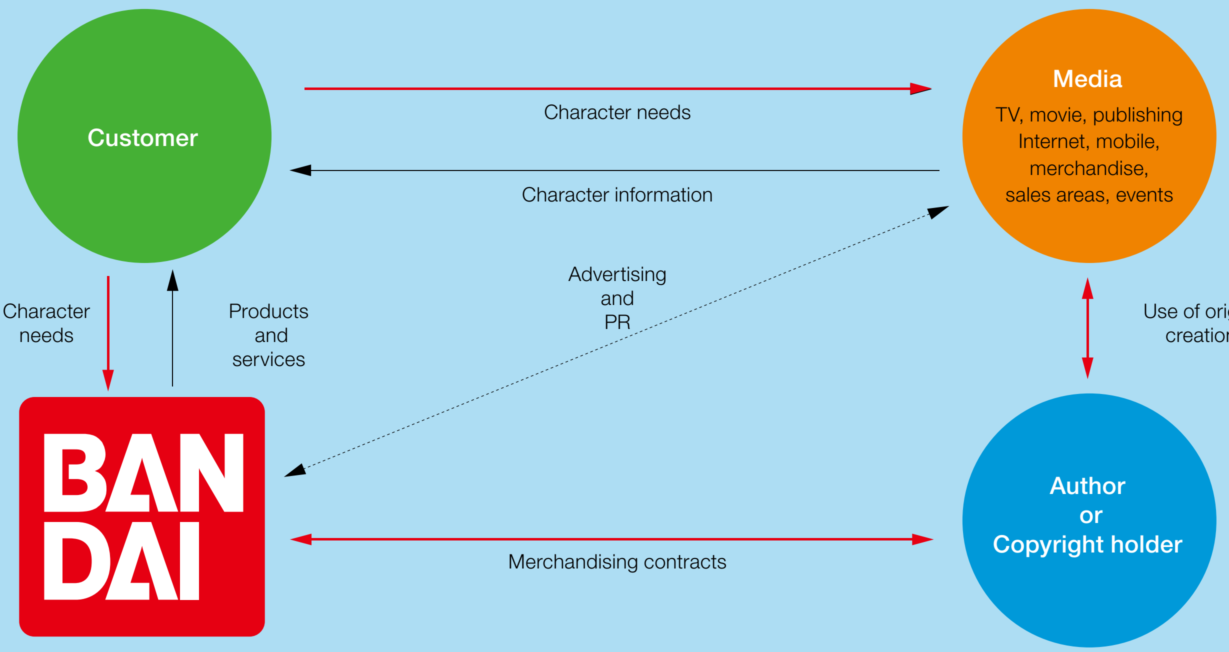
August 2011

# SOLID BASE
# Toys and Hobby SBU

## A Core Business with a Stable Earnings Foundation

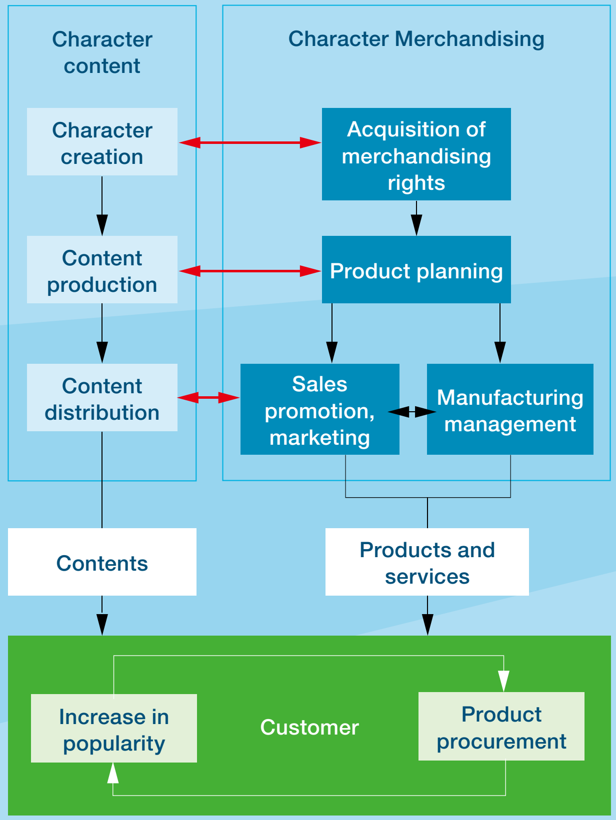
The Toys and Hobby SBU, which is one of the Group's core businesses, is building a stable earnings foundation for the Group. The SBU is especially strong in Japan. Although the toy market is mature and growth remains flat, with a share of about 20% to 25%, the SBU has established a position as a leading company in the domestic market. This special feature outlines the growth strategy of the Toys and Hobby SBU and "character merchandising," the original business model, which has been developed over many years by Bandai, the SBU's core company.

## Strong Business Model: "Character Merchandising"




The character merchandising business model is the foundation of the Toys and Hobby SBU. For nearly 50 years, Bandai, the SBU's core company, has steadily enhanced and refined this model, which is the SBU's most important intellectual property (IP). The character merchandising model is a framework for providing, with optimal timing, "the worlds" and "appeal" of characters in the form of products and services. To that end, Bandai has built strong relationships with a wide range of partners involved in character merchandising, and today Bandai is developing its business operations through cooperative initiatives based on those deep relationships of trust. The character merchandising process typically starts with the acquisition of merchandising rights from the copyright holder, such as a program production company, author, or publishing company. Products are then developed based on the character's world, and the products are put on the market. At the same time, the appeal of the character is promoted in a variety of ways through different media, such as TV, publishing, Internet, and movies. In addition to acquiring character merchandising rights from outside, the Group also creates and cultivates characters in-house.

As shown in the diagram, the provision of "character content" to the customer and the "character merchandising" process move ahead in tandem. The result is a synergistic spiral, with the character content forming the foundation on which we build relationships of trust with the copyright holders.



# The role of the Toys and Hobby SBU is to always implement new initiatives, make new proposals, and be the first to take on new challenges.

Kazunori Ueno
President and Representative Director, Bandai Co., Ltd.
Director, NAMCO BANDAI Holdings Inc.

## Current Status of the Toys and Hobby SBU

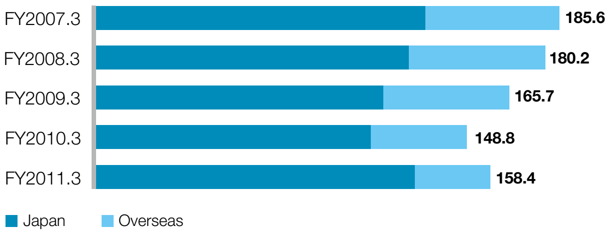
In FY2011.3, the Toys and Hobby SBU achieved the targets that were set out at the beginning of the fiscal year. In domestic operations, we recorded the highest level of profits since the management integration in 2005. On the other hand, we struggled in overseas markets. Frankly, we earned the majority of our profits in Japan, and our results in overseas operations were not satisfactory. Of course, many factors played a part in the challenging conditions in overseas markets. However, considering the potential of the markets and the past performance of the Toys and Hobby SBU in overseas markets, I believe that there is substantial room for improvement in our performance overseas.

In this setting, the strategic themes for the Toys and Hobby SBU in FY2012.3 will be to work toward a dominant No.1 position in Japan and to prepare a foundation for growth by re-energizing its overseas business. These themes are illustrated by our results in the past year. Even though the market in Japan is maturing, we will strive to establish a stable source of earnings by establishing a dominant No.1 position in this market. On the other hand, overseas markets are essential for the growth of the BANDAI NAMCO Group as a whole, and to recapture our potential in those markets, we will move forward with initiatives to build a foundation for growth.

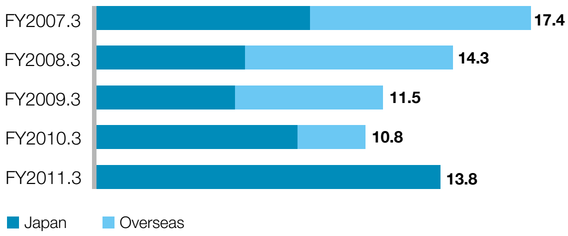
## Domestic Operations: Dominant Presence in a Maturing Market

The domestic market continues to mature, and in this environment considerable attention is being paid to negative factors, such as the trend toward fewer children and sluggish consumption. However, my thoughts about the domestic market are more positive. The Toys and Hobby SBU has expanded its target customer range to include not only children but also adults. With a multi-directional strategy targeting all age groups, I believe that we can build a dominant No.1 position through continued proactive initiatives, even in areas in which we have not yet established a strong presence.

Net Sales by Toys and Hobby SBU (¥ billion)




Segment Income by Toys and Hobby SBU (¥ billion)




Shows operating income for FY 2007.3 to FY2009.3

We have special strengths in character businesses, with series of long-established character products, such as *Mobile Suit Gundam*, *Kamen Rider*, *POWER RANGERS*, and *PrettyCure*. Each of these series has made a stable contribution to earnings over many years and has built a dominant market presence. For example, more than 30 years have passed since the launch of *Mobile Suit Gundam*, which has attained a strong position as content that is popular not only with children but also with their parents. By implementing a marketing strategy that is finely tuned to the preferences of each generation, we are able to implement extensive business development activities targeting a wide range of customers, from children to adults. These characters are assets that have been cultivated over many years, and by leveraging them in this way, the Toys and Hobby SBU will be able to sustain a dominant No.1 position. We have also recently made a full-scale entry into the market for collectible products for adult customers. These products were previously a sub-section of Bandai's boys' toys department, but three years ago they were split off to form an independent department. By launching high-quality products with careful attention to detail for the target age range of customers in their 10s to 40s, we have positioned the products to earn strong popularity and are targeting sales of ¥10 billion in FY2012.3. This is a good example of how the Company can use the popular characters to make a full-scale entry into a market, thereby expanding the market and generating new business opportunities. We believe that there are still new markets in which the Toys and Hobby SBU can make full use of its characters. By implementing multidirectional product development in this way, the SBU will strive for continued operational growth.

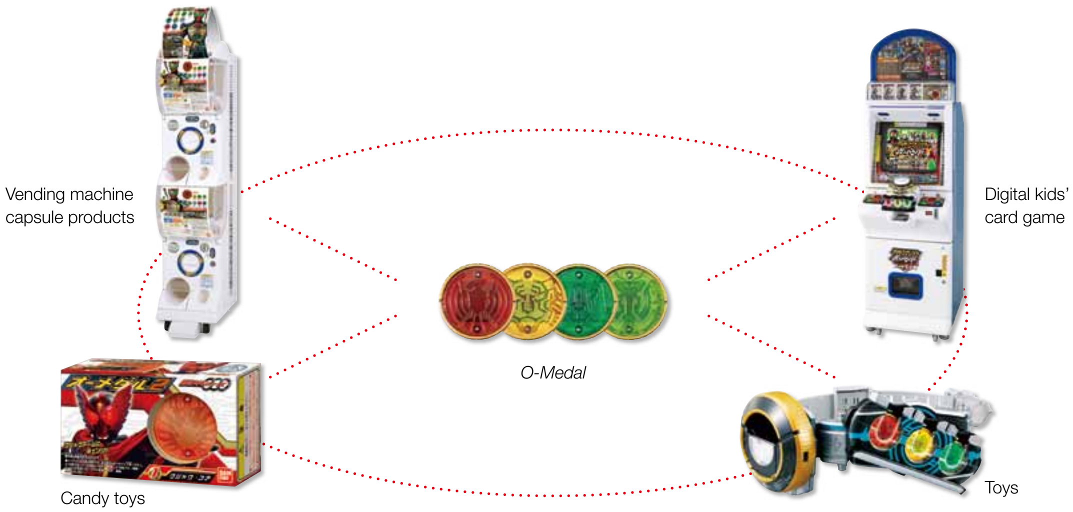
## Effective Initiatives Transcending Organizational Boundaries

Another factor behind the favorable results in domestic operations is our active promotion of younger employees in operating divisions. Since I became president of Bandai in 2005, we have taken steps to increase cooperative initiatives among operating divisions. For example, we have increased personnel transfers among divisions and worked to promote exchange among Company personnel. As a result, we have been able to nurture young staff members with experience in multiple divisions, and accordingly have promoted young employees. This initiative has had the desired effect, with cross-divisional initiatives proceeding more smoothly than in the past. Furthermore, by giving authority and responsibility to a younger generation of employees, we have increased motivation and introduced new insight to management, which has resulted in the generation of new concepts and approaches.

These initiatives led to the major success of the *Kamen Rider* series in FY2010.3 and FY2011.3. With the newest product in this series, *Kamen Rider/OOO*, we have implemented coordinated activities among divisions, such as toys, capsule toy vending machines, candy toys, and card machines. These activities, centered on the medal toys, have enabled the product to become a major hit that has drawn great attention in the domestic market. This success clearly shows the effectiveness of initiatives that cross organizational boundaries, with Bandai using all customer touch points to enhance product value. I believe that these types of initiatives will record further progress by fostering mutual inspiration and cooperation among participating divisions.

## Overseas Operations: Focus on Rebuilding

We are committed to rebuilding our overseas operations, and have positioned FY 2012.3 as a period of preparation for the next stage. We will also keep potential overseas development in mind as we work to create and nurture characters in Japan, providing another avenue for growth overseas. We are already making steady progress in laying a foundation for these initiatives. *POWER RANGERS SAMURAI*, a new product in the *POWER RANGERS* series, Variety of *Kamen Rider / OOO* Products that use the *O-Medal*




got off to a strong start from February 2011. This mainstay character series has faced difficult conditions in recent years, especially in North America, due to adverse trends in the broadcast environment, but the new series is recording high viewer ratings as well as strong merchandise sales. Going forward, we will implement the same type of development activities for the *POWER RANGERS* series in Europe. We will expand our production system, increase the number of stores that handle these products, and expand the sales area floor space. In FY 2012.3, we are aiming for sales of ¥5 billion in North America and Europe. Prior to the worsening of the broadcast environment, *POWER RANGERS* products had been recording stable sales of ¥10 billion to ¥20 billion a year in the Americas and Europe, and I believe the full potential of *POWER RANGERS* is even higher than our target of ¥5 billion.

Moreover, we also need to improve our cooperative relationships with media in overseas operations. Moving forward, development based on the same media mix used in Japan, centered on TV and other existing media, will be an issue under the next Mid-term Business Plan. We have been able to take the first step toward rebuilding the new series by closely linking our activities with media. We will use this success as an opportunity to strengthen our relationships with media, thereby striving to implement cooperative initiatives for new characters and to cultivate strong characters. In North America and Europe, we will work to expand our possibilities for operational development, centered on strong characters such as *POWER RANGERS*. We will strive to fully leverage the character merchandising that we have cultivated in Japan to foster growth in overseas operations.

Note: For further information about operations in North America, please refer to page 25.

## Further Growth Driven by Progress in Character Merchandising

Previously, character merchandising operations were substantially affected by cycles of favorable and negative conditions. However, as a result of many years of development, we have been able to stabilize earnings through the acquisition of know-how and the establishment of relationships of trust with media. Moreover, the media environment is diversifying, and in addition to the traditional media, such as TV and publishing, products and services themselves are becoming a form of media. As a result, our approach to determining the appropriate media mix is becoming broader and more diverse, and we can increasingly provide a variety of choices in response to diversifying consumer preferences, even in character merchandising. For example, with *Mobile Suit Gundam*, we are implementing nearly simultaneous global development, including event screenings, visual package sales, visual distribution, and product launches. In this way, we are taking on the challenge of a new business model for character merchandising. In the future, a key source of strength for the Toys and Hobby SBU will be our ability to apply these successes to other characters, thereby expanding the possibilities open to our operations.

The SBU is full of energy and an eagerness to take on challenges. Moving forward, we will continue working to activate our operations by promoting younger employees, delegating authority, and promoting exchange. The mission of the Toys and Hobby SBU will be to always implement new initiatives and make new proposals, both in the industry and throughout the BANDAI NAMCO Group.

August 2011

Current State of Operations in North America

# We will take steps to build a solid growth foundation in North America, centered on initiatives to strengthen boys' toys and expand product categories.


Masayuki Matsuo

Senior Executive Officer, NAMCO BANDAI Holdings Inc.

President and CEO, BANDAI AMERICA INCORPORATED

President and CEO, NAMCO BANDAI Holdings (USA) Inc.


## North America: Market Environment and Operational Activities

In 2010, the scale of the toy market in North America was about $21 billion, or about three times the size of the market in Japan. In recent years, the scale of the market has been relatively flat.

BANDAI AMERICA INCORPORATED, which is based in California, handles the business activities of the Toys and Hobby SBU in North America as well as in Central and South America. We offer a wide range of products, centered on boys' action figures. Our two main characters are the *POWER RANGERS* series, which is the localized version of Japan's *Super Sentai* series, and *BEN10,* which was developed locally. However, to build a solid position in the market, we need to achieve further gains in our market share.

## The Strategies of the Toys and Hobby SBU in North America

In North America, as one facet of the Mid-term Business Plan's strategy of preparing a foundation for growth, we have worked to expand our target groups and extend our product categories. However, due to the worsening of the broadcast environment for our mainstay *POWER RANGERS* series, our operations in this core business line have been sluggish. Operating conditions in North America in FY 2011.3 were very difficult.

Nonetheless, we are implementing a range of future-focused initiatives, and I am confident that these initiatives will bear fruit in FY 2012.3. In turn, we will strive to use those results to guide the way toward growth under the next Mid-term Business Plan and in subsequent years.

### Rebuilding and Strengthening Boys' Toys Operations

Our business strategy is the rebuilding and strengthening of boys' toys, our core business. To that end, we will first strive to rapidly rebuild the *POWER RANGERS* series. We have already made solid progress with the new *POWER RANGERS SAMURAI*. TV broadcasts commenced in February 2011, and the series is so popular that action figures and other products have been sold out in some stores. Moving forward, we will bolster our production system in preparation for the busy Christmas sales period. From the fall, we will expand our product lineup and work to achieve increases in the number of stores handling our products and the amount of sales floor space allocated to them. In addition, we will steadily step up product promotion initiatives in Europe. In this way, we will strive to cultivate characters with annual sales in the ¥20 billion range by implementing product promotion in conjunction with TV broadcasts and by rapidly introducing competitive products.

Also, to strengthen our lineup of boys' toys, we acquired a license for *Thunder Cats*, which will join *POWER RANGERS* and *BEN10* as the third pillar of our boys' toys operations. We have successive commenced production initiatives promotion in conjunction with Cartoon Network broadcasts of *Thunder Cats*, a remake of the hit 1980s animation. *Thunder Cats* has high name recognition, and we will be able to attract not only children but also their parents, who were fans of the previous *Thunder Cats* generation.

### Stepping Up Initiatives in Toys for Preschoolers and Girls

Our second strategy is the expansion into new product categories—toys for preschoolers and girls. These are large markets, and with these products, we will leverage the character merchandising that is a special strength of the Toys and Hobby SBU. We will actively acquire character licenses that enable us to implement cooperative initiatives linked with TV broadcasts.

### Expanding Regions of Sales

Our third strategy calls for expanding the regions in which our products are sold, with a focus on Central and South America. We have already established a sales company in Mexico that operates under the control of BANDAI AMERICA. Moving forward, we will aggressively develop operations in regions where markets are expanding rapidly, including not only Mexico but also Brazil and Argentina, where sales are currently handled through a sales agent.

Our highest priority is rebuilding and strengthening boys' toys in North America, centered on the *POWER RANGERS* series. In addition, having reinforced our organizational capabilities in development and sales, we will step up our promotion of toys for preschoolers and girls. At the same time, we will strengthen our relationships with production operations in Europe and Asia, thereby enhancing the competitiveness of our products. Through these initiatives, we will strive to build a stable growth platform in North America and contribute to the Group's global growth.

August 2011

# Corporate Governance

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

## Corporate Governance System

NAMCO BANDAI Holdings is working to enhance management oversight. As of June 20, 2011, the Company had nine directors, including three outside directors. Moreover, to respond rapidly to changes in the management environment and to further clarify the responsibilities of directors, the term of directors has been set at one year or less.

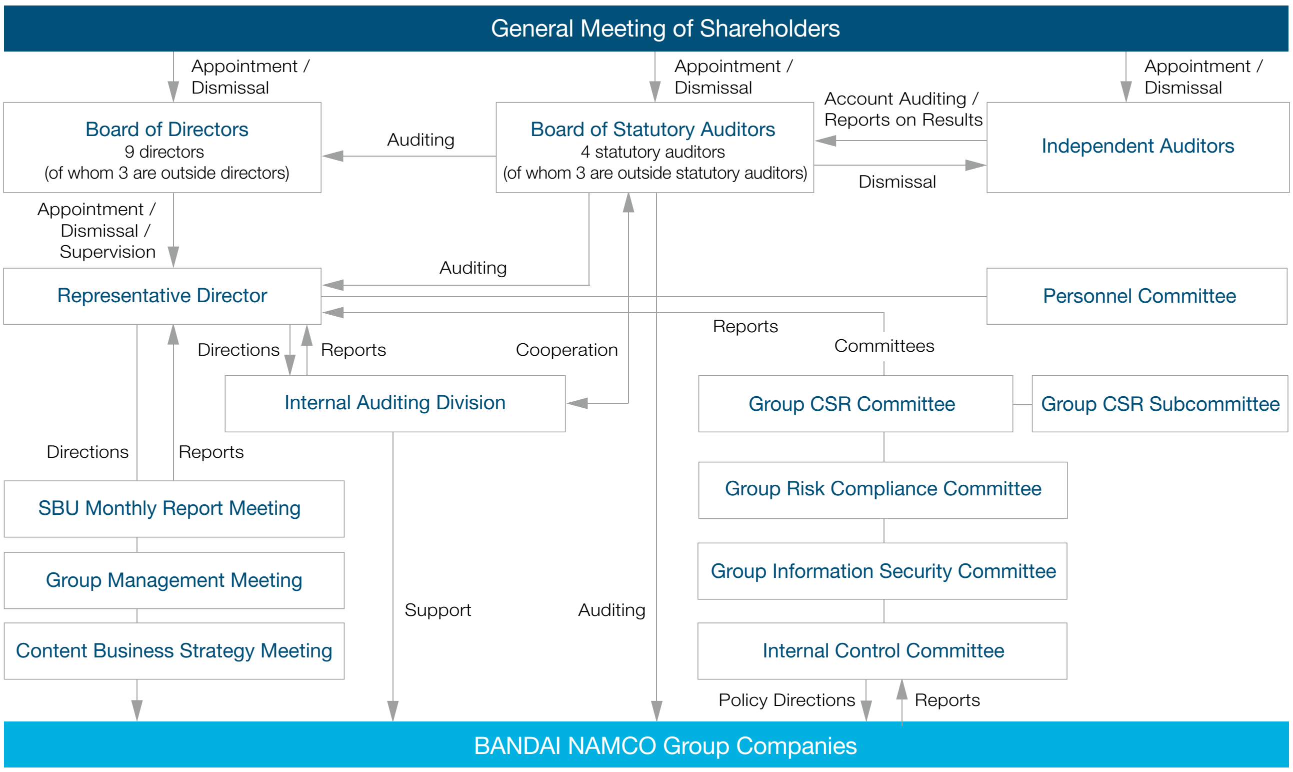
The Company uses the statutory auditor system and has established the Board of Statutory Auditors. The Company believes that the auditing system based on the statutory auditors, including outside statutory auditors, is an effective means of implementing the management oversight function. There are four statutory auditors, of whom three are outside statutory auditors. Two of the statutory auditors are full-time. In accordance with the allocation of responsibilities as determined by the Board of Statutory Auditors, each statutory auditor conducts audits, working with the independent auditors as needed.

Katsuhiko Kohtari, an outside statutory auditor, is a certified public accountant and has extensive knowledge in areas related to finance and accounting. Osamu Sudoh, an outside statutory auditor, is an attorney, has participated in multiple corporate bankruptcy cases, and has knowledge in finance and accounting, which are necessary for the handling of those cases.

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

As shown in the table on page 27, the Company holds a variety of top management meetings and has established a system that facilitates rapidly tracking and responding to Group management information.

Moreover, the Company has established the Personnel Committee, which objectively and neutrally considers personnel and compensation issues regarding directors, as well as other matters about which it has received inquiries, in particular from the president and representative director, (The majority of the




As of June 20, 2011

| Meeting Name | Schedule | Agenda / Purpose | Participants |
|---|---|---|---|
| Board of Directors | Monthly and otherwise as needed | Resolutions and reports on matters prescribed by the Companies Act. Resolutions, deliberations, and reports on matters related to the BANDAI NAMCO Group | Directors, statutory auditors |
| SBU Monthly Report Meeting | Monthly | Report of montly consolidated results, monthly SBU reports, and other | Directors, statutory auditors, corporate offcers, others |
| Group Management Meeting | Monthly | Consideration of Group management issues, Mid-term Business Plans, and Groupwide issues | Full-time directors, representative directors of core company in each SBU, others |
| Content Business Strategy Meeting | Monthly | Sharing information and coordination among SBUs regarding the BANDAI NAMCO Group's major IP | Directors with related responsibilities, directors from major subsidiaries with related responsibilities, others |
| Waigaya Meeting | Weekly | Weekly reports on divisions supervised by NAMCO BANDAI Holdings' directors | Full-time directors, representative directors of core company in each SBU, others |

committee members are from outside the Company.)

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

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

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

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

## Outside Directors and Outside Statutory Auditors

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

Based on their high levels of independence and specialized knowledge, the outside directors and outside statutory auditors conduct objective, neutral auditing and oversight. In this way, they carry out the important functions and responsibilities of management supervision and contribute to the strengthening of the Company's corporate governance system.

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

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

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

None of the Company's outside directors or outside statutory auditors have personal relationships or transactional relationships with the Company. Furthermore, notification has been filed with the Tokyo Stock Exchange (TSE) that the outside directors and outside statutory auditors are independent directors and independent statutory auditors, respectively.

## Compliance and Risk Management

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

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

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

## The BANDAI NAMCO Group's CSR Initiatives

The mission of the BANDAI NAMCO Group is to provide "Dreams, Fun and Inspiration" to people around the world through entertainment, drawing on our boundless creativity and enthusiasm. To ensure that we continue to provide "Dreams, Fun and Inspiration," we have formulated Groupwide CSR initiatives that are based on the three types of responsibilities outlined below.

In accordance with these fundamental principles, a range of measures are implemented by the Groupwide Group CSR Committee and its subcommittee as well as by the Group Risk Compliance Committee, the Group Information Security Committee, and the Internal Control Committee.

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

#### Environmental and Social Responsibility Initiatives (safety / quality, environmental conservation, cultural / social support activities)

**Safety / quality initiatives**

We follow industry standards and in-house standards, and 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.

### 2 Economic Responsibilities

#### Economic Responsibility Initiatives

We are continually working to enhance management transparency and monitoring the business 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.

### 3 Legal and Ethical Responsibilities
(compliance)

#### Legal and Ethical Responsibility Initiatives (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.

### CSR Action Concept

As a provider of "Dreams, Fun and Inspiration," BANDAI NAMCO is committed to CSR activities that contribute to the creation of a fun tomorrow and foster continuous happiness for society and stakeholders.

### CSR Key Phrase

fun for the future

楽しみながら、楽しい未来へ。

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

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

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

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

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

# Topics

## "BANDAI NAMCO Forest" at Shiga Kogen

"BANDAI NAMCO Forest" at Shiga Kogen

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

## Manufacture of safe, reliable products

Dropping products to test for quality

In 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 pay careful attention to safety.

## Initiatives to reduce the environmental burden of products

Decreasing packaging space ratio

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

## Wide-ranging environmental impact reduction activities

Bandai Hobby Center (plastic model plant)

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

## Social contribution activities

Omocha-no-Machi Bandai Museum

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

## Initiatives to prevent global warming

Left: LED bulb Right: halogen bulb

To help prevent global warming, the BANDAI NAMCO Group is implementing initiatives to reduce emissions of greenhouse gases. To reach our targets, each Group company is considering and implementing reduction initiatives in its own business activities. For example, at the amusement facilities operated directly by NAMCO, the halogen bulbs in the Clena-Flex crane game machine have been replaced with LED bulbs.

## Expanding employment opportunities for people with disabilities

The BANDAI NAMCO Group is working to expand employment of people with disabilities. In March 2006, we established NAMCO BANDAI Will Co., Ltd., with the objective of employing people with disabilities. In May, NAMCO BANDAI Will was certified as a special subsidiary as stipulated by Japan's Law for Employment, Promotion, etc., of the Disabled, and employees of NAMCO BANDAI Will are regarded as being employed by the Group as a whole. With consideration for the characteristics of the Group's operations and the skills of people with disabilities, we are working to expand the range of work for people employed by NAMCO BANDAI Will.

## Initiatives to motivate and support human resources

BANDAI NAMCO Award

The BANDAI NAMCO Group is implementing a range of initiatives regarding the motivation and support of human resources. We have a system of awards to recognize products and business models that contribute to increasing Group value from a variety of viewpoints, such as sales, profit, topicality, and newness. Other initiatives include active exchanges of human resources among Group companies and entertainment training. In these ways, we will continue working to promote dynamic corporate activities.

# Overview of Main Group Companies

As of April 1, 2011

| | |
|---|---|
| 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. |
| CCP Co., Ltd. | Planning, development, manufacturing, and sales of toys, hobby commodities, and home electric appliances |
| Plex Co., Ltd. | Planning, design, development, and sales of character-based products |
| Seeds Co., Ltd. | Planning, development, and manufacturing of toys, contract operations for various types of inspecting and testing |
| People Co., Ltd.* | Planning, manufacturing, and sales of toys for infants (JASDAQ) |
| TSUBURAYA PRODUCTION CO., LTD.* | Development of visual products and management of copyrights |
| Sun-Star Stationery Co., Ltd.* | Planning, production, and sales of stationery, sundries, and other products |
| BANDAI AMERICA INCORPORATED | Sales of toy-related products |
| BANDAI S.A. | Regional management functions; sales of toy-related products |
| BANDAI U.K. LTD. | Sales of toy-related products |
| BANDAI ESPAÑA S.A. | Sales of toy-related products |
| BANDAI POLSKA sp. zoo | Sales of toy-related products |
| BANDAI (H.K.) CO., LTD. | Regional management functions; import, export, manufacturing, and sales of toy-related products |
| BANDAI ASIA CO., LTD. | Sales of toy-related products |
| BANDAI KOREA CO., LTD. | Manufacturing, import, and sales of toys, etc., and licensing operations |
| BANDAI (GUANGZHOU) CO., LTD. | Planning and sales of toy-related products |
| BANDAI INDUSTRIAL CO., LTD. | Manufacturing of toy-related products |
| BANDAI (SHENZHEN) CO., LTD. | Quality assurance and quality control operations, and factory inspections of trading partners |

## Content Strategic Business Unit

| | |
|---|---|
| NAMCO BANDAI Games Inc. | Planning, development, and sales of game software and arcade machines, etc. |
| D3 PUBLISHER INC. | Planning, development, and sales of game software |
| Banpresto Co., Ltd. | Planning, development, and sales of amusement prizes, lottery prizes |
| VIBE Inc. | Provision of content and products using various interactive and media options, advertising, and promotion |
| B. B. STUDIO Co., Ltd. | Planning, development, and sales of game software |
| NAMCO TALES STUDIO LTD. | Planning, development, and sales of game software |
| Banpresto Sales Co., Ltd. | Sales of arcade machines and prizes, etc. |

* Companies accounted for by the equity method

| | |
|---|---|
| NAMCO BANDAI Online Inc. | Planning, development, and operation of online games and other software |
| BANDAI VISUAL CO., LTD. | Planning, production, and sales of visual software, etc. |
| Sunrise Inc. | Planning and production of animation for TV and theatrical release, management and administration of copyrights |
| Bandai Channel Co., Ltd. | On-demand delivery of content, such as animations |
| SUNRISE MUSIC Publishing Co., Ltd. | Production of music for animations produced by Sunrise; overall management of music publishing and master recording rights |
| Lantis Co., Ltd. | Planning, production, sales, and management of musical content |
| NAMCO BANDAI Live Creative Inc. | Planning and production of events and live performances, production of visual products, ticket sales, etc. |
| NAMCO BANDAI Games America Inc. | Sales and marketing of game software |
| NAMCO AMERICA INC. | Sales of arcade machines |
| BANDAI ENTERTAINMENT INC. | Planning, production, sales, and copyright management of visual content |
| NAMCO BANDAI Games Europe S.A.S. | Sales and marketing of game software |
| NAMCO EUROPE LTD. | Sales of arcade machines |
| NAMCO BANDAI Partners S.A.S. | Holding company of the NAMCO BANDAI Partners Group, which conducts sales of game software; Shared services company |
| BEEZ ENTERTAINMENT S.A.S. | Production and sales of visual programming and movies; video and DVD sales; copyright management |
| BANPRESTO (H.K.) LTD. | Manufacturing and production management of arcade machines and prizes |

## Amusement Facility Strategic Business Unit

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

## Affiliated Business Companies

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

# Directors and Corporate Auditors

As of June 20, 2011

President and CEO,
Representative Director
**Shukuo Ishikawa**

Director, Senior Advisor
**Takeo Takasu**

Director
**Shuji Ohtsu**

Director
**Yuji Asako**

Director (Part-time)
**Kazunori Ueno**

Director (Part-time)
**Masahiro Tachibana**

Director (Outside)
**Manabu Tazaki**

Director (Outside)
**Nobuo Sayama**

Director (Outside)
**Tomohisa Tabuchi**

Statutory Auditor
**Koichiro Honma**

Statutory Auditor (Outside)
**Katsuhiko Kohtari**

Statutory Auditor (Outside)
**Osamu Sudoh**

Statutory Auditor (Outside)
**Kouji Yanase**

# FINANCIAL SECTION

Contents

# Consolidated Six-Year Financial Summary

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

For the years ended March 31

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

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| **For the Year:** | | | | | | |
| Net sales | ¥450,829 | ¥459,133 | ¥460,474 | ¥426,400 | ¥378,547 | ¥394,179 |
| Gross profit | 156,565 | 168,080 | 164,073 | 146,023 | 128,753 | 139,415 |
| Selling, general and administrative expenses | 120,896 | 125,856 | 130,662 | 123,675 | 126,869 | 123,077 |
| Operating income | 35,669 | 42,224 | 33,411 | 22,348 | 1,884 | 16,338 |
| Recurring income*1 | 37,122 | 45,616 | 36,198 | 24,513 | 1,908 | 16,399 |
| Net income (loss) | 14,150 | 24,252 | 32,679 | 11,830 | (29,929) | 1,848 |
| Capital expenditures | 24,020 | 27,925 | 34,115 | 17,481 | 14,418 | 13,439 |
| Depreciation and amortization | 19,144 | 21,201 | 24,759 | 22,546 | 18,989 | 18,001 |
| Cash flows from operating activities | 31,809 | 42,493 | 35,000 | 19,301 | 10,582 | 22,562 |
| **At Year-End:** | | | | | | |
| Total assets | ¥386,651 | ¥408,490 | ¥413,023 | ¥363,445 | ¥325,936 | ¥308,269 |
| Total current assets | 240,635 | 257,209 | 267,713 | 230,086 | 217,763 | 210,934 |
| Total current liabilities | 107,528 | 110,829 | 101,649 | 84,304 | 86,605 | 86,105 |
| Total net assets | 252,244 | 284,254 | 289,944 | 260,579 | 229,012 | 213,693 |
| **Per Share Data** (yen): | | | | | | |
| Net income (loss) per share (basic) | ¥54.39 | ¥95.73 | ¥128.65 | ¥47.95 | ¥(123.98) | ¥ 7.71 |
| Cash dividends | 12.00*5 | 28.00 | 24.00 | 24.00 | 24.00 | 24.00 |
| **Main Financial Indicators:** | | | | | | |
| Return on equity (ROE)*2, 4 (%) | 5.8 | 9.4 | 11.7 | 4.3 | –12.4 | 0.8 |
| Return on assets (ROA)*3, 4 (%) | 9.6 | 11.5 | 8.8 | 6.3 | 0.6 | 5.2 |
| Selling, general and administrative expenses to net sales (%) | 26.8 | 27.4 | 28.4 | 29.0 | 33.5 | 31.2 |
| Operating income margin (%) | 7.9 | 9.2 | 7.3 | 5.2 | 0.5 | 4.1 |
| Net income margin (%) | 3.1 | 5.3 | 7.1 | 2.8 | –7.9 | 0.5 |
| Shareholders' equity ratio (%) | 63.0 | 67.1 | 69.4 | 70.9 | 69.5 | 68.8 |
| Debt/equity ratio (times) | 0.14 | 0.05 | 0.06 | 0.08 | 0.06 | 0.02 |

*1 Recurring income is a Japanese accounting term denoting income before extraordinary items.

*2 ROE = Net income (loss) / Average total shareholders' equity (= Net assets – Stock subscription rights – Minority interests)

*3 ROA = Recurring income / Average total assets

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

*5 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, 2011

In this fiscal year, signs of a mild recovery were overtaken by the sudden rise in the yen and soaring oil prices in conjunction with the increasingly tense situation in the Middle East. The economy thus continued to be largely stagnant. The impact of the Great East Japan Earthquake, which struck on March 11, 2011, has added further uncertainty to the outlook for the entertainment industry in Japan.

In such environment, the BANDAI NAMCO Group ("the Group") pressed ahead with the development of its global management foundation based on the three-year Mid-term Business Plan that started in April 2009, and sought to realize its medium-to-long-term Group vision of becoming a "Globally Recognized Entertainment Group." Moreover, the Group commenced the "BANDAI NAMCO Group Restart Plan" in April 2010, for the purpose of a more assured implementation of this global management foundation, and it carried out steps to transform itself into a speedy Group, improving its profitability and strengthening its financial standing.

On the business front, the domestic long-established character toys and card products posted strong performances in the Toys and Hobby business. In addition, the Group benefitted from certain achievements, particularly in the Content business and the Amusement Facility business, through a range of measures being implemented according to the Restart Plan.

### Net Sales

On a consolidated basis, the Group's net sales were ¥394,179 million, a year-on-year increase of 4.1%.

### Cost of Sales

Cost of sales was ¥254,764 million, and the ratio of cost of sales to net sales declined to 64.6%, from 66.0% in the previous year. As a result, gross profit was ¥139,415 million, and the gross margin increased to 35.4%, from 34.0% in the previous year.

### SG&A Expenses

Selling, general and administrative (SG&A) expenses were ¥123,077 million, down 3.0%, and the ratio of SG&A expenses to net sales decreased to 31.2%, from 33.5% in the previous year. Principal items included advertising expenses of ¥28,782 million, directors' remuneration and employees' wages of ¥32,012 million, employees' retirement and severance benefits of ¥1,470 million, and research and development expenses of ¥16,091 million.

### Operating Income

Operating income was ¥16,338 million, an increase of 767.2%, and the operating margin increased to 4.1%, from 0.5% in the previous year.

### Other Income (Loss)

Other income (loss) included loss on valuation of investment securities of ¥2,103 million. However, loss on impairment of fixed assets, which was ¥15,903 million in the previous fiscal year, decreased to ¥997 million in the year under review. In addition, other loss, which was ¥5,187 million in the previous fiscal year, declined to ¥1,948 million in the year under review. As a result, other loss totaled ¥4,878 million, a substantial decline from the previous year.

### Net Income (Loss)

The Group recorded net income of ¥1,848 million, compared with net loss of ¥29,929 million in the previous fiscal year. The net margin in the year under review was 0.5%. Net income per share was ¥7.71, compared with net loss per share of ¥123.98 in the previous year. Other losses were ¥4,878 million, and losses at certain subsidiaries increased, chiefly at overseas sales companies. On the other hand, due mainly to increased profits at domestic subsidiaries, income taxes exceeded the initial forecast, reaching ¥9,471 million.

## Results by Segment

| | Net sales (Millions of yen) | | | Segment income (loss) (Millions of yen) | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | Year on year | 2011 | 2010 | Year on year |
| Toys and Hobby | ¥158,374 | ¥148,844 | ¥9,530 | ¥13,813 | ¥10,787 | ¥ 3,026 |
| Content | 179,917 | 167,471 | 12,446 | 3,092 | (7,761) | 10,853 |
| Amusement Facility | 62,338 | 65,363 | (3,025) | 1,779 | 285 | 1,494 |
| Other | 18,504 | 15,790 | 2,714 | 810 | 323 | 487 |

### Toys and Hobby Business

In the Toys and Hobby business, sales of the domestic long-established character toys, particularly the *Kamen Rider/OOO* (pronounced "O's") and *Heart Catch Pretty Cure!*, trended quite strongly. In addition, *GOKAIGER*, the new member of the *Super Sentai (POWER RANGERS)* series, launched in February 2011, has made a strong start. Digital card games such as *Dragon Ball Heroes* and *PRO BASEBALL OWNERS LEAGUE* card game, which connects with the online game, also performed well, making a significant contribution to this business performance. Candy toys, children's clothing, and other peripheral toy categories also reported improved performance due to developing product tie-ups in each category around popular characters in the *Kamen Rider* and other series.

Overseas in North America and Europe, facing a struggling performance from the *POWER RANGERS* series due to a decline in the frequency of TV broadcasts, the Group started to expand into new categories and contents in the aim of achieving growth in the medium to long term. However, performance did not reach the level of the previous fiscal year, which enjoyed strong performance from *BEN10*.

As a result, net sales in the Toys and Hobby business were ¥158,374 million, a year-on-year increase of 6.4%, and segment income was ¥13,813 million, a year-on-year increase of 28.1%.

### Content Business

In the Content business, *NARUTO Shippuden*: *Ultimate Ninja Storm 2*, a home video game software for the PlayStation 3 and Xbox 360, achieved over a million units sold worldwide. In domestic sales, speedier response to changing customer preferences made such titles as *GOD EATER BURST* and *AKB1/48: Idol to Koishitara...*, which are games for the PlayStation Portable, hugely popular. The performance of new titles developed towards creating new franchises, however, fell below expectations, particularly overseas.

In the arcade game machines area, *MOBILE SUIT GUNDAM EXTREME VS*. and prizes for amusement based on popular characters such as *ONE PIECE* trended favorably. In the visual and music content area, in addition to strong package sales of *Mobile Suit Gundam UC (Unicorn)*, selecting and focusing on popular titles has led to improved profitability. In the network content area, the number of monthly subscribers to existing services has declined, but *Gundam Royale* for SNS (social networking services), for which service provision began in December 2010, has made a strong start.

With impairment of goodwill related to some subsidiaries in the previous fiscal year, total amortization of goodwill declined relative to the previous fiscal year, while the implementation of measures to improve efficiency has reduced fixed costs.

As a result, net sales in the Content business were ¥179,917 million, a year-on-year increase of 7.4%, and segment income was ¥3,092 million, compared with segment loss of ¥7,761 million in the previous fiscal year.

**Amusement Facility Business**

In the Amusement Facility business, amid a perception that this business has bottomed out in the domestic market, we have carried out the sales strategy to accommodate each specific customer need. Our facilities, having differentiated themselves by being able to offer the experience of the distinctive worldviews of such characters as *Ultraman*, *Kamen Rider*, and *Tamagotchi*, performed well. While this business facilities did suffer some damage in the Great East Japan Earthquake in March 2011, existing domestic amusement facilities' net sales for the year rose to 101.0% of the previous fiscal year. Due to the withdrawal from related businesses with poor profitability, in Japan, net sales decreased but profitability was improved.

In the challenging environment presented by countries outside Japan, performance continued to be sluggish in the European region, but measures to improve efficiency implemented in the North American region in the previous fiscal year have borne fruit, with improved profitability.

As a result, net sales in the Amusement Facility business were ¥62,338 million, a year-on-year decrease of 4.6%, and segment income was ¥1,779 million, a year-on-year increase of 524.2%.

**Other Businesses**

Other businesses consist of companies that conduct operations, such as logistics support and building management, for each of the Group's strategic business units. During the fiscal year ended March 31, 2011, efforts were made to improve the efficiency of these operations related to Group support.

As a result, net sales in the Other businesses were ¥18,504 million, a year-on-year increase of 17.2%, and segment income was ¥810 million, a year-on-year increase of 150.8%.

## Financial Position

As of March 31, 2011, total assets stood at ¥308,269 million, a decrease of ¥17,667 million from the end of the previous year. The main factors contributing to this decline were decreases of ¥8,522 million in cash and time deposits, ¥2,264 million in finished goods and merchandise included in inventories, ¥2,224 million in goodwill, and ¥2,105 million in investment securities due to valuation loss and other factors.

Total liabilities amounted to ¥94,576 million, a decrease of ¥2,348 million from the end of the previous fiscal year. The main factors contributing to this decline were decreases of ¥5,448 million in short-term borrowings, ¥3,333 million in long-term borrowings due to repayment, and ¥4,195 million in advances received, which are included in other current liabilities. These declines offset an increase of ¥9,810 million in accrued expenses.

Total net assets at the end of the year stood at ¥213,693 million, a decrease of ¥15,319 million from the end of the previous year. This decline was mainly due to decreases of ¥6,876 million in foreign currency translation adjustments and ¥3,962 million in retained earnings due to such factors as the payment of dividends, as well as to the acquisition of ¥4,172 million in treasury stock through open market purchase.

As a result, the equity ratio was 68.8%, compared with 69.5% at the end of the previous fiscal year. The current ratio* was 245.0%, compared with 251.4% a year earlier; the quick ratio* was 172.1%, compared with 174.8%; and the interest coverage ratio* was 42.0 times, compared to 33.0 times.

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

## Cash Flows

As of the end of the year, cash and cash equivalents (hereafter "funds") were down ¥8,447 million from the end of the previous year, to ¥89,330 million.

**Cash Flows from Operating Activities**

Net cash provided by operating activities was ¥22,562 million, an increase of 113.2%. Principal outflows included income taxes paid of ¥10,437 million, compared with ¥8,762 million in the previous year, and increase in trade receivables of ¥8,155 million, compared with decrease in trade receivables of ¥13,478 million in the previous year. Principal inflows included income before income taxes and minority interests of ¥11,460 million, compared with loss before income taxes and minority interests of ¥19,294 million in the previous year; depreciation and amortization of ¥18,001 million, compared with ¥18,989 million in the previous year; and increase in accrued expenses was ¥10,966 million, compared with the decrease of ¥6,218 million in the previous year.

**Cash Flows from Investing Activities**

Net cash used in investing activities totaled ¥7,373 million, a decrease of 25.2% from the previous year. Principal inflows included collection of guarantee money deposited of ¥1,221 million, compared with ¥2,739 million in the previous year. However, purchases of property, plant and equipment and of intangible assets totaled ¥9,313 million, compared with ¥10,008 million in the previous year.

**Cash Flows from Financing Activities**

Net cash used in financing activities was ¥18,825 million, up 23.2% compared with the previous fiscal year. Principal items included repayment of long-term borrowings of ¥8,657 million, compared with ¥8,762 million in the previous year; cash dividends paid of ¥5,797 million, compared with ¥5,796 million in the previous year; and increase in treasury stock, net of ¥4,172 million, compared with ¥8 million in the previous year.

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

The Company positions the return of profits to stockholders as one of its highest management priorities. The fundamental policy is to maintain a stable dividend and increase corporate value while becoming an even more competitive Group, and preserving a sound financial position. The Company is maintaining the consolidated dividend payout ratio at a level of 30%, based on stable annual dividend payments of ¥24 per share.

Decisions about dividends for the current and subsequent fiscal years are made in accordance with this basic policy. The Company plans to pay dividends of ¥24 per share for the year ended March 31, 2011. For the year ending March 31, 2012, the Company plans to maintain dividends at the same level of ¥24 per share. In addition, after appropriation of dividends from the consolidated net income for the period, the Company has resolved to attribute a portion of the remaining balance to the acquisition of its own shares, with comprehensive consideration of aspects such as the level of cash held, operating performance, share price trend, and plan for large-scale investments. The Company's acquisition of treasury stock and decision to acquire treasury stock in the year ended March 31, 2011 were made below in accordance with this basic policy.

Resolution made by the Board of Directors at a meeting held on November 5, 2010

a. Period of acquisition: From November 11, 2010 to January 31, 2011
b. Total number of shares acquired: 5,000,000 shares
c. Total amount for share acquisition: ¥4,169 million

Resolution made by the Board of Directors at a meeting held on February 25, 2011

a. Period of acquisition: From February 28, 2011 to December 31, 2011
b. Total number of shares to be acquired: 20,000,000 shares (maximum)
c. Total amount for share acquisition: ¥20,000 million (maximum)

## Targets and Management Performance Indicators

The Group has adopted ROE (Return on Equity) as a management performance indicator. Looking ahead, we will work to further expand profits by stepping up investment, particularly in overseas business. In addition, we will take steps to build a strong and stable management base by effectively utilizing stockholders' equity. Over the medium to long term, we aim to achieve consolidated ROE of 10% or higher.

## Outlook for the Fiscal Year Ending March 31, 2012

A wide range of factors are expected to have an impact on the economy in the future such as the increasingly tense situation in the Middle East, and a weakening of consumption in Japan as a result of the Great East Japan Earthquake and anticipated electricity power shortages, and other factors, and a difficult business environment is expected to continue. Such factors are also expected to have a global impact on the entertainment industry, in which the Group is extensively involved, resulting in ongoing uncertainty in this business environment.

Facing these circumstances, the Group is working to steadily develop its global management foundation as outlined in the three-year Mid-term Business Plan that started in April 2009, and expects these efforts will lead to medium to long term growth in the global market.

Specifically, in the Toys and Hobby business, our plan for the Japanese market is to promote long-established character toys, such as *Kamen Rider/OOO* (pronounced "O's") and *GOKAIGER* (*POWER RANGERS* series) for boys and *SUITE PRETTY CURE* for girls, and strengthen card product development including digital card games and *PRO BASEBALL OWNERS LEAGUE*. In addition, while aiming for an overwhelming position of No.1 in Japan, we will consecutively launch new products aimed at new targets. Overseas, the Group will strive to improve profitability by focusing on the core products *POWER RANGERS SAMURAI,* the first new creation from the *POWER RANGERS* series in two years, and the *BEN10* character toys, which have now become a long-established character series, while working to expand new categories such as girls' toys and preschool toys.

In the Content business, the Group aims to improve profitability in home video game software by expanding its market in Japan and overseas by focusing on popular franchise titles that were developed in Japan, such as *ACE COMBAT ASSAULT HORIZON* for PlayStation 3 and Xbox 360. The Group will also strengthen its business through the latest machines for the popular series *Tekken* and *Dragon Ball* in arcade game machines and *Mobile Suit Gundam UC (Unicorn)* in visual and music content. In addition, in network content, the Group will aim to maximize content value by strengthening content and online games for SNS (social networking services) while interlinking these businesses with other categories.

In the Amusement Facility business, the operations at four stores in Japan remain suspended due to damage from the Great East Japan Earthquake. However, while cooperating with electricity power conservation activities, we will continue to promote differentiated facilities that offer the experience of the Group's distinctive worldviews of characters. Overseas, we will strive to boost profitability by continuing to implement various efficiency measures.

In light of the above considerations, the consolidated projections of the fiscal year ending March 31, 2012 are as follows: net sales of ¥400,000 million, a year-on-year increase of 1.5%, operating income of ¥16,500 million, a year-on-year increase of 1.0%, and net income of ¥8,000 million, a year-on-year increase of 332.9%.

### The Year Ending March 31, 2012 Consolidated Plan

**Segments** (Millions of yen)

| | Net sales | Segment income |
|---|---|---|
| Toys and Hobby | ¥160,000 | ¥10,500 |
| Content | 180,000 | 6,500 |
| Amusement Facility | 61,000 | 1,500 |
| Other | 21,000 | 500 |
| Adjustments | (22,000) | (2,500) |
| Consolidated | ¥400,000 | ¥16,500 |

## Forward-Looking Statements

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

# Consolidated Balance Sheets

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
As of March 31, 2010 and 2011

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and time deposits (notes 4 and 12) | ¥ 96,648 | ¥ 88,126 | $1,059,844 |
| Short-term investments (notes 4, 5 and 12) | 2,038 | 2,818 | 33,891 |
| Trade receivables (notes 6 and 12) | 52,726 | 57,263 | 688,671 |
| Allowance for doubtful receivables | (1,139) | (820) | (9,862) |
| Inventories (note 7) | 40,957 | 41,701 | 501,515 |
| Deferred tax assets (note 13) | 5,763 | 6,592 | 79,278 |
| Other current assets | 20,770 | 15,254 | 183,452 |
| Total current assets | 217,763 | 210,934 | 2,536,789 |
| **Investments and other assets:** | | | |
| Investment securities (notes 5 and 12) | 23,275 | 21,170 | 254,600 |
| Deferred tax assets (note 13) | 5,886 | 5,760 | 69,272 |
| Other investments and assets | 22,303 | 21,181 | 254,733 |
| Allowance for doubtful receivables | (1,807) | (1,905) | (22,910) |
| Total investments and other assets | 49,657 | 46,206 | 555,695 |
| **Property, plant and equipment:** | | | |
| Buildings and structures | 24,671 | 24,160 | 290,559 |
| Amusement facilities and machines | 60,827 | 61,618 | 741,046 |
| Land | 11,592 | 10,786 | 129,717 |
| Other property, plant and equipment | 71,180 | 68,423 | 822,886 |
| Total | 168,270 | 164,987 | 1,984,208 |
| Less accumulated depreciation | (122,256) | (122,395) | (1,471,978) |
| Net property, plant and equipment | 46,014 | 42,592 | 512,230 |
| **Intangible assets:** | | | |
| Goodwill | 2,951 | 727 | 8,743 |
| Other intangible assets | 9,551 | 7,810 | 93,927 |
| Total intangible assets | 12,502 | 8,537 | 102,670 |
| Total assets | ¥325,936 | ¥308,269 | $3,707,384 |

See accompanying Notes to Consolidated Financial Statements.

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| **Liabilities and net assets** | | | |
| **Current liabilities:** | | | |
| Short-term borrowings (notes 9 and 12) | ¥ 8,877 | ¥ 3,429 | $ 41,239 |
| Trade payables (notes 10 and 12) | 35,956 | 36,641 | 440,661 |
| Accrued expenses | 20,147 | 29,957 | 360,277 |
| Accrued income taxes (notes 12 and 13) | 8,240 | 7,980 | 95,971 |
| Other current liabilities (notes 9, 13 and 21) | 13,385 | 8,098 | 97,390 |
| Total current liabilities | 86,605 | 86,105 | 1,035,538 |
| **Long-term liabilities:** | | | |
| Long-term borrowings (notes 9 and 12) | 3,333 | — | — |
| Accrued retirement and severance benefits (note 11) | 2,436 | 2,764 | 33,241 |
| Deferred tax liabilities (note 13) | 1,289 | 1,245 | 14,973 |
| Other long-term liabilities (notes 9 and 21) | 3,261 | 4,462 | 53,662 |
| Total long-term liabilities | 10,319 | 8,471 | 101,876 |
| Total liabilities | 96,924 | 94,576 | 1,137,414 |
| **Net assets:** | | | |
| Shareholders' equity | | | |
| Common stock (note 18) | | | |
| Authorized: 1,000,000,000 shares | | | |
| Issued: 250,000,000 shares in 2010, 240,000,000 shares in 2011 | 10,000 | 10,000 | 120,265 |
| Additional paid-in capital | 79,960 | 69,924 | 840,938 |
| Retained earnings (note 16) | 163,454 | 159,492 | 1,918,124 |
| Treasury stock, at cost; 8,540,776 shares in 2010 and 3,497,884 shares in 2011 (note 18) | (9,455) | (3,496) | (42,045) |
| Subtotal | 243,959 | 235,920 | 2,837,282 |
| Accumlated other comprehensive income (loss) | | | |
| Unrealized gains or losses on other securities, net of tax (note 5) | 19 | 448 | 5,388 |
| Deferred gains or losses on hedges, net of tax | 80 | 3 | 36 |
| Land revaluation, net of tax (note 17) | (6,492) | (6,492) | (78,076) |
| Foreign currency translation adjustments | (10,900) | (17,776) | (213,782) |
| Subtotal | (17,293) | (23,817) | (286,434) |
| Stock subscription rights | 810 | — | — |
| Minority interests | 1,536 | 1,590 | 19,122 |
| Total net assets | 229,012 | 213,693 | 2,569,970 |
| Total liabilities and net assets | ¥325,936 | ¥308,269 | $3,707,384 |

# Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2010 and 2011

## Consolidated Statements of Operations

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| **Net sales** | ¥378,547 | ¥394,179 | $4,740,577 |
| **Cost of sales** | 249,794 | 254,764 | 3,063,909 |
| Gross profit | 128,753 | 139,415 | 1,676,668 |
| **Selling, general and administrative expenses** (note 14) | 126,869 | 123,077 | 1,480,180 |
| Operating income | 1,884 | 16,338 | 196,488 |
| **Other income (loss):** | | | |
| Interest and dividend income | 584 | 389 | 4,678 |
| Interest expense | (378) | (143) | (1,720) |
| Gain (loss) on sales of investment securities, net | 151 | 246 | 2,959 |
| Loss on valuation of investment securities | (141) | (2,103) | (25,292) |
| Gain (loss) on sales and disposal of fixed assets, net | (304) | (322) | (3,873) |
| Loss on impairment of fixed assets (note 8) | (15,903) | (997) | (11,990) |
| Other | (5,187) | (1,948) | (23,427) |
| | (21,178) | (4,878) | (58,665) |
| **Income (loss) before income taxes and minority interests** | (19,294) | 11,460 | 137,823 |
| **Income taxes** (note 13) | 10,499 | 9,471 | 113,902 |
| **Income (loss) before minority interests** | (29,793) | 1,989 | 23,921 |
| **Minority interests** | 136 | 141 | 1,696 |
| Net income (loss) | ¥ (29,929) | ¥ 1,848 | $ 22,225 |

| | Yen | | U.S. dollars (note 3) |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| **Data per common share** (note 15): | | | |
| Net assets at March 31 | ¥ 938.74 | ¥896.83 | $10.79 |
| Net income (loss): | | | |
| Basic | (123.98) | 7.71 | 0.09 |
| Diluted | — | 7.71 | 0.09 |
| Cash dividends applicable to period (note 16) | 24.00 | 24.00 | 0.29 |

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| **Income (loss) before minority interests** | ¥(29,793) | ¥ 1,989 | $ 23,921 |
| Other comprehensive income (loss) | | | |
| Unrealized gains or losses on other securities, net of tax | 1,880 | 465 | 5,592 |
| Deferred gains or losses on hedges, net of tax | 185 | (77) | (926) |
| Land revaluation, net of tax | (192) | — | — |
| Foreign currency translation adjustments | 2,906 | (6,928) | (83,320) |
| Share of other comprehensive income (loss) of associates accounted for using equity method | 54 | (49) | (589) |
| Other comprehensive income (loss) | 4,833 | (6,589) | (79,243) |
| Comprehensive Income (loss) | ¥(24,960) | ¥(4,600) | $(55,322) |
| Comprehensive income (loss) attributable to: | | | |
| Owners of the parent | ¥(25,150) | ¥(4,676) | $(56,236) |
| Minority interests | 190 | 76 | 914 |

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, 2010 and 2011

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| **Common stock** (note 18): | | | |
| Balance at beginning of year | ¥ 10,000 | ¥ 10,000 | $ 120,265 |
| Balance at end of year | 10,000 | 10,000 | 120,265 |
| **Additional paid-in capital:** | | | |
| Balance at beginning of year | 79,888 | 79,960 | 961,636 |
| Disposal of treasury stock | 72 | 42 | 505 |
| Retirement of treasury stock | — | (10,078) | (121,203) |
| Balance at end of year | 79,960 | 69,924 | 840,938 |
| **Retained earnings** (note 16): | | | |
| Balance at beginning of year | 199,453 | 163,454 | 1,965,773 |
| Net income (loss) | (29,929) | 1,848 | 22,225 |
| Change in scope of consolidation | 116 | (13) | (157) |
| Change in scope of application of equity method | (416) | — | — |
| Cash dividends | (5,796) | (5,797) | (69,717) |
| Increase due to company split | 26 | — | — |
| Balance at end of year | 163,454 | 159,492 | 1,918,124 |
| **Treasury stock** (note 18): | | | |
| Balance at beginning of year | (9,624) | (9,455) | (113,710) |
| Net change during year | 169 | 5,959 | 71,665 |
| Balance at end of year | (9,455) | (3,496) | (42,045) |
| **Unrealized gains or losses on other securities, net of tax** (note 5): | | | |
| Balance at beginning of year | (1,911) | 19 | 229 |
| Net change during year | 1,930 | 429 | 5,159 |
| Balance at end of year | 19 | 448 | 5,388 |
| **Deferred gains or losses on hedges, net of tax:** | | | |
| Balance at beginning of year | (105) | 80 | 962 |
| Net change during year | 185 | (77) | (926) |
| Balance at end of year | 80 | 3 | 36 |
| **Land revaluation, net of tax** (note 17): | | | |
| Balance at beginning of year | (6,300) | (6,492) | (78,076) |
| Net change during year | (192) | — | — |
| Balance at end of year | (6,492) | (6,492) | (78,076) |
| **Foreign currency translation adjustments:** | | | |
| Balance at beginning of year | (13,756) | (10,900) | (131,088) |
| Net change during year | 2,856 | (6,876) | (82,694) |
| Balance at end of year | (10,900) | (17,776) | (213,782) |
| **Stock subscription rights:** | | | |
| Balance at beginning of year | 1,468 | 810 | 9,741 |
| Net change during year | (658) | (810) | (9,741) |
| Balance at end of year | 810 | — | — |
| **Minority interests:** | | | |
| Balance at beginning of year | 1,466 | 1,536 | 18,473 |
| Net change during year | 70 | 54 | 649 |
| Balance at end of year | 1,536 | 1,590 | 19,122 |
| Total net assets at end of year | ¥229,012 | ¥213,693 | $2,569,970 |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

Years Ended March 31, 2010 and 2011

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| **Cash flows from operating activities:** | | | |
| Income (loss) before income taxes and minority interests | ¥(19,294) | ¥ 11,460 | $137,823 |
| Depreciation and amortization | 18,989 | 18,001 | 216,488 |
| Loss on impairment of fixed assets | 15,903 | 997 | 11,990 |
| Loss (gain) on sales and disposal of fixed assets | 304 | 322 | 3,873 |
| Loss on disposal of amusement facilities and machines | 570 | 426 | 5,123 |
| Loss (gain) on sales of investment securities | (151) | (444) | (5,340) |
| Loss on valuation of investment securities | 141 | 2,103 | 25,292 |
| Decrease (increase) in trade receivables | 13,478 | (8,155) | (98,076) |
| Decrease (increase) in inventories | (1,726) | (1,850) | (22,249) |
| Acquisition of amusement facilities and machines | (4,410) | (4,126) | (49,621) |
| Increase (decrease) in trade payables | (6,701) | 3,669 | 44,125 |
| Others | 1,980 | 10,754 | 129,333 |
| Subtotal | 19,083 | 33,157 | 398,761 |
| Interest and dividends received | 582 | 379 | 4,558 |
| Interest paid | (321) | (537) | (6,458) |
| Income taxes paid | (8,762) | (10,437) | (125,520) |
| Net cash provided by operating activities | 10,582 | 22,562 | 271,341 |
| **Cash flows from investing activities:** | | | |
| Decrease (increase) in time deposits, net | 327 | (709) | (8,527) |
| Purchases of property, plant and equipment | (7,177) | (6,643) | (79,892) |
| Sales of property, plant and equipment | 124 | 1,110 | 13,349 |
| Purchases of intangible assets | (2,831) | (2,670) | (32,111) |
| Purchases of investment securities | (422) | (92) | (1,106) |
| Sales of investment securities | 472 | 605 | 7,276 |
| Acquisition of shares in consolidated subsidiaries, net of cash acquired | (81) | — | — |
| Purchase of subsidiary shares affecting the scope of consolidation | (1,760) | — | — |
| Sales of subsidiary shares affecting the scope of consolidation | — | 8 | 96 |
| Payment of loans receivable | (1,070) | (1,372) | (16,500) |
| Collection of loans receivable | 171 | 1,161 | 13,963 |
| Payment of guarantee money deposited | (398) | (371) | (4,462) |
| Collection of guarantee money deposited | 2,739 | 1,221 | 14,684 |
| Others | 43 | 379 | 4,559 |
| Net cash used in investing activities | (9,863) | (7,373) | (88,671) |
| **Cash flows from financing activities:** | | | |
| Increase (decrease) in short-term borrowings, net | (577) | (105) | (1,263) |
| Repayment of long-term borrowings | (8,762) | (8,657) | (104,113) |
| Payment of lease obligations | (83) | (73) | (878) |
| Decrease (increase) in treasury stock, net | (8) | (4,172) | (50,174) |
| Cash dividends paid | (5,796) | (5,797) | (69,717) |
| Cash dividends paid to minority interests | (51) | (21) | (253) |
| Net cash used in financing activities | (15,277) | (18,825) | (226,398) |
| **Effect of exchange rate changes on cash and cash equivalents** | 2,010 | (4,838) | (58,184) |
| **Net increase (decrease) in cash and cash equivalents** | (12,548) | (8,474) | (101,912) |
| **Cash and cash equivalents at beginning of year** | 110,037 | 97,777 | 1,175,911 |
| **Increase in cash and cash equivalents due to consolidation of additional subsidiaries** | 271 | 27 | 325 |
| **Increase in cash and cash equivalents due to merger of non-consolidated subsidiaries** | 62 | — | — |
| **Decrease in cash and cash equivalents due to company split** | (45) | — | — |
| **Cash and cash equivalents at end of year** (note 4) | ¥ 97,777 | ¥ 89,330 | $1,074,324 |

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

NAMCO BANDAI Holdings Inc. and Consolidated Subsidiaries

## 1 Basis of Presentation

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

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

The accompanying consolidated financial statements have been prepared and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act.

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

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

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the presentation used for the year ended March 31, 2011.

## 2 Summary of Significant Accounting Policies

### (a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Consolidation of the remaining subsidiaries would have had no material effect on the accompanying consolidated financial statements. Investments in significant affiliates are accounted for using the equity method.

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

All significant intercompany accounts and transactions have been eliminated in consolidation. The excess of cost over the underlying fair value of the net assets of consolidated subsidiaries acquired 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)" in the Consolidated Statements of Operations.

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

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

### (d) Accounting Standards for Income and Expenses

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

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

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

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

**(e) Short-Term Investments and Investment Securities**

The Company and its consolidated subsidiaries classify 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 fair value are principally carried at fair value. The difference, net of tax, between the acquisition cost and the carrying amount of other securities with fair value is recognized in “Unrealized gains or losses on other securities, net of tax” in “Net assets” until realized. Other securities without fair value are principally carried at cost. The cost of other securities sold is principally computed based on the moving average method.

**(f) Allowance for Doubtful Receivables**

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

**(g) Inventories**

Domestic consolidated subsidiaries:

Inventories are stated at cost determined by the average cost method. The value stated on the balance sheet is calculated by writing down the carrying amount based on declining profitability.

Foreign consolidated subsidiaries:

Inventories are stated at the lower of cost, determined principally by the average cost method, or net realizable value.

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

**(h) Income Taxes**

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

**(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.

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**

Amortization 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.

**(k) Leases**

Depreciation of lease assets is computed by the straight-line method, over the period of the lease, with a residual value of zero. Before the change, the accounting treatment for finance lease except for those where the legal title to the underlying property is transferred from the lessor to lessee at the end of the lease term followed the method for operating lease transactions. However, the “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 [Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007]) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 [The Japanese Institute of Certified Public Accountants (JICPA) Accounting Standard Committee, January 18, 1994; revised March 30, 2007]) are applied and the accounting treatment for such transactions follows the method for ordinary purchase or sales transactions.

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

**(l) Impairment of Fixed Assets**

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.

**(m) Derivatives and Hedging Activities**

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

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

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

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

**(n) Provision for Directors' Bonuses**

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

**(o) 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 or retirement lump-sum benefits system.

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

**(p) Provision for Losses from Business Restructuring**

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

**(q) Provision for Sales Returns**

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

**(r) Provision for Loss on Disaster**

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

**(s) 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.

### (t) Data per Common Share

In computing basic net income (loss) 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.

### (u) Asset Retirement Obligations

"Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008) were applied from the year ended March 31, 2011.

As a result, gross profit, and operating income have each decreased by 83 million yen and income before income taxes and minority interests decreased by ¥1,334 million for the year ended March 31, 2011.

### (v) Business Combinations

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, December 26, 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, December 26, 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, December 26, 2008), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008) were applied from the year ended March 31, 2011.

### (w) Comprehensive Income

"Accounting Standard for Presentation of Comprehensive Income," (ASBJ Statement No. 25, June 30, 2010) was applied from the year ended March 31, 2011.

## 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, 2011 have been translated into U.S. dollars at the rate of ¥83.15=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2011.

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

## 4 Cash and Cash Equivalents

Reconciliations of cash and cash equivalents as of March 31, 2010 and 2011 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 |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Cash and time deposits | ¥96,648 | ¥88,126 | $1,059,844 |
| Short-term investments | 2,038 | 2,818 | 33,891 |
| Time deposits with maturities in excess of three months | (909) | (1,614) | (19,411) |
| Cash and cash equivalents | ¥97,777 | ¥89,330 | $1,074,324 |

Cash and time deposits of ¥4 million and ¥4 million ($48 thousand) are pledged as collateral for bank transaction guarantees as of March 31, 2010 and 2011, respectively.

## 5 Short-Term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2010 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Held-to-maturity securities | ¥ 28 | ¥ 26 | $ 313 |
| Other securities with fair value | 14,286 | 13,165 | 158,328 |
| Other securities without fair value | 1,578 | 1,460 | 17,559 |
| Investments in non-consolidated subsidiaries and affiliated companies | 9,421 | 9,337 | 112,291 |
| Total of short-term investments and investment securities | ¥25,313 | ¥23,988 | $288,491 |

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

The original cost, carrying amount (fair value), and gross unrealized holding gain (loss) for other securities with fair value as of March 31, 2010 and 2011 are summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Original cost | Gross unrealized holding gain | Gross unrealized holding loss | Carrying amount (fair value) |
| **Other securities with fair value:** | | | | |
| Equity securities | ¥11,317 | ¥3,242 | ¥(2,704) | ¥11,855 |
| Debt securities | 100 | — | — | 100 |
| Other | 2,461 | — | (130) | 2,331 |
| Total | ¥13,878 | ¥3,242 | ¥(2,834) | ¥14,286 |

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

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2011 | | | |
| | Original cost | Gross unrealized holding gain | Gross unrealized holding loss | Carrying amount (fair value) |
| **Other securities with fair value:** | | | | |
| Equity securities | $109,765 | $30,006 | $(18,617) | $121,166 |
| Other | 38,978 | — | (1,816) | 37,162 |
| Total | $148,743 | $30,006 | $(20,433) | $158,328 |

The following is a summary of the carrying amount of other securities without fair value as of March 31, 2010 and 2011:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| | Carrying amount | Carrying amount | Carrying amount |
| **Other securities without fair value:** | | | |
| Unlisted securities | ¥1,578 | ¥1,460 | $17,559 |
| Total | ¥1,578 | ¥1,460 | $17,559 |

Proceeds and gross realized gains and losses from the sales of other securities in the years ended March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Equity securities | ¥269 | ¥505 | $6,073 |
| Debt securities | | | |
| Corporate bond securities | 200 | 100 | 1,203 |
| Other | 41 | — | — |
| Proceeds from the sales of other securities | 510 | 605 | 7,276 |
| Gross realized gains from the sales of other securities | 176 | 252 | 3,031 |
| Gross realized losses from the sales of other securities | (25) | (6) | (72) |

## 6 Trade Receivables

Trade receivables as of March 31, 2010 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Notes receivable | ¥ 4,372 | ¥ 3,416 | $ 41,082 |
| Accounts receivable-trade | 48,239 | 53,759 | 646,531 |
| Lease receivables and investment assets | 115 | 88 | 1,058 |
| Total | ¥52,726 | ¥57,263 | $688,671 |

## 7 Inventories

Inventories as of March 31, 2010 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Finished goods and merchandise | ¥12,817 | ¥10,553 | $126,915 |
| Work in process | 23,805 | 26,741 | 321,599 |
| Raw materials and supplies | 4,335 | 4,407 | 53,001 |
| Total | ¥40,957 | ¥41,701 | $501,515 |

## 8 Loss on Impairment of Fixed Assets

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

The carrying amounts of the following assets, which exclude reusable assets, were reduced to the recoverable amount. The amounts of reduction recorded as an impairment loss in "Other income (loss)" for the years ended March 31, 2010 and 2011 are as follows:

| | | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| Location | Items | Classification | 2010 | 2011 | 2011 |
| Muko City, Kyoto, and others (Note 1) | Amusement facility | Amusement facilities and machines, and other assets | ¥ 285 | ¥ — | $ — |
| Toshima-ku, Tokyo (Note 2) | Amusement facility | Amusement facilities and machines, and other assets | 90 | — | — |
| Kishiwada City, Osaka (Note 3) | Amusement facility | Amusement facilities and machines, Land, and other assets | 1,153 | — | — |
| Illinois, U.S.A., and others (Note 4) | Amusement facility | Amusement facilities and machines | 481 | — | — |
| Braintree, U.K., and others (Note 1) | Amusement facility | Amusement facilities and machines, and other assets | 342 | — | — |
| Newterritories, H.K., and others (Note 1) | Amusement facility | Amusement facilities and machines, and other assets | 1 | — | — |
| Cambridge, U.K. (Note 1) | Assets for business use | Buildings and structures, and Other property, plant and equipment | 3 | — | — |
| Shinagawa-ku, Tokyo (Note 4) | Assets for business use | Other property, plant and equipment, Other intangible assets, and other assets | 747 | — | — |
| Kasuya-gun, Fukuoka (Note 1) | Warehouse | Buildings and structures, and Other property, plant and equipment | 50 | — | — |
| — (Note 5) | — | Goodwill | 12,751 | — | — |
| Nakagami-gun, Okinawa, and others (Note 1) | Amusement facility | Amusement facilities and machines, and other assets | — | 205 | 2,465 |
| Tyne and wear, U.K., and others (Note 1) | Amusement facility | Other intangible assets, and other assets | — | 20 | 241 |
| Essex, U.K., and others (Note 4) | Amusement facility | Amusement facilities and machines, and other assets | — | 364 | 4,377 |
| Taito-ku, Tokyo (Note 6) | Assets for business use | Other property, plant and equipment | — | 28 | 337 |
| Taito-ku, Tokyo (Note 7) | Assets for business use | Investments and other assets (other) | — | 28 | 337 |
| Cergy-pontoise, FRANCE (Note 1) | Assets for business use | Other property, plant and equipment | — | 15 | 180 |
| Seoul, KOREA (Note 1) | Software for Internet content business | Other intangible assets | — | 253 | 3,043 |
| Shinagawa-ku, Tokyo, and others (Note 8) | Assets scheduled for disposal | Buildings and structures, and other assets | — | 83 | 998 |
| Sapporo City, Hokkaido (Note 1) | Assets for business use | Other property, plant and equipment | — | 1 | 12 |
| Total | | | ¥15,903 | ¥997 | $11,990 |

Notes:
1. Impairment loss was recorded because it was forecasted that the carrying amount of these fixed assets could not be recovered due to the decline in business profitability. In addition, these assets were determined to have no fair value.
2. Impairment loss was recorded because it was judged that the carrying amount that could be recovered for these fixed assets had fallen substantially due to the decision to close the facility. In addition, these assets were determined to have no fair value.
3. Impairment loss was recorded because it was forecasted that the carrying amount of these fixed assets could not be recovered due to the decline in business profitability. The recoverable amount was measured based on the estimated net selling price, which is based on a rational estimate of the selling price.
4. Impairment loss was recorded because it was forecasted that the carrying amount of these fixed assets could not be recovered due to the decline in business profitability. The recoverable amount was measured as the estimated value in use based on forecast future cash flows.
5. It was determined that the future profit assumed in the business plan considered at the time of acquisition of the shares was unlikely to be realized. Therefore, the total unamortized balance was recorded as impairment loss. It includes impairment loss of ¥7,043 million on goodwill associated with NAMCO BANDAI Partners S.A.S. becoming a wholly owned subsidiary.
6. Impairment loss was recorded on these fixed assets, for which no future use is anticipated. The recoverable amount was evaluated as a memorandum value.
7. It was determined that the profit assumed at the time of acquisition was unlikely to be realized. Therefore, the total balance was recorded as impairment loss.
8. Impairment loss was recorded on these fixed assets, for which no future use is anticipated. In addition, these assets were determined to have no fair value.

## 9 Borrowings and Lease Obligations

Short-term borrowings and lease obligations (current) as of March 31, 2010 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Short-term borrowings | ¥ 219 | ¥ 96 | $ 1,155 |
| Long-term borrowings due within one year | 8,658 | 3,333 | 40,084 |
| Subtotal | 8,877 | 3,429 | 41,239 |
| Lease obligations due within one year | 71 | 66 | 793 |
| Total | ¥8,948 | ¥3,495 | $42,032 |

The weighted average interest rates on short-term borrowings outstanding as of March 31, 2010 and 2011 were 4.31% and 4.15%, respectively.

Long-term borrowings and lease obligations (non-current) as of March 31, 2010 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Borrowings, principally from banks, maturing in installments through March 31, 2012; the weighted average interest rates of current installments at March 31, 2011 was 0.75%, and there were no non-current installments at March 31, 2011 | ¥11,991 | ¥ 3,333 | $ 40,084 |
| Lease obligations maturing in installments through March 31, 2015; the weighted average interest rates of current installments at March 31, 2011 was 3.14%, and non-current installments at March 31, 2011 was 1.87% | 295 | 222 | 2,670 |
| Subtotal | 12,286 | 3,555 | 42,754 |
| Less long-term borrowings due within one year | (8,658) | (3,333) | (40,084) |
| Less lease obligations due within one year | (71) | (66) | (793) |
| Total | ¥ 3,557 | ¥ 156 | $ 1,877 |

The aggregate annual maturities of borrowings and lease obligations outstanding as of March 31, 2011 are as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2012 | ¥3,399 | $40,877 |
| 2013 | 58 | 698 |
| 2014 | 43 | 517 |
| 2015 | 38 | 457 |
| 2016 | 17 | 205 |
| Total | ¥3,555 | $42,754 |

## 10 Trade Payables

Trade payables as of March 31, 2010 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Notes payable | ¥ 5,349 | ¥ 5,150 | $ 61,936 |
| Accounts payable-trade | 30,607 | 31,491 | 378,725 |
| Total | ¥35,956 | ¥36,641 | $440,661 |

## 11 Retirement and Severance Benefits

The plans' funded status and amounts recognized in the accompanying consolidated balance sheets as of March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Employee retirement and severance benefits: | | | |
| Projected benefit obligations | ¥14,474 | ¥14,999 | $ 180,385 |
| Plan assets at fair value | (10,402) | (9,949) | (119,651) |
| Projected benefit obligation in excess of plan assets | 4,072 | 5,050 | 60,734 |
| Unrecognized loss | (2,114) | (2,618) | (31,486) |
| Unrecognized prior service cost | 393 | 311 | 3,740 |
| Net retirement and severance benefits recognized on the consolidated balance sheets | 2,351 | 2,743 | 32,988 |
| Prepaid pension cost | 52 | 21 | 253 |
| Accrued retirement and severance benefits | 2,403 | 2,764 | 33,241 |
| Directors' and corporate auditors' retirement and severance benefits: | | | |
| Accrued retirement and severance benefits | 33 | — | — |
| Total accrued retirement and severance benefits | ¥ 2,436 | ¥ 2,764 | $ 33,241 |

Notes:

1. In addition to the above plan assets, plan assets of ¥566 million and ¥311 million ($3,740 thousand) as of March 31, 2010 and 2011, respectively, are managed by a governmental welfare pension benefit plan, which was jointly established by the Company and various third-party companies. The aforementioned plan assets are computed based on a pro-rata allocation of contributions paid.
2. Certain consolidated subsidiaries use a simplified method for calculating projected benefit obligations.

Net periodic cost of employee retirement and severance benefits for the years ended March 31, 2010 and 2011 consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Service cost for benefits earned, net of employee contributions | ¥1,662 | ¥1,691 | $20,337 |
| Interest cost on projected benefit obligations | 253 | 252 | 3,031 |
| Expected return on plan assets | (213) | (285) | (3,428) |
| Amortization of unrecognized actuarial gain or loss | 429 | 407 | 4,894 |
| Amortization of prior service cost | (47) | (55) | (661) |
| Net periodic cost | ¥2,084 | ¥2,010 | $24,173 |

Notes:

1. In addition to the net periodic cost of employee retirement and severance benefits, contributions to a governmental welfare pension benefit plan are charged to Cost of sales and Selling, general and administrative expenses. Contributions to the governmental welfare pension benefit plan of ¥30 million and ¥29 million ($349 thousand) were charged to Cost of sales and Selling, general and administrative expenses in the years ended March 31, 2010 and 2011, respectively. Also, additional discretionary retirement allowances of ¥93 million and ¥194 million ($2,333 thousand) were charged to Selling, general and administrative expenses in the years ended March 31, 2010 and 2011, respectively.

   In addition, for certain domestic consolidated subsidiaries, due to the retirement of employees through the voluntary early retirement system, additional retirement allowances of ¥1,694 million were recorded for the year ended March 31, 2010, and due to the transfer and restructuring of operations, additional retirement allowances of ¥849 million ($10,210 thousand) were recorded for the year ended March 31, 2011.
2. The retirement benefit expense for the Company and certain consolidated subsidiaries that use a simplified calculation method is recorded as service cost.
3. The defined contribution expenses for the Company and certain consolidated subsidiaries that have established defined contribution retirement pension systems is recorded as a service cost.
4. The contributions of certain consolidated subsidiaries that simultaneously participate in the Smaller Enterprise Retirement Allowance Mutual Aid Scheme are recorded as service cost.

Actuarial assumptions and the basis for the calculation of retirement and severance benefits in 2010 and 2011 are as follows:

| | 2010 | 2011 |
|---|---|---|
| Method of benefit attribution | "Benefits/years-of-service" approach | "Benefits/years-of-service" approach |
| Discount rate | 1.25%~2.0% | 1.25%~2.0% |
| Expected rate of return on plan assets | 2.5%~3.0% | 2.5%~3.1% |
| Period of amortization of unrecognized prior service cost | 10~11 years | 10~11 years |
| Period of amortization of unrecognized actuarial gain or loss | 9~19 years (from the year following the year incurred) | 9~19 years (from the year following the year incurred) |

## 12 Financial Instruments

### 1. Financial Instruments

**(1) Policy for financial instruments**

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

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

**(2) Contents and risks of financial instruments**

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

As of March 31, 2010 and 2011, designated large customers were counterparties for 14.2% (2010) and 15.6% (2011) of trade receivables. Receivables denominated in foreign currencies arising as a result of the fact that the Company and its consolidated subsidiaries conduct business on a global basis are subject to foreign exchange rate fluctuation risk. The Company and its consolidated subsidiaries manage balances by counterparty and currency, and in addition the Company and its consolidated subsidiaries track market trends and, as necessary, utilize forward foreign exchange contracts for hedging.

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

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

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

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

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

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

Note: As of March 31, 2010, the Company and its consolidated subsidiaries had not conducted any hedging activities using interest-rate options.

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

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

The contract amounts of derivative transactions in Note "20 Foreign Exchange Risk Management and Interest Rate Risk Management" in the Notes to Consolidated Financial Statements should not be considered indicative of the market risk associated with the derivative financial instruments.

**2. Fair Value of Financial Instruments**

The carrying amounts of financial instruments as stated in the consolidated balance sheets, their fair values as of March 31, 2010 and 2011, and the differences between carrying amounts and fair values are as stated below. This table does not include assets for which it was judged extremely difficult to assess the fair value. (Note 2)

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | 2011 | | | 2011 | | |
| | Carrying amount | Fair value | Difference | Carrying amount | Fair value | Difference | Carrying amount | Fair value | Difference |
| (1) Cash and time deposits | ¥ 96,648 | ¥ 96,648 | ¥ — | ¥ 88,126 | ¥ 88,126 | ¥ — | $1,059,844 | $1,059,844 | $ — |
| (2) Trade receivables | 52,726 | 52,726 | — | 57,263 | 57,263 | — | 688,671 | 688,671 | — |
| (3) Short-term investments and investment securities | 21,400 | 19,696 | (1,704) | 20,376 | 17,852 | (2,524) | 245,051 | 214,696 | (30,355) |
| Total assets | ¥170,774 | ¥169,070 | ¥(1,704) | ¥165,765 | ¥163,241 | ¥(2,524) | $1,993,566 | $1,963,211 | $(30,355) |
| (1) Trade payables | 35,956 | 35,956 | — | 36,641 | 36,641 | — | 440,661 | 440,661 | — |
| (2) Short-term borrowings | 8,877 | 8,877 | — | 3,429 | 3,429 | — | 41,239 | 41,239 | — |
| (3) Accrued income taxes | 8,240 | 8,240 | — | 7,980 | 7,980 | — | 95,971 | 95,971 | — |
| (4) Long-term borrowings | 3,333 | 3,333 | — | — | — | — | — | — | — |
| Total liabilities | ¥ 56,406 | ¥ 56,406 | ¥ — | ¥ 48,050 | ¥ 48,050 | ¥ — | $ 577,871 | $ 577,871 | $ — |
| Derivative financial instruments* | ¥ 92 | ¥ 92 | ¥ — | ¥ (107) | ¥ (107) | ¥ — | $ (1,287) | $ (1,287) | $ — |

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

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

Assets

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

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

(3) Short-term investments and investment securities

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

Liabilities

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

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

(4) Long-term borrowings

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

Derivative financial instruments

Please refer to "20 Foreign Exchange Risk Management and Rate Interest Risk Management" in the Notes to Consolidated Financial Statements.

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

| | 2010 | 2011 | 2011 |
|---|---|---|---|
| | Carrying amount (Millions of yen) | | Carrying amount (Thousands of U.S. dollars) |
| Unlisted securities | ¥1,578 | ¥1,460 | $17,559 |
| Investments in non-consolidated subsidiaries and investments in affiliated companies (unlisted securities) | 2,335 | 2,152 | 25,881 |

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

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

| | Millions of yen | | | | | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | 2011 | | | | 2011 | | | |
| | Within one year | More than one year, within five years | More than five years, within ten years | More than ten years | Within one year | More than one year, within five years | More than five years, within ten years | More than ten years | Within one year | More than one year, within five years | More than five years, within ten years | More than ten years |
| Cash and time deposits | ¥ 96,648 | ¥ — | ¥— | ¥— | ¥ 88,126 | ¥ — | ¥ — | ¥— | $1,059,844 | $ — | $— | $— |
| Trade receivables | 52,488 | 224 | 14 | — | 56,998 | 261 | 4 | — | 685,484 | 3,139 | 48 | — |
| Short-term investments and investment securities | | | | | | | | | | | | |
| Held-to-maturity securities | | | | | | | | | | | | |
| Corporate bonds | — | 27 | — | — | — | 25 | — | — | — | 301 | — | — |
| Total | ¥149,136 | ¥251 | ¥14 | ¥— | ¥145,124 | ¥285 | ¥ 4 | ¥— | $1,745,328 | $3,428 | $48 | $— |

## 13 Income Taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese corporate, inhabitant, and enterprise taxes based on income which, in the aggregate, resulted in a normal tax rate of approximately 40.6% in 2010 and 2011.

Income tax expenses reflected in the accompanying consolidated statements of operations for the years ended March 31, 2010 and 2011 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Income taxes—current | ¥ 7,064 | ¥10,946 | $131,641 |
| Income taxes for previous year | 964 | — | — |
| Income taxes—deferred | 2,471 | (1,475) | (17,739) |
| Total | ¥10,499 | ¥ 9,471 | $113,902 |

Reconciliation of the normal tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2011 is as follows:

| | 2011 |
|---|---|
| Normal tax rate | 40.6% |
| Increase in valuation allowance for deferred tax assets | 26.7 |
| Amortization of goodwill | 7.4 |
| Entertainment expenses not deductible for tax purposes | 3.8 |
| Directors' bonuses | 3.5 |
| Differences of tax rates of foreign consolidated subsidiaries | 3.5 |
| Corporate inhabitant tax on per capita basis | 1.9 |
| Tax credit for research and development expenses | (2.2) |
| Reversal of stock acquisition rights | (1.9) |
| Other | (0.7) |
| Effective tax rate | 82.6% |

Note: The note has been omitted for the year ended March 31, 2010 because the Company recorded a loss before income taxes and minority interests.

Significant components of deferred tax assets and liabilities as of March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| **Deferred tax assets:** | | | |
| Land revaluation | ¥ 3,036 | ¥ 3,036 | $ 36,512 |
| Excess depreciation of fixed assets | 4,434 | 4,694 | 56,452 |
| Losses carried forward | 14,185 | 15,797 | 189,982 |
| Loss on valuation of advance payments | 1,068 | 1,078 | 12,965 |
| Inventory valuation losses | 3,570 | 8,090 | 97,294 |
| Accrued employee bonuses | 1,273 | 2,700 | 32,471 |
| Allowance for doubtful receivables | 669 | 756 | 9,092 |
| Loss on impairment of fixed assets | 1,686 | 901 | 10,836 |
| Accrued enterprise taxes and others | 428 | 939 | 11,293 |
| Accrued retirement and severance benefits | 923 | 1,226 | 14,744 |
| Research and development expenses | 576 | 480 | 5,773 |
| Unrealized gains or losses on other securities | 209 | 2 | 24 |
| Other | 3,736 | 6,477 | 77,895 |
| Total gross deferred tax assets | 35,793 | 46,176 | 555,333 |
| Valuation allowance | (25,117) | (33,962) | (408,442) |
| **Total deferred tax assets** | 10,676 | 12,214 | 146,891 |
| **Deferred tax liabilities:** | | | |
| Retained earnings of foreign consolidated subsidiaries | (508) | (397) | (4,775) |
| Unrealized gains or losses on other securities | (392) | (344) | (4,137) |
| Land revaluation | (674) | (674) | (8,106) |
| Reserve for deferred income | (122) | (115) | (1,383) |
| Other | (59) | (184) | (2,212) |
| **Total deferred tax liabilities** | (1,755) | (1,714) | (20,613) |
| **Net deferred tax assets** | ¥ 8,921 | ¥ 10,500 | $ 126,278 |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Current assets–Deferred tax assets | ¥ 5,763 | ¥ 6,592 | $ 79,278 |
| Investments and other assets–Deferred tax assets | 5,886 | 5,760 | 69,272 |
| Current liabilities–Other (deferred tax liabilities) | (1,439) | (607) | (7,299) |
| Long-term liabilities–Deferred tax liabilities | (1,289) | (1,245) | (14,973) |
| Total | ¥ 8,921 | ¥10,500 | $126,278 |

## 14 Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Advertising expenses | ¥ 29,515 | ¥ 28,782 | $ 346,146 |
| Directors' remuneration and employees' wages | 31,645 | 32,012 | 384,991 |
| Employees' retirement and severance benefits | 1,517 | 1,470 | 17,679 |
| Provision for directors' bonuses | 422 | 965 | 11,606 |
| Provision for directors' and corporate auditors' retirement and severance benefits | 33 | — | — |
| Research and development expenses | 16,144 | 16,091 | 193,518 |
| Allowance for doubtful receivables, investments, and other assets | 276 | 88 | 1,058 |
| Other | 47,317 | 43,669 | 525,182 |
| Total selling, general and administrative expenses | ¥126,869 | ¥123,077 | $1,480,180 |

## 15 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, 2010 and 2011 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Net income (loss) | ¥(29,929) | ¥1,848 | $22,225 |
| Net income (loss) available to common stockholders | (29,929) | 1,848 | 22,225 |
| Net income for diluted EPS calculation | ¥ — | ¥1,848 | $22,225 |

| | Thousands of shares | |
|---|---|---|
| Average number of common shares outstanding | 241,402 | 239,810 |
| Effect of dilutive securities: | | |
| Stock options | — | 31 |
| Average number of common shares for diluted EPS calculation | — | 239,841 |

| | Yen | | U. S. dollars |
|---|---|---|---|
| Net income (loss) per common share: | | | |
| Basic | ¥(123.98) | ¥7.71 | $0.09 |
| Diluted | — | 7.71 | 0.09 |

Note: For the year ended March 31, 2010, dilutive shares exist, but diluted net income per common share is not reported because the Company recorded net loss.

## 16 Retained Earnings and Dividends

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

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

The Company's retained earnings includes legal reserves of ¥1,645 million and ¥1,645 million ($19,784 thousand) at March 31, 2010 and 2011, respectively. Proposed appropriations of retained earnings have not been reflected in the consolidated financial statements at the end of the fiscal year. The Company's approved appropriations of retained earnings for the year ended March 31, 2011 were cash dividends of ¥2,839 million ($34,143 thousand). In addition, a mid-year dividend may be paid based on approval by the Board of Directors, which is subject to limitations. The mid-year dividend for the year ended March 31, 2011 was ¥2,899 million ($34,865 thousand).

## 17 Land Revaluation

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

**Revaluation method:**

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

Unrealized losses for land of ¥749 million ($9,008 thousand) were recognized based on the difference between the land carrying amount, which was revalued as of March 31, 2002, and the fair value of the land as of March 31, 2011.

## 18 Common Stock and Treasury Stock

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

| Common stock (number of shares) | |
|---|---|
| March 31, 2010 | 250,000,000 |
| Retirement of treasury stock | (10,000,000) |
| March 31, 2011 | 240,000,000 |

| Treasury stock (number of shares) | |
|---|---|
| March 31, 2010 | 8,540,776 |
| Purchase of treasury stock as per a decision made by the Board of Directors | 5,000,000 |
| Repurchase of fractional shares | 2,566 |
| Increase in holdings in equity method affiliates | 5,410 |
| Retirement of treasury stock | (10,000,000) |
| Exercise of stock options | (50,300) |
| Sale of fractional shares | (568) |
| March 31, 2011 | 3,497,884 |

## 19 Leases

**1. Lessee**

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

(1) Finance leases

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

The pro-forma original cost and accumulated depreciation of assets under such finance leases as if they had been accounted for as finance leases as of March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Original cost at inception of leases | ¥ 507 | ¥ 246 | $ 2,959 |
| Less accumulated depreciation | (386) | (204) | (2,454) |
| Assets under finance leases, net | ¥ 121 | ¥ 42 | $ 505 |

Future minimum payments due under finance leases as of March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Due within one year | ¥ 75 | ¥33 | $397 |
| Due after one year | 46 | 9 | 108 |
| Total | ¥121 | ¥42 | $505 |

Lease expense and pro-forma depreciation expense for such finance leases as if they had been accounted for as finance leases for the years ended March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Lease expense | ¥152 | ¥71 | $854 |
| Depreciation expense | 152 | 71 | 854 |

(2) Operating leases

Future minimum payments required under operating leases as of March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Due within one year | ¥ 3,410 | ¥2,708 | $ 32,568 |
| Due after one year | 8,174 | 5,608 | 67,444 |
| Total | ¥11,584 | ¥8,316 | $100,012 |

**2. Lessor**

Finance leases

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

The acquisition cost, accumulated depreciation, and net value of assets under such finance leases included in fixed assets as of March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Acquisition cost | ¥ 330 | ¥ 227 | $ 2,730 |
| Less accumulated depreciation | (220) | (176) | (2,117) |
| Assets under finance leases, net | ¥ 110 | ¥ 51 | $ 613 |

Future minimum payments due under finance leases as of March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Due within one year | ¥ 58 | ¥41 | $494 |
| Due after one year | 66 | 17 | 204 |
| Total | ¥124 | ¥58 | $698 |

Lease income and depreciation expense for finance leases for the years ended March 31, 2010 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2011 | 2011 |
| Lease income | ¥100 | ¥58 | $698 |
| Depreciation expense | 89 | 52 | 625 |

## 20 Foreign Exchange Risk Management and Interest Rate Risk Management

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

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

Contract amounts, fair values, and gains or losses from valuation of forward foreign exchange contracts outstanding as of March 31, 2010 and 2011 are as follows. The contract amounts in themselves should not be considered indicative of the market risk associated with the derivative financial instruments.

### (1) Derivative transactions not qualifying for hedge accounting

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | 2011 | | | 2011 | | |
| | Contract amount | Estimated fair value | Unrealized gain (loss) | Contract amount | Estimated fair value | Unrealized gain (loss) | Contract amount | Estimated fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts | | | | | | | | | |
| Sold: | | | | | | | | | |
| Yen | ¥ 875 | ¥(25) | ¥(25) | ¥1,222 | ¥(128) | ¥(128) | $14,696 | $(1,539) | $(1,539) |
| U.S. dollars | 771 | (18) | (18) | 65 | (0) | (0) | 782 | (0) | (0) |
| Purchased: | | | | | | | | | |
| U.S. dollars | 2,354 | 56 | 56 | 228 | 16 | 16 | 2,742 | 192 | 192 |
| Yen | 10 | (0) | (0) | 1 | (0) | (0) | 12 | (0) | (0) |
| Total | ¥4,010 | ¥ 13 | ¥ 13 | ¥1,516 | ¥(112) | ¥(112) | $18,232 | $(1,347) | $(1,347) |

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

### (2) Derivative transactions qualifying for hedge accounting

| | | | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|---|---|
| | | | 2010 | | 2011 | | 2011 | |
| Hedge accounting method | Hedging method | Hedge targets | Contract amount | Estimated fair value | Contract amount | Estimated fair value | Contract amount | Estimated fair value |
| Deferred | Forward foreign exchange contracts | | | | | | | |
| | Sold: | | | | | | | |
| | Yen | Accounts receivable-trade | ¥3,684 | ¥121 | ¥ 4,034 | ¥(17) | $ 48,514 | $(205) |
| | Polish zloty | Accounts receivable-trade | — | — | 271 | (3) | 3,259 | (36) |
| | U.S. dollars | Accounts receivable-trade | — | — | 111 | 1 | 1,335 | 12 |
| | Purchased: | | | | | | | |
| | U.S. dollars | Accounts payable-trade | 4,622 | (47) | 6,225 | 23 | 74,865 | 277 |
| | HK dollars | Accounts payable-trade | 60 | 4 | 60 | 1 | 722 | 12 |
| Total | | | ¥8,366 | ¥ 78 | ¥10,701 | ¥ 5 | $128,695 | $ 60 |
| Foreign exchange allocation method | Forward foreign exchange contracts | | | | | | | |
| | Purchased: | | | | | | | |
| | Yen | Accounts payable-trade | — | — | 31 | 1 | 373 | 12 |
| | U.S. dollars | Accounts payable-trade | 43 | 1 | 106 | (3) | 1,275 | (36) |
| | GB pounds | Other | — | — | 17 | 0 | 204 | 0 |
| Total | | | ¥ 43 | ¥ 1 | ¥ 154 | ¥ (2) | $ 1,852 | $ (24) |

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

## 21 Asset Retirement Obligations

Asset retirement obligations recorded on the consolidated balance sheets as of March 31, 2011 are summarized as follows:

1. Overview of asset retirement obligations
   Obligation for restoration to original condition, accompanying real estate lease contracts for amusement facilities.
2. Method of calculating amounts of asset retirement obligations
   In calculating the amount of asset retirement obligations, the estimated period of use is determined based on period of the lease contract and the useful life of the building (principally 15 years), and the discount rate is the rate used in accounting for retirement and severance benefits (principally 2%).
3. Change in total amount of asset retirement obligations in the year ended March 31, 2011

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Balance at beginning of the year (note) | ¥1,777 | $21,371 |
| Increase due to acquisition of property, plant and equipment | 81 | 974 |
| Adjustment due to passage of time | 25 | 301 |
| Decrease due to fulfillment of asset retirement obligations | (13) | (156) |
| Other | (11) | (133) |
| Balance at end of year | ¥1,859 | $22,357 |

Note: This is the balance at the beginning of the period due to the adoption from the year ended March 31, 2011 of "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

## 22 Segment Information

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

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

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

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

The methods for accounting for reportable segments are the same as those described in Note "2 Summary of Significant Accounting Policies." Further, segment income (loss) is based on operating income (loss), and segment assets are based on total assets. Additionally, amounts of inter-segment transactions are based on the prevailing market price.

Millions of yen

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reportable Segment | | | | | | | |
| | Toys and Hobby | Content | Amusement Facility | Subtotal | Other (Note 1) | Total | Adjustments (Note 2) | Consolidated total (Note 3) |
| Net sales | | | | | | | | |
| To external customers | ¥145,673 | ¥161,644 | ¥65,112 | ¥372,429 | ¥ 6,118 | ¥378,547 | ¥ — | ¥378,547 |
| Inter-segment sales and transfers | 3,171 | 5,827 | 251 | 9,249 | 9,672 | 18,921 | (18,921) | — |
| Total | ¥148,844 | ¥167,471 | ¥65,363 | ¥381,678 | ¥15,790 | ¥397,468 | ¥(18,921) | ¥378,547 |
| Segment income (loss) | 10,787 | (7,761) | 285 | 3,311 | 323 | 3,634 | (1,750) | 1,884 |
| Segment assets | 111,993 | 120,335 | 38,775 | 271,103 | 17,279 | 288,382 | 37,554 | 325,936 |
| Other items: | | | | | | | | |
| Depreciation and amortization | ¥ 8,130 | ¥ 3,299 | ¥ 7,146 | ¥ 18,575 | ¥ 479 | ¥ 19,054 | ¥ (65) | ¥ 18,989 |
| Amortization of goodwill | 65 | 4,449 | 173 | 4,687 | 0 | 4,687 | 281 | 4,968 |
| Loss on impairment of fixed assets | 146 | 13,355 | 2,351 | 15,852 | 51 | 15,903 | — | 15,903 |
| Investments in associates accounted for using equity method | 1,419 | — | 175 | 1,594 | 7,244 | 8,838 | — | 8,838 |
| Increase in property, plant and equipment and intangible assets | 6,866 | 2,385 | 4,496 | 13,747 | 422 | 14,169 | 249 | 14,418 |

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

| | Thousands of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Toys and Hobby | Content | Amusement Facility | Subtotal | Other (Note 1) | Total | Adjustments (Note 2) | Consolidated total (Note 3) |
| Net sales | | | | | | | | |
| To external customers | $1,860,578 | $2,052,351 | $748,863 | $4,661,792 | $ 78,785 | $4,740,577 | $ — | $4,740,577 |
| Inter-segment sales and transfers | 44,101 | 111,413 | 842 | 156,356 | 143,753 | 300,109 | (300,109) | — |
| Total | $1,904,679 | $2,163,764 | $749,705 | $4,818,148 | $222,538 | $5,040,686 | $(300,109) | $4,740,577 |
| Segment income | 166,121 | 37,186 | 21,395 | 224,702 | 9,742 | 234,444 | (37,956) | 196,488 |
| Segment assets | 1,195,261 | 1,431,678 | 410,752 | 3,037,691 | 216,236 | 3,253,927 | 453,457 | 3,707,384 |
| Other items: | | | | | | | | |
| Depreciation and amortization | $ 113,963 | $ 29,284 | $ 74,372 | $ 217,619 | $ 5,664 | $ 223,283 | $ (6,795) | $ 216,488 |
| Amortization of goodwill | 36 | 21,551 | 1,780 | 23,367 | — | 23,367 | 3,391 | 26,758 |
| Loss on impairment of fixed assets | 3,909 | 998 | 7,071 | 11,978 | 12 | 11,990 | — | 11,990 |
| Investments in associates accounted for using equity method | 13,193 | — | 1,660 | 14,853 | 88,322 | 103,175 | — | 103,175 |
| Increase in property, plant and equipment and intangible assets | 85,087 | 20,301 | 50,331 | 155,719 | 2,645 | 158,364 | 3,260 | 161,624 |

Notes:

1. "Other" which is not a reportable segment, includes logistics services for the Group's SBU, building management, and others.
2. Details of "Adjustments" are as follows:
   (1) The adjustment to segment income (loss) of -¥1,750 million for the year ended March 31, 2010 includes elimination of inter-segment transactions of ¥935 million and corporate expenses not allocated to reportable segments of -¥2,685 million. The adjustment to segment income of -¥3,156 million (-$37,956 thousand) for the year ended March 31, 2011, includes elimination of inter-segment transactions of -¥255 million (-$3,067 thousand) and corporate expenses not allocated to reportable segments of -¥2,901 million (-$34,889 thousand). Principal corporate expenses are expenses related to administrative divisions not belonging to reportable segments.
   (2) The adjustment to segment assets of ¥37,554 million for the year ended March 31, 2010 includes elimination of inter-segment transactions of -¥6,615 million and corporate expenses not allocated to reportable segments of ¥44,169 million. The adjustment to segment assets of ¥37,705 million ($453,457 thousand) for the year ended March 31, 2011 includes elimination of inter-segment transactions of -¥7,328 million (-$88,130 thousand) and corporate expenses not allocated to reportable segments of ¥45,033 million ($541,587 thousand). Principal corporate assets are cash and deposits, investment securities, and assets related to administrative divisions not belonging to reportable segments.
   (3) The adjustment to depreciation and amortization expense of -¥65 million for the year ended March 31, 2010 includes elimination of inter-segment transactions of -¥152 million and depreciation and amortization expense not allocated to reportable segments of ¥87 million. The adjustment to depreciation and amortization expense of -¥565 million (-$6,795 thousand) for the year ended March 31, 2011 includes elimination of inter-segment transactions of -¥812 million (-$9,765 thousand) and depreciation and amortization expense not allocated to reportable segments of ¥247 million ($2,971 thousand).
   (4) The adjustment to amortization of goodwill of ¥281 million for the year ended March 31, 2010, and ¥282 million ($3,391 thousand) for the year ended March 31, 2011 are related to goodwill not allocated to reportable segments.
   (5) The adjustment to property, plant and equipment and intangible assets of ¥249 million for the year ended March 31, 2010, and ¥271 million ($3,260 thousand) for the year ended March 31, 2011 are related to corporate assets not allocated to reportable segments.
3. Segment income (loss) is reconciled to operating income (loss) on the consolidated statements of operations.

Additional information

"Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008) were applied from this fiscal year.

For the years ended March 31, 2010 and 2011, additional segment information is as follows:

1. Information by product and service

This information is included in the segment information above.

2. Information by geographic region

(1) Net sales

| Millions of yen | | | | |
|---|---|---|---|---|
| 2010 | | | | |
| Japan | Americas | Europe | Asia, excluding Japan | Total |
| ¥279,260 | ¥31,370 | ¥46,197 | ¥21,720 | ¥378,547 |

| Millions of yen | | | | |
|---|---|---|---|---|
| 2011 | | | | |
| Japan | Americas | Europe | Asia, excluding Japan | Total |
| ¥307,660 | ¥29,691 | ¥37,274 | ¥19,554 | ¥394,179 |

| Thousands of U.S. dollars | | | | |
|---|---|---|---|---|
| 2011 | | | | |
| Japan | Americas | Europe | Asia, excluding Japan | Total |
| $3,700,060 | $357,078 | $448,274 | $235,165 | $4,740,577 |

Note: Net sales are classified by country and region based on customer location.

(2) Property, plant and equipment

| Millions of yen | | | | |
|---|---|---|---|---|
| 2010 | | | | |
| Japan | Americas | Europe | Asia, excluding Japan | Total |
| ¥38,995 | ¥2,211 | ¥2,774 | ¥2,034 | ¥46,014 |

| Millions of yen | | | | |
|---|---|---|---|---|
| 2011 | | | | |
| Japan | Americas | Europe | Asia, excluding Japan | Total |
| ¥37,245 | ¥1,674 | ¥1,954 | ¥1,719 | ¥42,592 |

| Thousands of U.S. dollars | | | | |
|---|---|---|---|---|
| 2011 | | | | |
| Japan | Americas | Europe | Asia, excluding Japan | Total |
| $447,925 | $20,132 | $23,500 | $20,673 | $512,230 |

3. Information by major customer

| Year ended March 31, 2010 | Name | Net sales | Name of related segment |
|---|---|---|---|
| | Happinet Corporation | ¥38,196 million | Toys and Hobby, Content |

| Year ended March 31, 2011 | Name | Net sales | Name of related segment |
|---|---|---|---|
| | Happinet Corporation | ¥43,047 million ($517,703 thousand) | Toys and Hobby, Content |

4. By reportable segment, information regarding the amount of amortization of goodwill for the years ended March 31, 2010 and 2011, and the unamortized balance of goodwill as of March 31, 2010 and 2011, is as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | | | |
| | Toys and Hobby | Content | Amusement Facility | Other | Corporate and eliminations (Note) | Total |
| Amortization of goodwill | ¥65 | ¥4,449 | ¥173 | ¥ 0 | ¥281 | ¥4,968 |
| Unamortized balance | 3 | 2,176 | 149 | — | 623 | 2,951 |

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

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | | | |
| | Toys and Hobby | Content | Amusement Facility | Other | Corporate and eliminations (Note) | Total |
| Amortization of goodwill | $36 | $21,551 | $1,780 | $— | $3,391 | $26,758 |
| Unamortized balance | — | 4,618 | 12 | — | 4,113 | 8,743 |

Note: The amount of “Corporate and eliminations” is the amount related to investment securities. Transferred from domestic consolidated subsidiaries to the Company on account of the business combination.

5. By reportable segment, information regarding the amount of amortization of negative goodwill for the years ended March 31, 2010 and 2011, and the unamortized balance of negative goodwill as of March 31, 2010 and 2011, is as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | | | |
| | Toys and Hobby | Content | Amusement Facility | Other (Note) | Corporate and eliminations | Total |
| Amortization of negative goodwill | ¥— | ¥10 | ¥— | ¥114 | ¥— | ¥124 |
| Unamortized balance | — | 13 | — | 115 | — | 128 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | | | |
| | Toys and Hobby | Content | Amusement Facility | Other (Note) | Corporate and eliminations | Total |
| Amortization of negative goodwill | ¥— | ¥4 | ¥— | ¥114 | ¥— | ¥118 |
| Unamortized balance | — | 9 | — | — | — | 9 |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | | | |
| | Toys and Hobby | Content | Amusement Facility | Other (Note) | Corporate and eliminations | Total |
| Amortization of negative goodwill | $— | $ 48 | $— | $1,371 | $— | $1,419 |
| Unamortized balance | — | 108 | — | — | — | 108 |

Note: The amount of “Other” is the negative goodwill related to logistics services for each of the Group’s strategic business units.

## 23 Related Party Disclosures

**Transactions with Related Parties**

**Year ended March 31, 2010**

(1) Transactions of the Company with officers and major individual shareholders of the Company

| Type | Name | Position | Ratio of voting rights ownership | Content | Transaction amount |
|---|---|---|---|---|---|
| Officer | Takeo Takasu | Chairman and Director of the Company | Ownership directly 0.0% | Disposal of treasury stock accompanying exercise of stock options (Note) | ¥25 million |
| Officer | Shukuo Ishikawa | President and CEO, Representative Director of the Company | Ownership directly 0.0% | Disposal of treasury stock accompanying exercise of stock options (Note) | ¥23 million |
| Officer | Jun Higashi | Director of the Company | Ownership directly 0.0% | Disposal of treasury stock accompanying exercise of stock options (Note) | ¥22 million |
| Officer | Kazunori Ueno | Director of the Company | Ownership directly 0.0% | Disposal of treasury stock accompanying exercise of stock options (Note) | ¥28 million |
| Officer of a subsidiary | Masahiro Tachibana | President and CEO, representative director of NAMCO LIMITED | Ownership directly 0.0% | Disposal of treasury stock accompanying exercise of stock options (Note) | ¥13 million |

Note: The price at which treasury stock is disposed of is determined based on the stock options (stock subscription rights) exercise price set by the resolution at the first Ordinary General Meeting of Shareholders of the Company. The figure in the "Transaction amount" column is the book value as stated on the Company books at the time of such disposal.

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

| Type | Company | Address | Capital or contribution to capital | Content of business | Ratio of voting rights ownership | Relationship with related party | Content | Transaction amount | Account items | Balance as of March 31, 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Affiliated company | Happinet Corporation | Taito-ku, Tokyo | ¥2,751 million | Wholesaler of Toys, Video games, and Amusement products | Holding directly 26.4% indirectly 0.3% | Sales agency | Sales of products, etc. (Note 2) | ¥38,196 million | Account receivable-trade | ¥7,490 million |

Notes: 1. The above "Transaction amount" does not include consumption tax; the balance includes consumption tax.

2. Transaction terms and policy for determining transaction terms.

For the transaction stated above, the products were sold on the same terms as general transactions with third parties in the ordinary course of business.

**Year ended March 31, 2011**

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

| Type | Company | Address | Capital or contribution to capital | Content of business | Ratio of voting rights ownership | Relationship with related party | Content | Transaction amount | Account items | Balance as of March 31, 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Affiliated company | Happinet Corporation | Taito-ku, Tokyo | ¥2,751 million ($33,085 thousand) | Wholesaler of Toys, Video games, and Amusement products | Holding directly 26.4% indirectly 0.3% | Sales agency | Sales of products, etc. (Note 2) | ¥43,047 million ($517,703 thousand) | Account receivable-trade | ¥8,929 million ($107,384 thousand) |

Notes: 1. The above "Transaction amount" does not include consumption tax; the balance includes consumption tax.

2. Transaction terms and policy for determining transaction terms.

For the transaction stated above, the products were sold on the same terms as general transactions with third parties in the ordinary course of business.

## 24 Business Combinations

**Year ended March 31, 2010**

Transactions conducted by commonly controlled entities

Merger of subsidiaries and succession to part of the businesses of subsidiaries due to company split in the course of the restructuring of the Group's businesses

On April 1, 2009, NAMCO BANDAI Games Inc. merged with and absorbed Bandai Networks Co., Ltd. due to an absorption-type merger. Also, the Company succeeded to a part of the share management business that had been carried out by Bandai Networks Co., Ltd. due to company split (absorption-type company split) on such date.

**1. Names and Business Content of Combined Companies, Legal Form of Business Combinations, and Overview of Transaction Including Transaction Objectives**

(1) Names and Business Content of Combined Companies

(i) NAMCO BANDAI Games Inc.

Planning, development, and sales of home-use video game software and arcade game machines, and others

(ii) Bandai Networks Co., Ltd.
Distribution of content for mobile phones, consignment of website development, mail order sales, and others
(iii) NAMCO BANDAI Holdings Inc. (the Company)
Planning and implementation of management strategy and business management and instruction of the group companies

(2) Legal Form of the Business Combinations
(i) An absorption-type merger in which Bandai Networks Co., Ltd. was the disappearing company; and NAMCO BANDAI Games Inc. was the surviving company.
(ii) An absorption-type company split in which Bandai Networks Co., Ltd. was the split company; and the Company was the successor company.

(3) Overview of Transaction Including Transaction Objectives
The Group has considered what its optimal organizational structure would be to work for further growth in the network-related market, which includes distributing content for mobile phones; this is a market for which technological progress and other factors have produced drastic changes in the environment and in which competition is becoming increasingly intense on a global scale. Thus far, NAMCO BANDAI Games Inc. has strengths in leveraging its in-house technical development capabilities and effectively utilizing content for each platform, including home-use video game software, arcade game machines, and mobile phones. Also, Bandai Networks Co., Ltd. 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. NAMCO BANDAI Games Inc. and Bandai Networks Co., Ltd. have each worked to grow their businesses by leveraging their respective strengths.

The merger of these two companies and the establishment of a new business unit within NAMCO BANDAI Games Inc. are designed to reinforce the total power of the network business within the Group and to create new content and businesses through the synergistic fusion of varied strengths.

In addition, upon this restructuring within the Group, the Company has succeeded to a part of the share management business that had been carried out by Bandai Networks Co., Ltd. due to company split (absorption-type company split).

**2. Overview of Accounting Process**

The accounting process for the consolidated financial statements was conducted as transactions conducted by commonly controlled entities, handled in accordance with the provisions of “Accounting Standard for Business Combinations” (issued by the Business Accounting Council on October 31, 2003) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, final revision issued on November 15, 2007).

**Year ended March 31, 2011**

Omitted because it is insignificant.

## 25 Significant Subsequent Events

Concerning a resolution made by the Board of Directors at the meeting held on February 25, 2011 on the acquisition of treasury stock, the Company, at a Board of Directors’ meeting held on May 10, 2011, resolved the acquisition method set out below in accordance with the provision of Article 156, Paragraph 1 of the Companies Act as applied by replacing the relevant terms pursuant to Article 165, Paragraph 3 of the Companies Act and the Company’s Articles of Incorporation.

1. Reason for acquisition

To improve capital efficiency by effectively utilizing assets held and to execute capital policy with the flexibility to respond to change in the business environment.

2. Acquisition method

Acquisition from market

The Company will acquire shares from the market up to the total number and amount not exceeding those calculated after deducting the number and amount (number of acquired shares 5,005,364 shares, amount paid for acquired shares ¥4,434 million) of the shares acquired by tender offer from February 28 to March 28, 2011.

3. Period of acquisition

From May 11, 2011 to December 31, 2011

4. Other

Contents of resolution at Board of Directors’ meeting held on February 25, 2011

(1) Type of shares
Common stock
(2) Total number of shares to be acquired
20,000,000 shares (maximum)
(3) Total amount for share acquisition
¥20,000 million (maximum)
(4) Period of share acquisition
From February 28, 2011 to December 31, 2011
(5) Status of shares acquired after above Board of Directors’ resolution
Total number of acquired shares: 6,718,464 shares
Total amount paid for acquired shares: ¥5,949 million

The number of shares of treasury stock listed above includes the treasury stock acquired through a tender offer bid approved at a meeting of the Board of Directors held on February 25, 2011.

# 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. ("the Company") and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NAMCO BANDAI Holdings Inc. and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 25 to the consolidated financial statements. The Company resolved a concrete method to acquire its treasury stock at the board of directors meeting held on May 10, 2011.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

Tokyo, Japan
June 21, 2011

# Corporate Data

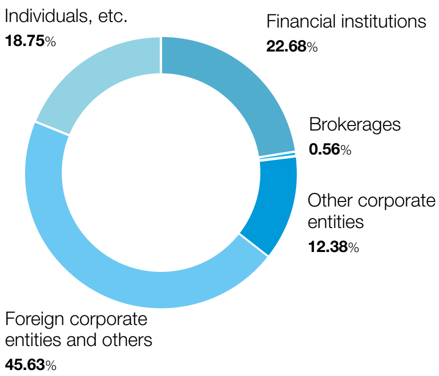
As of March 31, 2011

| | |
|---|---|
| Corporate Name: | NAMCO BANDAI Holdings Inc. |
| Head Office: | NAMCO BANDAI Mirai Kenkyusho<br>4-5-15, Higashi-Shinagawa, Shinagawa-ku, Tokyo 140-8590, Japan<br>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<br>Number of Shares Issued:...................... 240,000,000 shares<br>Number of Shareholders: ....................... 39,513<br>Number of Shares per Trading Unit: ....... 100 shares |

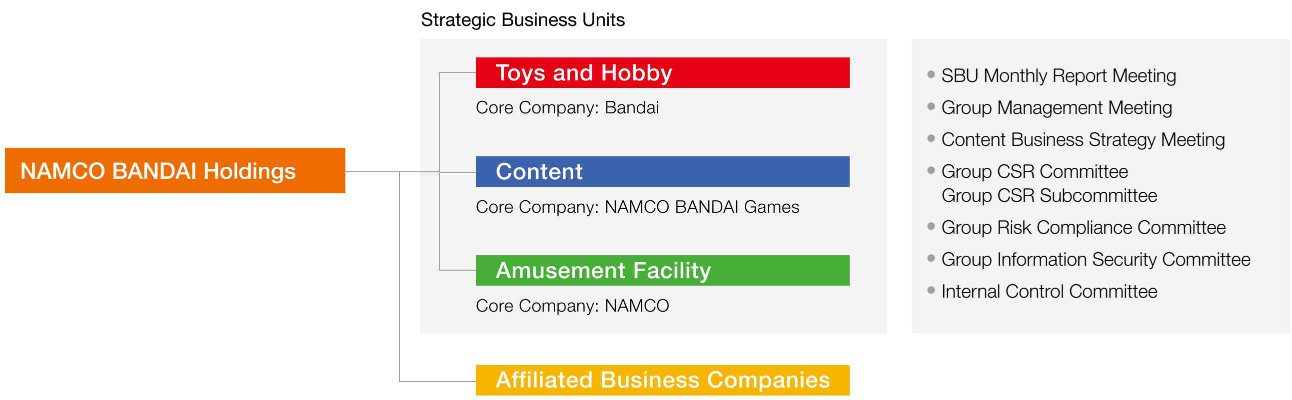
Major Shareholders:

| Name | % of Total |
|---|---|
| Northern Trust Company (AVFC) Sub-account American Clients | 9.60% |
| MAL Ltd. | 5.00% |
| Masaya Nakamura | 4.98% |
| Northern Trust Company (AVFC) Re U.S. Tax Exempted Pension Funds | 4.93% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 4.13% |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 4.09% |
| The Silchester International Investors International Value Equity Trust | 3.42% |
| The Nomura Trust and Banking Co., Ltd. (Retirement and Severance Benefits Trust, The Bank of Tokyo-Mitsubishi UFJ Account) | 1.91% |
| Nintendo Co., Ltd. | 1.60% |
| MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION | 1.53% |

Ownership Breakdown:




Group Organization:



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Printed in Japan