



# BANDAI NAMCO Group

INTEGRATED REPORT 2018





**CHAN**

***the* NE**

**挑戰 成長 進化**

EMPOWER

GAIN MOMENTUM

ACCELERATE EVOLUTION

# CHANGE for NEXT

The BANDAI NAMCO Group develops entertainment-related products and services in a wide range of fields, including toys, network content, home video games, amusement machines, amusement facilities, and visual and music content.

Under the Mid-term Plan, which was launched in April 2018, the Group aims to achieve “CHANGE” to progress to the next stage, with a Mid-term Vision of CHANGE for the NEXT: Empower, Gain Momentum, and Accelerate Evolution.

#### 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.”



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Our website provides a variety of information about the BANDAI NAMCO Group, such as IR information and CSR initiatives.  
Please utilize the website in conjunction with this report.

[www.bandainamco.co.jp/en/index.html](http://www.bandainamco.co.jp/en/index.html)

### About Integrated Report 2018

In editing this report, we made reference to the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC).

### Forward-Looking Statements

The forward-looking statements in this report are based on the information available to management as of August 2018 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. FY2018.3 and the year under review represent the one-year period ended March 31, 2018.
3. Figures in this report are as of August 2018.

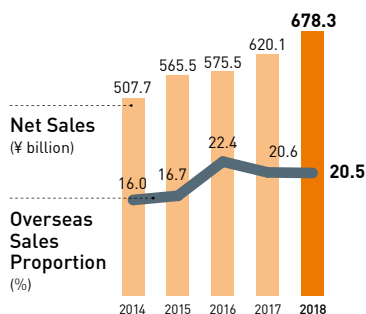
# THE BANDAI NAMCO Group — 1 Year of Results

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

## Net Sales

¥**678.3** billion

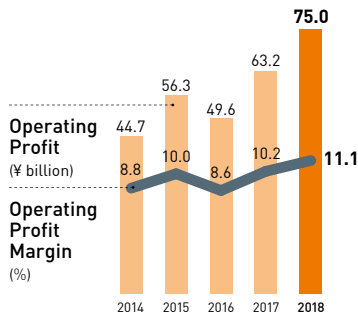
YOY **9.4%**



## Operating Profit

¥**75.0** billion

YOY **18.6%**



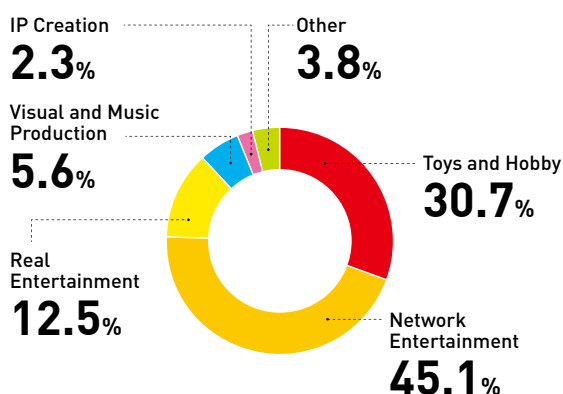
## Overview of Results

To strengthen the IP axis strategy, the Company advanced initiatives in a number of areas, such as creating and nurturing new IP, extending target age ranges, and expanding new businesses. Overseas, the Group worked to expand its IP lineups, business fields, and areas.

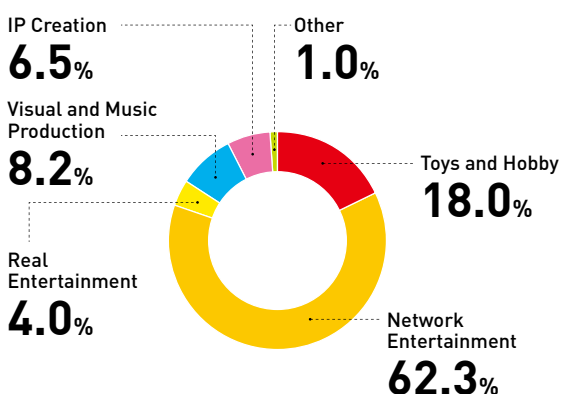
Looking at business operations, in network content, smartphone game apps, etc., recorded favorable results in Japan and overseas, and home video games registered solid results in overseas markets. In addition, key IP products and services recorded strong results in each business.

As a result, in FY2018.3 the BANDAI NAMCO Group achieved record-high sales and operating profit on a consolidated basis.

## Segment Sales Ratio



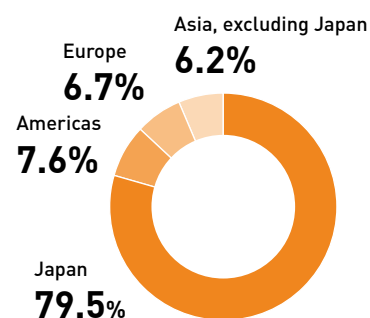
## Segment Profit Ratio



Notes: Percentage figures are calculated based on sales before elimination of inter-segment transactions.

The Group's organizational structure was changed from the fiscal year ending March 31, 2019, and accordingly information is presented based on the reportable segment classification after the change.

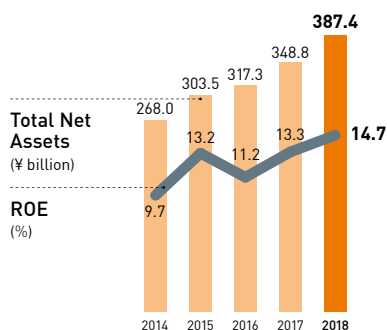
## Contributions to Net Sales by Geographic Region



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

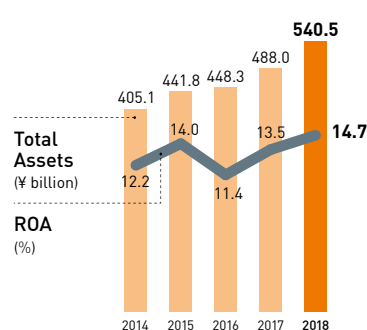
## Return on Equity (ROE)

**14.7%**



## Return on Assets (ROA)

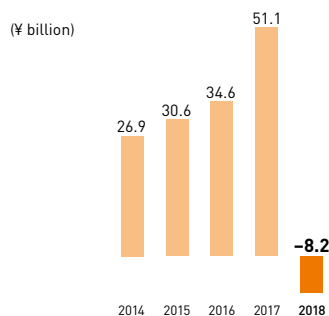
**14.7%**



## Free Cash Flows\*

**¥-8.2 billion**

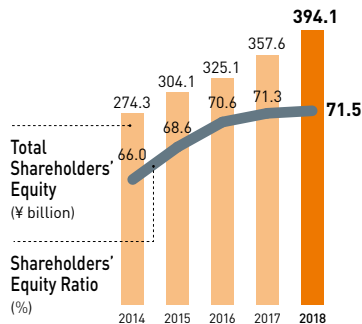
(¥ billion)



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

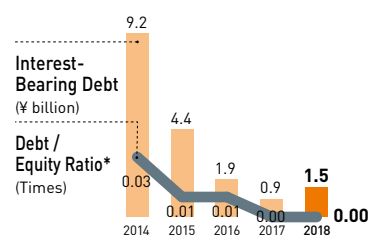
## Shareholders' Equity Ratio

**71.5%**



## Debt / Equity Ratio\*

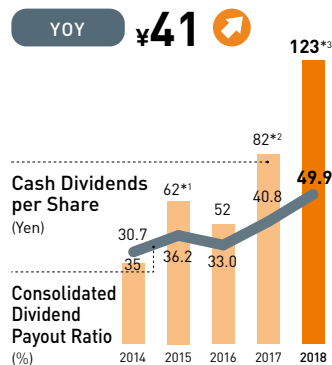
**0.00 times**



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

## Cash Dividends per Share

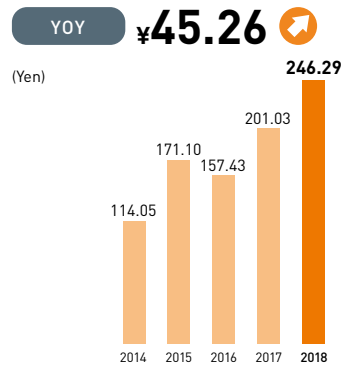
**¥123**



\*1 FY2015.3 includes a special dividend of ¥10.  
\*2 FY2017.3 includes a special dividend of ¥20.  
\*3 FY2018.3 includes a special dividend of ¥25.

## Basic Earnings per Share

**¥246.29**



## ESG

Number of Female Managers\*

**102**

Ratio of Female Managers to All Managers\*

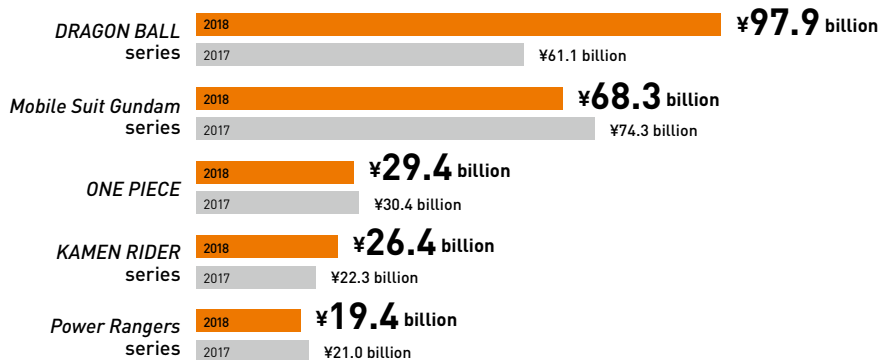
**16.9%**

Number of Independent Directors or Independent Audit & Supervisory Board Members

**6**

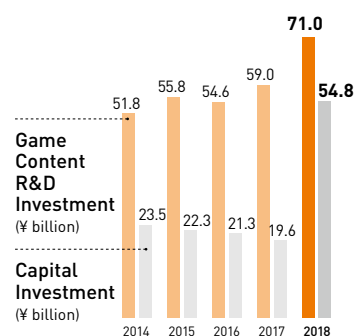
\* Figures are for three business segment core companies in FY2018.3.

## Sales of IPs\* (Group total)



\* IP: Characters and other intellectual property

## Game Content R&D Investment and Capital Investment

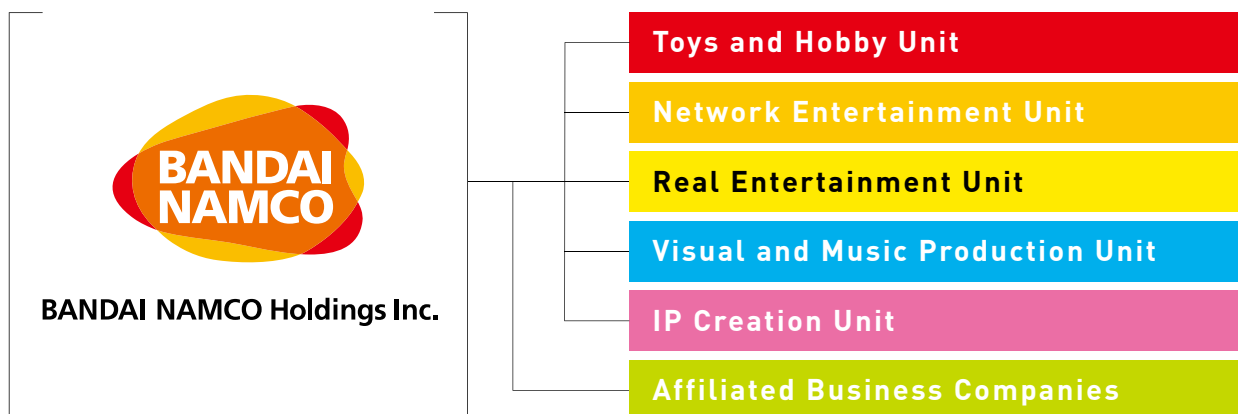


# UNITS — 1 Year of Results

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

The Group's organizational structure was changed from the fiscal year ending March 31, 2019,  
and accordingly information is presented based on the reportable segment classification after the change.

## GROUP ORGANIZATION



### Toys and Hobby Unit

Core Company: BANDAI CO., LTD.

Planning, development, production, and sales of toys, capsule toys, cards, confectionery and foods, apparel, sundries, plastic models, prizes, stationery, and other products

Net Sales

**¥222.4** billion

Operating Profit

**¥14.5** billion



Toys for boys



Toys for girls



Vending machine capsule toys, cards



Plastic models

### Network Entertainment Unit

Core Company: BANDAI NAMCO Entertainment Inc.

Planning, developing, and distributing network content; planning, developing, and sales of home video games

Net Sales

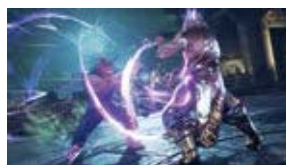
**¥326.5** billion

Operating Profit

**¥50.2** billion



Network content



Home video games



## Real Entertainment Unit

Core Company: BANDAI NAMCO Amusement Inc.

Real entertainment business, including planning, production, and sales of amusement machines; planning and operation of amusement facilities, etc.

Net Sales

**¥90.5** billion

Operating Profit

**¥3.2** billion



Amusement machines



Amusement facilities



## Visual and Music Production Unit

Core Company: BANDAI NAMCO Arts Inc.

Planning, production, and sales of visual and music content and visual and music package software; and conducting live entertainment operations

Net Sales

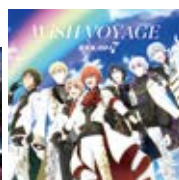
**¥40.7** billion

Operating Profit

**¥6.6** billion



Visual packaged products



Music packaged products



Live events

## IP Creation Unit

Core Company: SUNRISE INC.

Planning and production of animations; management and administration of copyrights and other rights; production of music related to animations and planning and use of music and masters related to animations

Net Sales

**¥17.0** billion

Operating Profit

**¥5.3** billion



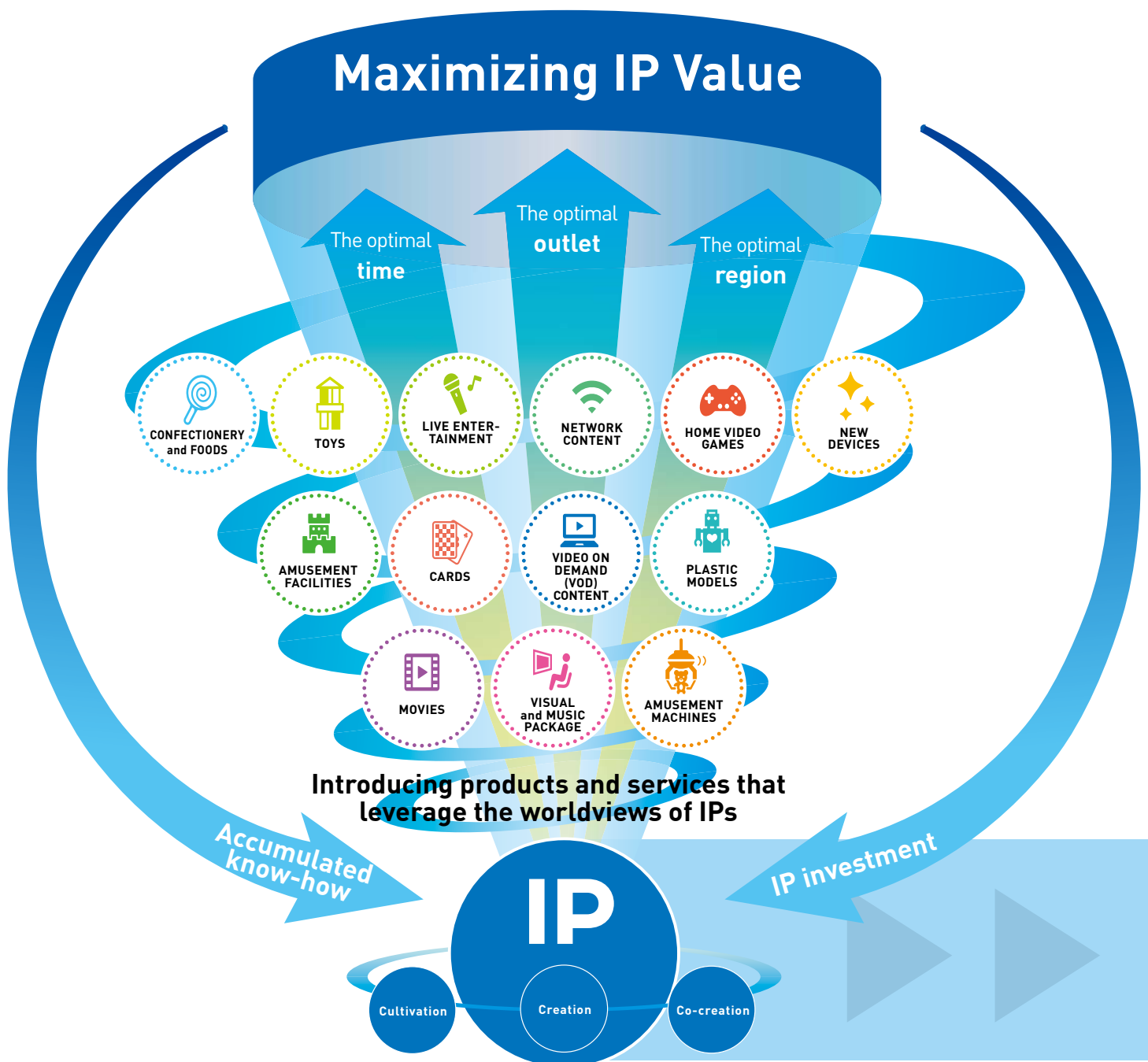
Animations

# The IP Axis Strategy

The IP axis strategy is the greatest strength of the BANDAI NAMCO Group, which has a diverse range of businesses and extensive know-how in the field of entertainment.

It is through the IP axis strategy that the Group works to maximize IP value by leveraging IP worldviews and providing the optimal products and services in the optimal regions at the optimal times.

By advancing, promoting, and expanding the IP axis strategy, the BANDAI NAMCO Group is aiming to achieve further growth in global markets.



Note: This illustration shows one example of IP axis development.



## EXAMPLE — MOBILE SUIT GUNDAM SERIES

FY2008.3 sales

¥50.9 billion

+34.2%



FY2018.3 sales

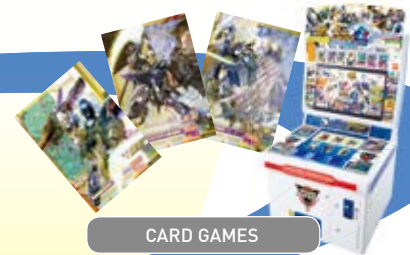
¥68.3 billion



LIVE EVENTS



NETWORK CONTENT



CARD GAMES



VISUAL PRODUCTS



AMUSEMENT MACHINES



VIDEO ON DEMAND (VOD)



PLASTIC MODELS



HOME VIDEO GAMES



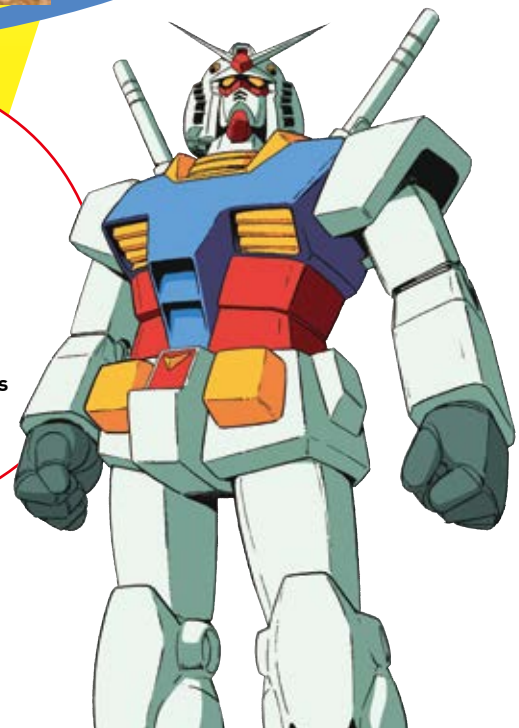
FACILITIES

IP creation



Mobile Suit Gundam Series

VISUAL PRODUCTS



# MAJOR IP IN GROUP PRODUCTS AND SERVICES

IP plays the central role in BANDAI NAMCO's efforts to advance the IP axis strategy.

This section introduces examples of the major IP for which the Group is rolling out products and services.

## Units Implementing IP Business Development Initiatives

● Toys and Hobby ● Network Entertainment ● Real Entertainment ● Visual and Music Production ● IP Creation

### THE IDOLM@STER Series



For this IP, we are rolling out products and services on a Groupwide basis, such as music CDs, live music, animations, comics, Web radio, and a variety of merchandise, centered on idol production game content for smartphones and home video games.



### GIRLS und PANZER



This is an original animation that was first rolled out in 2012. The BANDAI NAMCO Group is widely involved in IP development initiatives, including visual production, visual and music packaged products, live events, and commercialization of related goods.



### Ultraman Series



Ultraman has earned the support of a wide range of age groups, extending to two or even three generations. The BANDAI NAMCO Group provides Ultraman products and services, such as toys and visual packaged products.



### Mobile Suit Gundam Series



Since its launch in 1979, Mobile Suit Gundam products have earned support among a wide range of age groups. Centered on visual products, these include plastic models, home video games, and network content. In addition to Japan, Mobile Suit Gundam initiatives are being rolled out around the world, including appearances in Hollywood films.



### KAMEN RIDER Series



The KAMEN RIDER series has been popular among boys for more than 45 years and has earned the support of a wide range of age groups in Japan and overseas. The BANDAI NAMCO Group provides a wide range of KAMEN RIDER products and services, such as toys and home video games.



### Super Sentai Series



Super Sentai has been popular among boys for more than 40 years, and it has also earned strong support in Asia. The BANDAI NAMCO Group provides a wide range of Super Sentai products and services, such as toys and home video games.





## Anpanman

*Anpanman* has been popular among parents and children for many years. The BANDAI NAMCO Group provides *Anpanman* products and services, centered on toys for infants.



## PAC-MAN

In 2005, *PAC-MAN* was recognized by Guinness World Records as the most successful coin-operated amusement machine. Today, this BANDAI NAMCO Group original IP is still popular around the world.



## Tamagotchi Series

This original IP has been supported for more than 20 years since it was created as a portable digital nursing game. Through a variety of products and services, this has become an established IP that is popular with two generations, parents and their children.



## PRETTY CURE! Series

The *PRETTY CURE!* series has been popular among girls for 15 years. The BANDAI NAMCO Group provides a wide range of *PRETTY CURE!* products and services, such as toys and home video games.



## DRAGON BALL Series

*DRAGON BALL* comics and animations have earned the support of customers for many years in Japan and overseas. The BANDAI NAMCO Group provides a wide range of *DRAGON BALL* products and services, such as home video games, network content, card products, and figures.



## Love Live! Series

This IP was created from a project linking magazines, visual products, and music. In addition to magazine pages and visual and music packaged products, live events are also highly popular.



## BORUTO / NARUTO

Comics and animations have been popular for many years in Japan and overseas. The BANDAI NAMCO Group is providing a wide range of products and services, centered on home video games and network content.



## ONE PIECE

*ONE PIECE* comics and animations have been popular for many years in Japan and overseas. The BANDAI NAMCO Group provides a wide range of *ONE PIECE* products and services, such as home video games, network content, and figures.



## BOARD OF DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

As of June 18, 2018

# **CHANGE** for the **NEXT**

# 挑戦 成長 進化

EMPOWER

GAIN MOMENTUM

ACCELERATE EVOLUTION



## BOARD OF DIRECTORS

President and  
Representative Director  
**Mitsuaki Taguchi**

Director  
**Shuji Ohtsu**

Director  
**Yuji Asako**

Director (Part-time)  
**Masaru Kawaguchi**  
President and Representative Director of  
BANDAI CO., LTD.

Director (Part-time)  
**Satoshi Oshita**  
President and Representative Director of  
BANDAI NAMCO Entertainment Inc.

Director (Part-time)  
**Hitoshi Hagiwara**  
President and Representative Director of  
BANDAI NAMCO Amusement Inc.

Director (Part-time)  
**Kazumi Kawashiro**  
President and Representative Director of  
BANDAI NAMCO Arts Inc.

Director (Part-time)  
**Yasuo Miyakawa**  
President and Representative  
Director of SUNRISE INC.

Director (Outside)  
**Yuzuru Matsuda**

Director (Outside)  
**Satoko Kuwabara**

Director (Outside)  
**Mikiharu Noma**

## AUDIT & SUPERVISORY BOARD MEMBERS

Audit & Supervisory Board  
Member (Full-time)  
**Masataka Nagaike**

Audit & Supervisory Board  
Member (Full-time, Outside)  
**Toru Shinoda**

Audit & Supervisory Board  
Member (Outside)  
**Osamu Sudoh**

Audit & Supervisory Board  
Member (Outside)  
**Katsuhiko Kamijo**



Shuji Ohtsu

Yuji Asako

Satoko Kuwabara

Mikiharu Noma

Yuzuru Matsuda



## OVERVIEW OF THE MID-TERM PLAN

### Mid-term Plan of the BANDAI NAMCO Group (From April 2018 to March 2021)

The BANDAI NAMCO Group commenced a new three-year Mid-term Plan in April 2018. Under the new plan, the Group will leverage the worldview and unique characteristics of its IPs and provide the optimal products and services in the optimal regions at the optimal times. In this way, we will maximize IP value by further evolving the IP axis strategy and achieving penetration and expansion in global markets. In addition, we will drive the creation of new IP and regionally oriented strategies by unifying the efforts in each region under the ALL BANDAI NAMCO concept. In this way, we will aim to be a Group that is changing in all aspects in order to progress to the next stage without being bound by previous business models and established ideas.

### MID-TERM VISION

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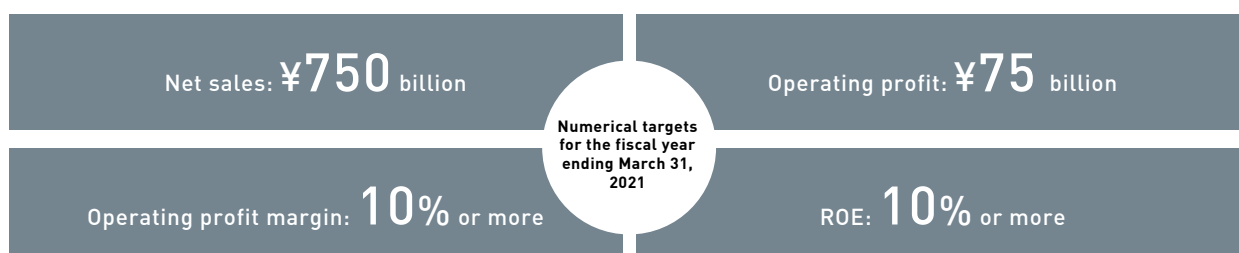
The BANDAI NAMCO Group aims to achieve “CHANGE” to progress to the next stage by continuing to empower, gain momentum, and accelerate evolution without being bound by previous business models and established ideas. The “CHANGE” concept encompasses change to an IP-creating company, change to a new business model, change to a unifying ALL BANDAI NAMCO concept, and change to a corporate group centered on people.

## MAIN STRATEGIES

Under the Mid-term Plan, we are promoting four main strategies.



## NUMERICAL TARGETS





**By continuing to “Empower, Gain Momentum, and Accelerate Evolution” as we target the future that lies beyond change, we will provide value that is only available from BANDAI NAMCO.**

**Mitsuaki Taguchi**

President and Representative Director  
BANDAI NAMCO Holdings Inc.

### **AIMING TO BE A GROUP THAT CONTINUES TO EVOLVE**

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Under a system of two representative directors, the BANDAI NAMCO Group implemented a three-year Mid-term Plan starting in April 2015, and we basically achieved our initial targets. In April 2018, we launched the current Mid-term Plan, aiming to accelerate evolution in the IP axis strategy and to achieve dramatic growth in global markets. At that time, the Group implemented an organizational restructuring to facilitate the execution of the main strategies more rapidly. We also changed to a system of one representative director. Under this system, as president and representative director I have overall responsibility for the Group.

The pace of change in the operating environment is accelerating, and new opportunities for growth are increasing. On the other hand, we have reached a stage where simply following the previous business models and concepts will not be enough. It is increasingly important that we not be satisfied with the status quo and strive to foster continued change. In order to make progress toward becoming the leading entertainment company that we want to be in 10 years, and to demonstrate our global presence, the entire Group will work together to advance the current Mid-term Plan, for which the key word is “CHANGE.”

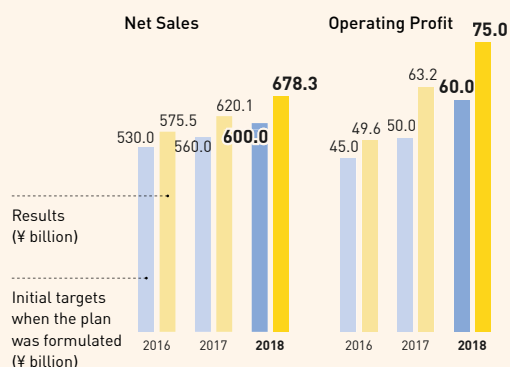
## EVALUATION OF FY2018.3 AND THE PREVIOUS MID-TERM PLAN

### Record-High Net Sales and Operating Income. Basically Achieved Initial Strategic and Numerical Targets

In FY2018.3, the final year of the previous Mid-term Plan, all employees continued to do their utmost right up to the end of the fiscal year, and as a result we were able to achieve record-high results. In the home video game and network content businesses, which have high profit margins, we generated growth, centered on overseas markets. Moreover, in each business the key IP products and services recorded favorable results. With net sales of ¥678.3 billion and operating profit of ¥75.0 billion, we achieved record-high results and substantially surpassed the numerical targets that were established when the initial Mid-term Plan was formulated.

Under the previous Mid-term Plan, innovation had beneficial effects for established IP products and services, such as the *Mobile Suit Gundam* and the *DRAGON BALL* series. In addition, we took steps to nurture and strengthen new IP and develop them into established IP, such as the *Love Live!* series, *GIRLS und PANZER*, and *IDOLiSH7*. Furthermore, we made steady progress with initiatives for the mature fan base in Japan and overseas, and we also substantially expanded IP outlets, including live events in Japan as well as video games and network content overseas. On the other hand, we could have done more in the creation of new IP. There are also some businesses and areas that still face challenges. Under the current Mid-term Plan, we will work to further enhance our results and directly tackle the challenges that we face.

Results Under the Previous Mid-term Plan



For the Fiscal Years Ended March 31

## CURRENT MID-TERM PLAN (APRIL 2018 TO MARCH 2021)

### Taking On the Challenge of Advancing the IP Axis Strategy and Achieving Sustained Growth

Under the current Mid-term Plan, our Mid-term Vision is CHANGE for the NEXT: Empower, Gain Momentum, and Accelerate Evolution. From a range of perspectives, we will move forward with the plan's main strategies, which are "Accelerate evolution in IP axis strategy," "Empower push into new entertainment," "Gain momentum with ALL BANDAI NAMCO," and "Make personnel the core of the Group."

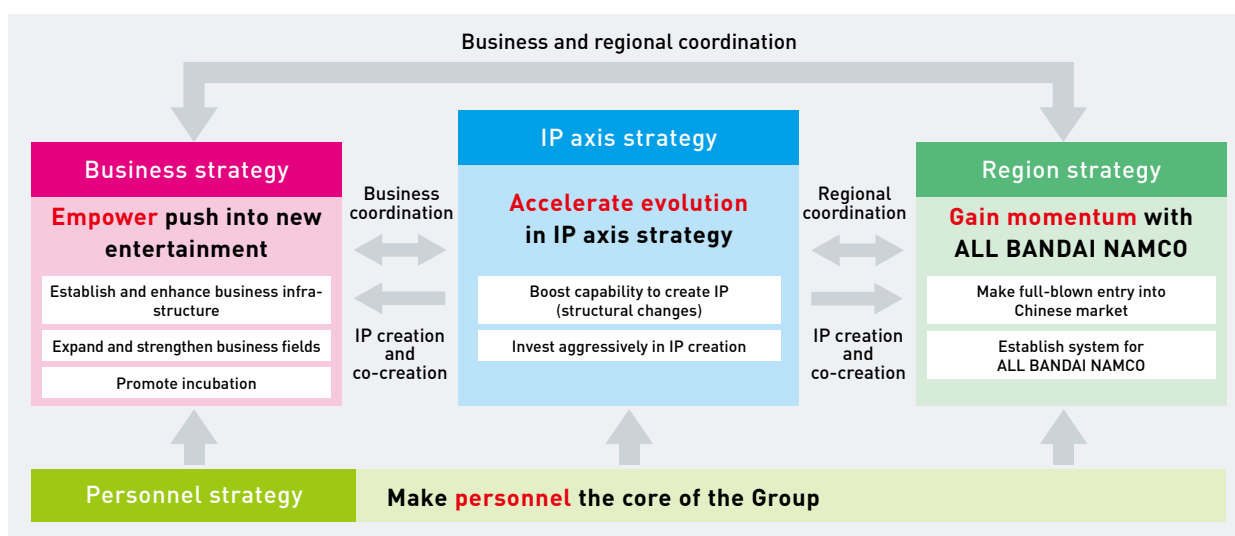
Looking at numerical targets, average levels of net sales and operating profit increased substantially. In this way, we have strengthened our business foundation. Under the new plan, in an operating environment marked by dramatic change, we aim to further strengthen our foundation so that we can make steady progress, without regard to whether or not we have hit products. On that basis, we will strive to achieve sustained growth. In FY2021.3, the final year of the new plan, we are aiming for record-high results, with net sales of ¥750.0 billion, operating profit of ¥75.0 billion, operating profit margin of 10% or more, and ROE of 10% or more. For fiscal 2019.3, the first year of the plan, we are forecasting net sales of ¥650.0 billion and operating income of ¥60.0 billion.

### Accelerating Reform Under the Five-Unit System

We have changed our organization from the previous system of three strategic business units (SBUs) to a system of five Units, including the newly formed Real Entertainment Unit and IP Creation Unit. The presidents of the Unit core companies also serve concurrently as Directors of BANDAI NAMCO Holdings Inc., and we are rapidly advancing our strategies from the viewpoint of overall optimization.

To accelerate evolution in IP axis strategy, which is our highest priority, each Unit will work to create IP originating from each business. We will also take steps to create IP through collaboration with a wide range of external partners, without limiting ourselves to internal Group resources. The newly established IP Creation Unit will also advance the creation of IP in close coordination with each Unit's products and services. In addition, the holding company's IP Strategy Division will implement Groupwide initiatives with a focus on the medium to long term. To advance these measures, over three years, on top of normal investments we will implement ¥25.0 billion in strategic investments on a Groupwide basis, and we will work from a variety of perspectives as we leverage our approaches and take on challenges in order to create and nurture new IP.

Correlation Diagram for Each Strategy



Under our business strategy, will aggressively target promising fields, such as the mature fan base and live event markets in Japan and overseas. Moreover, we will take steps to nurture new businesses, such as launching new platforms.

Under our region strategy, in the domestic market we will continue to focus on the number one position, and in overseas markets our regional operations, which have the best understanding of the characteristics of each market, will take the lead in advancing our strategies. Moreover, each Unit will strive to foster energetic collaboration, form a unifying ALL BANDAI NAMCO concept, demonstrate comprehensive strengths, and develop an ongoing series of initiatives. In addition, we will expand IP lineups and business fields. In particular, we will continue working to expand the scale of our business in China, which has high growth potential, and will commence full-blown business initiatives.

In regard to the personnel strategy, we will step up job rotation measures that extend across regional and business boundaries, and will strive to nurture personnel with a wide range of experience and perspectives.

In addition, we will take steps to further enhance the systems and frameworks that support employees as they take on challenges.

## CORPORATE GOVERNANCE

### Securing Objectivity in Group Management through External Viewpoints and the PDCA Cycle

Targeting sustained efforts to maximize corporate value, we have formulated the Basic Philosophy on Corporate Governance. Furthermore, we rigorously observe Japan's Corporate Governance Code and disclose the status of initiatives related to each principle.

Three of 11 directors and 3 of 4 Audit & Supervisory Board Members are outside officers (Independent Directors and Audit & Supervisory Board Members), and these six officers make up the Independent Directors and Audit & Supervisory Board Members Committee. In this way, we have further enhanced the management supervision function. In addition, the Independent Directors and Audit & Supervisory Board Members Committee is implementing annual evaluations of the effectiveness of the Board of Directors, and we are responding rapidly to the opinions of the Committee. In these ways, we are utilizing the plan-do-check-act (PDCA) cycle. We consider these external viewpoints to be an extremely valuable asset.

## SHAREHOLDER RETURN

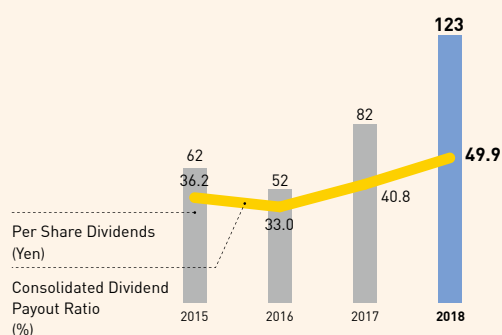
### Changing the Basic Policy to Implement an Enhanced Focus on Cost of Capital and ROE

In launching the current Mid-term Plan, with consideration for the management environment, the main strategies for growth, and other factors, we evaluated the basic policy on returning profits to shareholders from various perspectives. The Company strives to maintain a stable level of dividends over the long term and to increase the focus on the cost of capital and ROE. On that basis, we transitioned to a basic policy of providing a return to shareholders that targets a total return ratio of 50% or more based on stable dividend payments of 2% of DOE (dividends on equity). In addition, we decided to apply this new policy in advance, starting with the year-end dividend for FY2018.3.

As a result, for the FY2018.3 year-end dividend, on top of the base dividend of ¥32 per share, we added a performance-based dividend of ¥66 per share and a special dividend of ¥25 per share due to the achievement of record-high results, resulting in an annual dividend of ¥123 per share for the fiscal year.



### Per Share Dividends and Dividend Payout Ratio



For the Fiscal Years Ended March 31  
 FY2015.3 includes a special dividend of ¥10,  
 FY2017.3 includes a special dividend of ¥20,  
 and FY2018.3 includes a special dividend of ¥25.

The dividends for FY2019.3 will be considered in accordance with the basic policy for shareholder returns.

## IN CLOSING

### Taking the IP Axis Strategy to the Second Stage as “Open BANDAI NAMCO”

The Group's operating environment is at a major turning point. Due to the growth of the network environment, points of contact with consumers are shifting to digital and also expanding. In addition, venues for communication among consumers have become sources for the transmission of IP and content. The Mid-term Vision of “CHANGE for the NEXT: Empower, Gain Momentum, and Accelerate Evolution” expresses our sense of crisis that the previous ways of doing things will not, by themselves, enable us to adapt to the times. It also communicates our strong commitment to continuing to change and stay one step ahead of the times.

Targeting growth over the medium-to-long-term, we will aggressively step up collaboration and co-creation with a wide range of external partners. In this way, we will work to be the “Open BANDAI NAMCO.” By drawing on the extra motivation provided by external partners and leveraging synergies, we will work to expand new business fields and maximize IP value.

### BANDAI NAMCO's Mission — Extending the Appeal of IP to Fans Around the World

Since I became president, I have personally developed a strong understanding of how Japan's high-quality, highly diverse IP is once again the global standard. Looking at markets around the world, there is a wide range of high-quality IP. IP has the power to facilitate connections among people around the world in a way that transcends languages and national boundaries. BANDAI NAMCO's mission is to deliver the appeal of IP to people around the world through products and services. In addition to expanding the

scale of our business, we will also work to build foundations to foster communication among people around the world through IP. In this way, we will implement business initiatives with a sense of pride and responsibility about our work. Moving forward, we must strive to further extend the appeal of IP to people around the world and to continually create new IP. The IP axis strategy business model aims to maximize the appeal and value of IP. Rebuilding this model into a new style that is aligned with the times is a major theme of the current Mid-term Plan. In our markets, the competitors, and the business models themselves, are changing, and that change is moving at a pace exceeding expectations. In this setting, we aim to move beyond the current ways of doing things, to establish new value-creation frameworks and to continue to meet the expectations of customers.

I believe that the BANDAI NAMCO Group's IP axis strategy has entered the second stage, which is full of possibilities. Targeting the realization of our vision of becoming “the Leading Innovator in Global Entertainment,” we will strive to increase the number of BANDAI NAMCO fans and, through our products and services, to provide the kind of value that is only available from BANDAI NAMCO. I would like to ask our shareholders, investors, and other stakeholders for their continued support of the BANDAI NAMCO Group as we continue to take on challenges in the years ahead.

August 2018

**Mitsuaki Taguchi**

President and Representative Director  
 BANDAI NAMCO Holdings Inc.



# Toys and Hobby

## MID-TERM VISION

### Break Out of the Box. Wow the World!

#### MAIN STRATEGIES

- Create, nurture, and obtain new IPs
- Positioning and business growth
- Break into the Chinese market
- Expand new business domains
- Strengthen functions to maximize business

#### FY2021.3 NUMERICAL TARGETS

Segment Sales **¥275.0** billion

Segment Profit **¥20.0** billion

The Mid-term Vision of the Toys and Hobby Unit is to “Break Out of the Box. Wow the World!” by breaking through existing concepts and creating new entertainment. To move up to the next stage, the current Mid-term Plan calls for the Unit to implement an organizational restructuring in Japan and to change its approach to overseas markets.

In Japan, we will implement initiatives in line with two strategies — expanding the scope of our businesses in toys and toy-related areas and strengthening our brand among the mature fan base. BANDAI CO., LTD., the Unit’s core company, will utilize an in-house company system and aim to implement strategic business initiatives with a sense of speed. Overseas, we will restructure our business in Europe and the Americas and implement full-blown initiatives in China, the largest market in Asia. To strengthen our business for the mature fan base, for which the market is expanding worldwide, we established a new company, BANDAI SPIRITS CO., LTD., in which we have drawn together our business for this fan base. By specializing in the mature fan business, BANDAI SPIRITS will respond rapidly to customer and market needs and accelerate growth, with a focus on expanding overseas business.

In addition to the mature fan base, the Toys and Hobby Unit has a large number of business initiatives in products for children. We are working to create products that customers might encounter for the first time in their lives, and that might play a role in the development of those customers into BANDAI NAMCO fans in the future. In this regard, we have extremely important roles and responsibilities. Accordingly, as we step up collaboration and cooperation throughout the BANDAI NAMCO Group, we will strive to provide products and services that astonish our customers.

#### FY2018.3 RESULTS AND RELATED DATA

##### Sales of IPs (Toys and Hobby Business in Japan)

(¥ billion)

*Aikatsu!*

**¥ 2.3** billion

*Anpanman*

**¥ 10.9** billion

*Ultraman series*

**¥ 4.3** billion

*KAMEN RIDER series*

**¥ 24.8** billion

*Mobile Suit Gundam series*

**¥ 26.2** billion

*Super Sentai series*

**¥ 9.1** billion

*DRAGON BALL series*

**¥ 14.2** billion

*PRETTY CURE! series*

**¥ 8.1** billion

*Pokémon*

**¥ 4.0** billion

*ONE PIECE*

**¥ 4.6** billion

#### Masaru Kawaguchi

Director (Part-time)

BANDAI NAMCO Holdings Inc.

President and Representative Director of  
BANDAI CO., LTD.



# Network Entertainment

## MID-TERM VISION

### “Transnational Company” Creating Value for Consumers

As technological progress advances the network environment, businesses are increasingly targeting the entire world, and in addition there is a growing “individual” presence as users directly contribute information over the Internet. In this setting, the Network Entertainment Unit’s Mid-term Vision is to be “a ‘Transnational Company’ creating value for consumers.” Under the previous Mid-term Plan, we believe that we established a foundation from which we can aim to become a “transnational company.” Under the current Mid-term Plan, we will make full use of that foundation as we strive to connect with our customers, who are the users of our products and services, and to be a company that continues to anticipate emerging needs. We would like us to be a unit in which each region is independent and we have a global viewpoint.

We have two main strategies — to establish a new business style with a “customer-centric” and to develop into a “transnational company.” “customer-centric” refers to thinking from the customer’s point of view in order to make decisions about what businesses are needed, what operations should be expanded further, and which IP should be utilized. The phrase “transnational company” refers to an approach to business that is not centered on Japan. Rather, each region takes the lead and devises and implements strategies in line with markets, thereby operating independently in rolling out business initiatives. In addition, to implement common strategies, we will work to foster collaboration on a worldwide basis.

There is no doubt that the key to achieving the Mid-term Plan will be “growth overseas.” All employees should have an awareness that they can always refine and discuss the “global strategy.” We believe that this will enable us to establish a presence as a transnational company.

#### MAIN STRATEGIES

- Shift to a customer-centric business mindset
- Continued transformation into a “transnational company”

#### FY2021.3 NUMERICAL TARGETS

Segment Sales **¥310.0 billion**

Segment Profit **¥41.0 billion**

## FY2018.3 RESULTS AND RELATED DATA

### Sales by Major Category


 **Network content**  
**¥199.6 billion**

 **Home video games**  
**¥98.4 billion**

### Network content

 **Overseas sales ratio**  
**25%**

### Home video games

 **Unit sales of home video games**  
**28,867 thousand**

### Satoshi Oshita

Director (Part-time)  
BANDAI NAMCO Holdings Inc.  
President and Representative Director of  
BANDAI NAMCO Entertainment Inc.



# Real Entertainment

## MID-TERM VISION

### We Create “Entertainment Experience Here and Now” Worldwide

#### MAIN STRATEGIES

- Building a real platform
- Leveraging the distinctive strengths of the BANDAI NAMCO Group

#### FY2021.3 NUMERICAL TARGETS

Segment Sales    ¥**130.0** billion

Segment Profit    ¥**8.0** billion

The core company of the newly established Real Entertainment Unit is BANDAI NAMCO Amusement Inc., which combines the development and operation of amusement facilities and the amusement machine business. We provide real entertainment that draws on the unique strengths of the BANDAI NAMCO Group, combining real-world venues, which are points of customer contact; technological development capabilities; and expertise in leveraging IP worldviews.

Markets are undergoing dramatic change. In addition to the consumption of tangible products that offer value through ownership, a central role in today's society is now being played by the consumption of intangible products that offer value through special services and experiences. In this setting, we have real networks that offer multifaceted entertainment experiences and can be rolled out on a global scale, from *Asakusa Hanayashiki*, the oldest amusement park in Japan, to *VR ZONE*, which draws on virtual reality (VR) and other leading-edge technologies.

In those initiatives, we will draw on our strength in having an integrated value chain that extends from the development of machines to the operation of facilities. We will work to implement efficient management and focus on multifaceted initiatives, such as facilities that are differentiated through BANDAI NAMCO's distinctive strengths, new types of facilities coordinated with other Units, and advanced versions of existing facilities.

In each region and business, the Real Entertainment Unit will provide venues that offer experiences transcending the imagination and create a new world of entertainment with no borders. In this way, we aim to realize our Mid-term Vision.


## FY2018.3 RESULTS AND RELATED DATA

### Sales by Major Category

 Amusement machines  
¥**28.2** billion

 Amusement facilities  
¥**64.2** billion

### Number of Amusement facilities (Total of Japan and overseas)

 Directly managed facilities	<b>293</b>
Revenue-sharing facilities*	<b>1,563</b>
Other	<b>14</b>
<b>Total</b>	<b>1,870</b>

\* Revenue-sharing facilities: Revenues from the operation of amusement machines are shared.

### Hitoshi Hagiwara

Director (Part-time)  
BANDAI NAMCO Holdings Inc.  
President and Representative Director of  
BANDAI NAMCO Amusement Inc.





# Visual and Music Production

## MID-TERM VISION

### No. 1 Group in Visual, Music, and Live

Through seamless collaboration among three businesses — visual, music, and live — the Visual and Music Production Unit will implement IP production that is increasingly three dimensional and aim to be the No. 1 Group of Visual, Music, and Live.

In launching the Mid-term Plan, we will strive to achieve further growth and step up our initiatives. BANDAI NAMCO Arts Inc., which combines the visual and music businesses, will be the core company and advance our strategies. We will take steps to consolidate our IP outlet strategies and work to increase our efficiency and extend our strengths while providing mutual support in areas that need to be reinforced. In this way, we will leverage synergy effects.

The live event market continues to record growth in Japan and overseas. For this market, we will further reinforce production initiatives with a focus on collaboration among visual products, music, and live events. For overseas IP fans, we will bolster live events, live viewings, and sales of goods, and will also take on the challenge of events in new genres. In Japan, we will construct a multipurpose facility, including an event hall, on land that we have purchased in Shibuya-ku, Tokyo. We plan to make flexible use of this venue, which will leverage the Group's strengths. In this way, we will take on the challenge of creating new entertainment that combines visual, music, and live events.

We will also accelerate the creation of IP that features enhanced collaboration among visual, music, and live elements. IP brimming with originality is the cornerstone of our business. Moving forward, we will devote resources to the establishment of rules and environments that encourage employees to transcend borders between companies and departments and take on challenges with a strong focus on the creation of IP.

#### MAIN STRATEGIES

- Strengthen capacity for creating hit IPs
- Empower integrated IP production focused on visual products, music, and live performance
- Promote IP use with a global vision

#### FY2021.3 NUMERICAL TARGETS

Segment Sales	¥ <b>40.0</b> billion
Segment Profit	¥ <b>8.0</b> billion

## FY2018.3 RESULTS AND RELATED DATA

Visual and Music Production Unit:  
Number of Copyrighted Products  
(As of 2018.3)



Number of copyrighted products  
/ Total number of hours products

BANDAI NAMCO Arts Inc.

**806** products / **2,830** hours



Number of musical works

BANDAI NAMCO Arts Inc.

Number of works with  
master license recordings

Approx. **40,500**

Number of works published

Approx. **22,500**

Number of Live Events Held



Number of  
live tours\*<sup>1</sup>

**84**



Number of  
performances\*<sup>2</sup>

**692**

\*<sup>1</sup> Number of live tours implemented by  
BANDAI NAMCO Arts Inc.

\*<sup>2</sup> Number of performances held by  
BANDAI NAMCO Live Creative Inc.

**Kazumi Kawashiro**

Director (Part-time)

BANDAI NAMCO Holdings Inc.

President and Representative Director of

BANDAI NAMCO Arts Inc.



# IP Creation

## MID-TERM VISION

### Evolving from an Animation Production Company to IP Development

#### MAIN STRATEGIES

- Improving creativity
- Improving communication
- Improving branding

#### FY2021.3 NUMERICAL TARGETS

Segment Sales      ¥**18.0** billion  
Segment Profit      ¥**6.0** billion



The IP Creation Unit was established in conjunction with the current Mid-term Plan, and our most important mission is the creation of IP.

The greatest strength of the BANDAI NAMCO Group is the IP axis strategy, under which we develop characters and content, which are IP seeds, into a variety of forms, such as products and services. In this way, we increase their value and ensure that they bloom into substantial flowers. SUNRISE INC., which is the core company of the IP Creation Unit, has continued to create IP, the starting point of the IP axis strategy, over many years through the production of animations, such as the *Mobile Suit Gundam* series. To create original IP from “thin air,” we need flexible thinking and knowledge to break through fixed ideas, imagination, and — more than anything else — strong conviction. The Unit has a track record and experience in continually maintaining our dedication to original products, and this has become a part of our corporate DNA. This DNA will be the driving force as we work to fulfill our role and mission of continually creating IP seeds that can be nurtured by the entire Group in line with the times and the operating environment.

We will create original IP from “thin air,” and the entire Group will nurture that IP and increase its value by 100 or even 1,000 times. I believe that, by adding speed and depth to this process of creation and nurturing, the BANDAI NAMCO Group will be able to demonstrate its presence on a more-global level. We have recorded growth to date as a production company specialized in animations. Moving forward, we will extend our focus beyond animation to include all IP, which is an element of entertainment. On that basis, we will continue to foster IP creation as we change into an IP development company.

## FY2018.3 RESULTS AND RELATED DATA

### IP Creation Unit: Number of Copyrighted Products

(As of 2018.3)



Number of copyrighted products / Total number of hours products

SUNRISE INC. and BANDAI NAMCO Pictures Inc.

**309** products / **2,560** hours

### Yasuo Miyakawa

Director (Part-time)  
BANDAI NAMCO Holdings Inc.  
President and Representative Director of  
SUNRISE INC.

# CHANGE for the NEXT

## 挑戰 成長 進化

EMPOWER      GAIN MOMENTUM      ACCELERATE EVOLUTION

### ▶ MAIN STRATEGIES IN THE MID-TERM PLAN

Under the current Mid-term Plan, we aim to achieve “CHANGE” to progress to a next stage by aiming to be a Group that changes in a wide range of ways without being bound by previous business models and established ideas.

This section introduces specific initiatives about the four main strategies for realizing sustained growth and includes messages from key executives.

- 26 IP Axis Strategy:  
Accelerate Evolution in IP Axis Strategy
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Empower Push into New Entertainment
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Gain Momentum with All BANDAI NAMCO
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Make Personnel the Core of the Group



IP Axis Strategy Accelerate Evolution in IP Axis Strategy

## Aiming for IP Development — IP Creation Unit

### Yasuo Miyakawa

Director (Part-time)  
BANDAI NAMCO Holdings Inc.

President and Representative Director  
SUNRISE INC.

The IP Creation Unit was established in April 2018 with the mission of further strengthening the creation and nurturing of new IP.

Working in close cooperation with other units, the IP Creation Unit will advance the creation and nurturing of IP coordinated with products and services.

### A Developer that Creates IP from “Thin Air”

The Mid-term Vision of the IP Creation Unit is “Evolving from an Animation Production Company to IP Development,” and our role is to create the IP seeds that will be needed for the IP axis strategy. The corporate philosophy of SUNRISE INC. is “Building Frontiers from Thin Air.” SUNRISE has created a wide array of original IP, and moving forward we aim to create an even larger number of IP seeds. We are committed to taking on the challenge of creating diverse, original IP while making effective use of the strategic investment that is a part of the current Mid-term Plan.

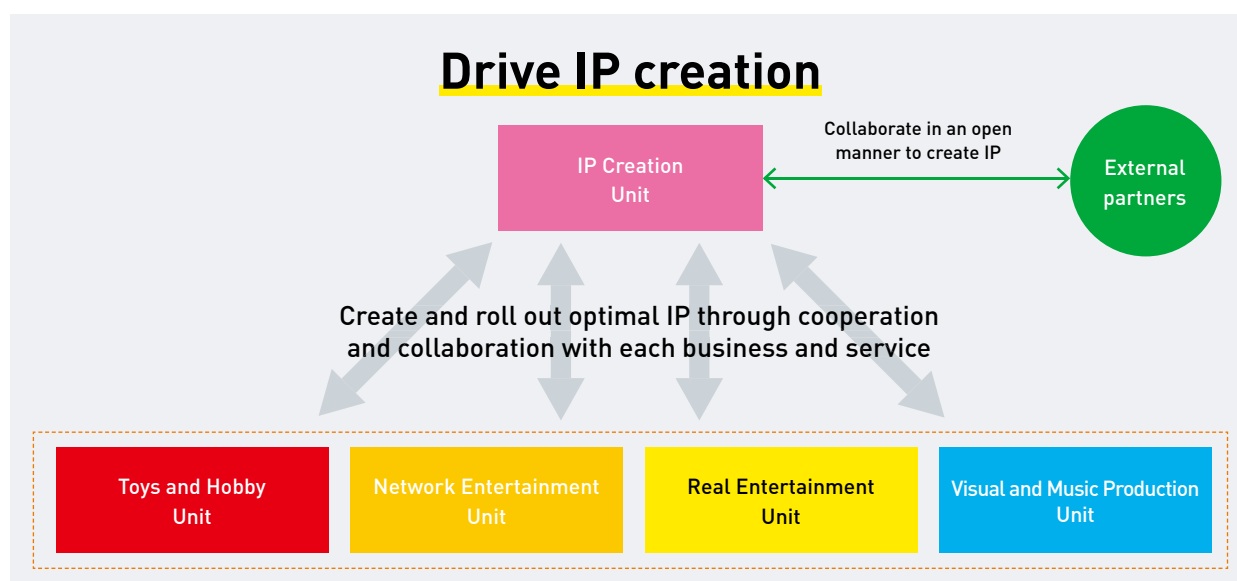
In the creation of IP, it is essential that we work in close collaboration and cooperation with other Units of the Group.

Our creators and producers, who are in frequent communication with employees from other Units, are working to implement IP creation while considering how a wide range of products and services can be rolled out.

One of the strengths of the BANDAI NAMCO Group is the ability to create IP in-house, to choose from a wide range of options, and to work in-house to develop that IP as products and services. Moving forward, we will strive to create original IP from “thin air,” to roll out that IP throughout the Group, and to leverage a range of content outlets. In this way, we will work to increase the value of the IP by 100 or even 1,000 times.



## Contributing to the Strengthening of the IP Creation Function (System)



## Together with Highly Enthusiastic Employees

To create original IP, we need flexible thinking and knowledge in order to break through fixed concepts. We also need imagination and — more than anything else — strong conviction. One of my important tasks is to create an environment that will fully leverage the enthusiasm of the employees who want to create new IPs. The creation of original IP is always accompanied by risk and it is uncommon for IP to become a hit immediately after it is launched. To enhance our ability to create IP, we need to create an environment in which it is easy for employees to take on challenges without fear of failure, and we need to patiently trust and nurture their enthusiasm, even when strong

results are not immediately achieved. I believe that the creation of IP that earns the enduring support of fans results from the combination of employees who are strongly committed to their ideas and executives who support them.

In addition, to continue to secure and develop highly capable and enthusiastic staff members, I believe it is important that we achieve a large number of hits and invest the resulting profits in next-generation creators. In this way, we should be able to establish a cycle that leads to the next hit IPs and ensures business continuity and growth potential.

## Extending Our Presence around the World through Original IP

I repeatedly tell our employees that “we are not just an animation production company.” Clearly, SUNRISE grew as a company that produces animations, but at this point it is important for the Group that SUNRISE extends its reach beyond animations. We need to create IP that can be utilized on a Groupwide basis. Going forward, rather than restricting our business to animations, we will strive to create IP in all entertainment genres, including novels, live-action movies, and illustrations.

The phrase “evolving to IP development” incorporates this idea. I believe that this concept has penetrated to the front lines of our operations and reinforced our foundation. We are now at the stage where we will aggressively take the initiative as we move forward. In July 2018, we announced that we would work together with *Legendary*, of the U.S., to make a Hollywood live-action film versions of *Mobile Suit Gundam*, which has been

involved in multiple films that have become worldwide hits. Films that have the power of worldwide distribution are extremely effective in the communication of IP and are an important outlet. At SUNRISE, we have implemented various approaches targeting global markets, such as selling programming in countries around the world, implementing on-line distribution, and holding events. Moving forward, we will further reinforce our global initiatives, including the use of films.

In this way, we will move forward toward a larger world. My vision for the future of IP Creation Unit involves original IP that extends around the entire world. The BANDAI NAMCO Group has a range of resources that can be used to maximize IP value. Moving forward, we will strive to focus the Group’s strengths and achieve that vision.

**IP Axis Strategy** Accelerate Evolution in IP Axis Strategy

## The Multiple Forms of IP Creation

IP can be created from a variety of customer contact points, including visual products and other products and services. The BANDAI NAMCO Group, which is active in a wide range of business areas in the field of entertainment, is leveraging the strengths of each of its companies and Units and continuing to take on the challenge of creating new IP from original perspectives. In addition, we are taking steps to establish Groupwide frameworks for the creation of IP, including the implementation of strategic investment.

### IP Created from a Variety of Consumer Contact Points

The BANDAI NAMCO Group creates IP originating from visual products from the Group's visual production companies, such as the *Mobile Suit Gundam* series. In addition, the Group has also worked to create IP originating in products and services, such as *PAC-MAN* (originating from an amusement machine), *Tamagotchi* (originating from a toy), the *Aikatsu!* series (originating from a card product), and *IDOLiSH7* (originating from network content).

Accompanying the acceleration of digitalization in recent years, the number of individuals who are producing and distributing their own content is increasing. In this setting, we are also working to foster creation in line with the changes in the times. These initiatives include working together with customers to leverage user-generated content in the implementation of projects supporting the creation and nurturing of IP.

In these ways, we will leverage the strengths of the Group, which has a wide range of customer contact points; strive to be the first to respond to diversifying customer needs; and continue to take on the challenge of creating new IP.



*PAC-MAN*, which originated from an amusement machine



*Tamagotchi*, which originated from a toy



*Project Layered*, a user-participation project

### Taking On the Challenge of Groupwide IP Creation and Nurturing

The Original Star IP Office solicits submissions of original IP from within the Group. Employees are encouraged to submit their own IP ideas, which are then screened. The project also includes the creation of proposals and pilot videos, the formulation of business schemes in cooperation with Group companies that are interested in utilizing the IP, and the implementation of other initiatives. In these ways, the Original Star IP Office is aiming to rapidly commercialize new IP.

In addition, the IP Strategy Division, which was established in BANDAI NAMCO Holdings Inc., is formulating and advancing the IP axis strategy, targeting growth for the Group over the medium-to-long-term. To that end, the Division is implementing worldwide roll outs of established IP, such as the *DRAGON BALL* and the *Mobile Suit Gundam* series, and launching a variety of projects aiming to roll out IP for female customers in the mature fan base.

Moreover, in April 2018 we launched the BANDAI NAMCO Accelerator, which provides business support for startup companies. Through this program, we are aiming to develop innovative businesses and IP by combining the new ideas, speed, and execution capabilities of startup companies with

the resources of the Group. Including these initiatives, under the current Mid-term Plan we will implement strategic investments on top of normal investments. Over three years, we plan to implement strategic investment of ¥25.0 billion in IP creation.

In these ways, we will continue working to strengthen the IP axis strategy, which is the Group's greatest strength. To that end, we will collaborate with a variety of partners and take on the challenge of creating and nurturing IP.

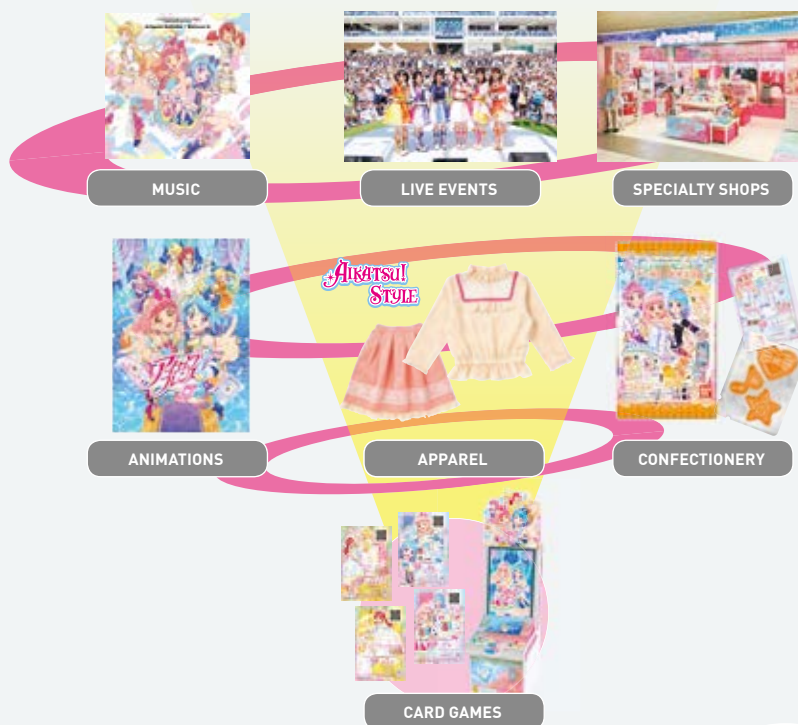


BANDAI NAMCO Accelerator advance seminar

## Original IP Originating from a Card Game



The *Aikatsu!* series is a popular IP that was created from a card game. Its fans are centered on elementary school girls. *Aikatsu!* was launched in 2012 as *DATA CARDDASS Aikatsu!*, a digital children's card game from BANDAI CO., LTD. In conjunction with the operation of the game, broadcasts of an animation from SUNRISE INC. (currently produced by BANDAI NAMCO Pictures Inc.) were commenced. As of 2018, the latest series — *Aikatsu Friends!* — has become an established Group IP. Centered on cards and animations, we are rolling out a wide range of *Aikatsu!* products and services, including apparel, music, live events, and specialty shops.



## Original IP Originating from Network Content



*IDOLiSH7* is an IP that originated with a smartphone game app. In 2015, BANDAI NAMCO Online Inc. placed *IDOLiSH7* into service as a full-scale rhythm game. It has become widely popular among fans, centered on women. Based on a worldview that reflects a commitment to the scenario and the music, TV animation broadcasts were started in January 2018, and in addition we are working on a Groupwide basis to roll out live events, other events, goods, etc. In these ways, we are implementing a variety of initiatives to expand the IP.



Business Strategy Empower Push into New Entertainment

## Aiming to Further Expand Business Fields — Network Entertainment Unit

Nao Udagawa

Managing Director  
BANDAI NAMCO Entertainment Inc.

The Network Entertainment Unit is advancing business initiatives centered on digital services, such as network content and home video games. The Unit is taking on the challenge of further expanding its business fields.

### Working Together with Customers to Nurture and Provide Services that Can Be Enjoyed for Long Periods of Time

The rapid progress of digitalization is significantly changing the business environment. The market for network content also continues to expand on a global scale. On the other hand, our markets are undergoing dramatic change, including the intensification of competition, the emergence of titles with substantial sales, and the diversification of consumer purchasing behavior.

In this environment, the *DRAGON BALL Z DOKKAN BATTLE* smartphone game app continues to maintain its popularity even today, more than three years after the launch of online distribution. This will be a model of successful initiatives in our future endeavors.

Operational factors play a key role in the development of a product into a long-seller. With a focus on customers having fun, we have implemented ongoing initiatives that have proven to be effective. For example, we have analyzed customer activity within the game and other factors, and we added new elements, implemented updates, and held events. I believe that this style, in which we listen to feedback from customers around the world and cooperate with them to nurture games,

is behind the success of *DRAGON BALL Z DOKKAN BATTLE*. These types of initiatives have also been reflected in other long-seller titles in smartphone game apps, such as *ONE PIECE* and *THE IDOLM@STER* series. In addition, in home video games we are starting to see an increase in titles that are operated for long periods of time due to initiatives in such areas as the sale of download content and digital items and the implementation of in-game events. These titles include the *DARK SOULS* series and the *DRAGON BALL XENOVERSE* series.

In June 2018, we started worldwide online distribution of *DRAGON BALL Legends*, a new smartphone game app. This game incorporates the latest technologies and our own methods of expression to the greatest extent possible, and we are proud of its high quality, which amazes customers. In a variety of smartphone game apps and home video games, we will enhance the quality of our development, operation, and marketing activities and strive to implement initiatives that customers enjoy for a long period of time.



## Taking On the Challenge of Creating New Entertainment

The Network Entertainment Unit is actively taking on the challenge of creating new entertainment. *enza*, a platform that was developed by BXD Inc., facilitates the enjoyment of games using browsers. The use of HTML5 technology enables the provision of high-quality titles, and multiple IP titles have already been launched. *enza* was developed with the idea that it would be used in close collaboration with products, services, and events from Group companies, and media. Accordingly, we will strive to ensure that it is effectively leveraged as a Group platform.

In addition, the field of e-sports is currently drawing attention, and we are also focused on this field as a new IP outlet. We are independently developing professional licenses in Japan for major titles, such as *TEKKEN7*, as well as holding events. We believe that e-sports have the potential to raise the value of the entire game industry as well as the games themselves. Moving forward, we will aggressively implement

initiatives while cooperating with industry organizations and manufacturers.

In addition, we are utilizing a variety of approaches to expand our fields of business. For example, we have opened a new entertainment-commerce site coordinated with online video distribution and user-participation network services and introduced a membership system.



Titles for *enza*  
*THE IDOLM@STER SHINY COLORS*



Aiming to provide new purchase experiences  
*Asobistore* entertainment commerce site

## We Want to Provide Entertainment in a Variety of Settings

In this way, each day we are taking on the challenges of new entertainment. Through the use of the latest digital and network technologies, we are strengthening collaboration among the Group's various businesses and customer contact points, and we are starting to see the emergence of a favorable cycle that facilitates our responses to a wide range of customer needs and changes. Moving forward, we will strive to enhance content value and to provide services that customers can enjoy for long periods of time. To that end, we will execute multifaceted initiatives while paying careful attention to feedback from customers.

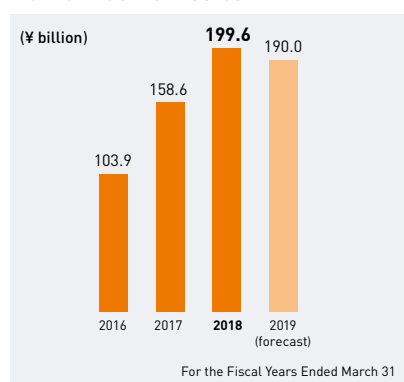
The corporate philosophy of BANDAI NAMCO Entertainment Inc. is "more fun for everyone." We will continue to advance a variety of initiatives in accordance with the concept of providing entertainment to customers in a wide range of settings. While responding to change, we will take steps to nurture our content

and work together with customers from a long-term viewpoint in order to enhance content appeal. We are excited about the future.



Smartphone game app  
*DRAGON BALL Legends*

### BANDAI NAMCO Group Network Content Sales



### Top Publishers in the Global App Market

(Total for iOS, Google Play / Prepared by App Annie based on 2017 revenue figures)

Rank	Name of publisher	Country
1	Tencent	China
2	NetEase	China
3	Netmarble	South Korea
4	Activision Blizzard	U.S.
5	Supercell	Finland
6	mixi	Japan
7	BANDAI NAMCO	Japan
8	Sony	Japan
9	Machine Zone	U.S.
10	LINE	Japan

Source: App Annie

**Business Strategy** Empower Push into New Entertainment

## Working to Expand Business for the Mature Fan Base — Toys and Hobby Unit



**Kazuhiro Takenaka**

Director  
BANDAI SPIRITS CO., LTD.

The newly established **BANDAI SPIRITS CO., LTD.**, combines the mature fan base business of **BANDAI CO., LTD.**, including plastic models and collectable figures, and the prizes business of **BANPRESTO CO., LTD.** This new company will play a new strategic role in the Toys and Hobby Unit and will work to expand business in the mature fan base market, which is growing rapidly.

### Taking On the Challenge of Expanding Business by Rolling Out Distinctive **BANDAI NAMCO** Products

The vision of **BANDAI SPIRITS** is to be “the world’s number one comprehensive hobby entertainment company,” and on that basis we are working to roll out toys and hobby products for the mature fan base. In the mature fan base market, we must address needs that differ from those in the children’s market, such as diverse preferences and purchasing behavior. Through the establishment of **BANDAI SPIRITS**, we have consolidated the departments that handle products for the mature fan base, and moving forward we will move rapidly to address changes in consumer needs as well as the market.

In product development, we will further advance the original technologies and know-how cultivated to date by **BANDAI CO., LTD.**, and **BANPRESTO CO., LTD.**, and strive to roll out high-quality products that amaze consumers. Furthermore, we will implement wide-ranging development through the **ALL BANDAI NAMCO** concept rather than narrowly focused development of products themselves. We believe that this will lead to the extension of three-dimensional development of IP worldviews and increases in IP value. We have engaged in collaboration within the Group, and moving forward we will actively collaborate and cooperate with each Unit from the IP

creation stage. In this way, we will develop the mature fan base market. In addition to IP originating in Japan, we will also commercialize IP that has become popular around the world and aim to expand our business on a global scale.

Our employees on the front lines are enthusiastic and eager to take on challenges, and as a result our businesses continue to record favorable growth. By providing distinctive **BANDAI NAMCO** products that amaze customers, we will take on the challenge of leveraging our distinctive presence and expanding our business.



With original technical capabilities, we were able to achieve a plastic model that features a realistic skin texture that was not previously possible.



Offering high-quality figures that reflect careful attention to detail

## Initiatives Targeting Expansion of the BANDAI NAMCO Group's Business Fields

Case Study

1

### e-Sports

In overseas markets, e-sports have already garnered strong popularity, and there is a trend toward the inclusion of e-sports as regular events in official international tournaments. In Japan, the first organization that issues professional licenses — a general incorporated association known as the Japan e-Sports Union (JeSU)— has been established, and e-sports are expected to enjoy growing popularity.

The Network Entertainment Unit established an organization specializing in e-sports, and the Unit is now accelerating its initiatives in this field. There are already *TEKKEN7* professional license holders, and in addition we are utilizing titles such as *DRAGON BALL FighterZ* and *TAIKO: DRUM MASTER* and participating in a variety of events and tournaments.

In taking on the challenge of new genres, one of the BANDAI NAMCO Group's major strengths is our ability to provide an abundant range of game titles for a variety of platforms, including home, mobile, amusement, and PC platforms.

Official *TEKKEN7* tournamentOfficial *DRAGON BALL FighterZ* tournament

In FY2019.3, we will actively take on multiple challenges with a variety of titles and approaches, accumulate experience, and strive to foster future growth.

Case Study

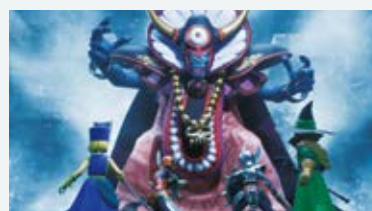
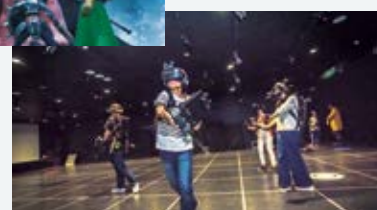
2

### Creating Spaces that Leverage BANDAI NAMCO's Distinctive Strengths

The Real Entertainment Unit was created under the current Mid-term Plan, and one of the Unit's main strategies is to leverage the distinctive strengths of the BANDAI NAMCO Group. The Unit is aiming to expand the amusement machine and amusement facility business.

As one part of those initiatives, we opened the *VS PARK* variety sports facility, which features differentiation and novelty in comparison with existing facilities. In response to the growing enthusiasm for sports in Japan, *VS PARK* is a new facility that offers highly entertaining sports activities that are similar to making an appearance on a variety TV program. Anyone can enjoy sports, without regard to gender or athletic ability. In addition, at *VR ZONE SHINJUKU*, one of Japan's largest VR entertainment facilities, we are introducing a range of new content that is earning popularity. For example, we have started operation of *Dragon Quest VR*, which enables 360-degree enjoyment of the world of *Dragon Quest*.

Moving forward, with BANDAI NAMCO's distinctive ideas and strengths, we will continue to provide "venues with value" for customers.

*VS PARK**Dragon Quest VR*



Region Strategy Gain Momentum with All BANDAI NAMCO

## Leveraging Regional Characteristics to Advance Global Initiatives

The BANDAI NAMCO Group, which aims to be “the Leading Innovator in Global Entertainment,” wants to utilize products and services as communications tools that connect IP fans around the world. To that end, initiatives to foster worldwide expansion are important.

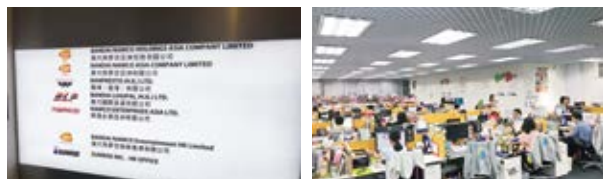
In accordance with this idea, the region strategy is to “Gain momentum with ALL BANDAI NAMCO.” On that basis, we are working to make a full-blown entry into the Chinese market and to establish a system for ALL BANDAI NAMCO.

### Toward the ALL BANDAI NAMCO Concept

#### Rolling Out Business Initiatives with a Regional Axis and a Business Axis

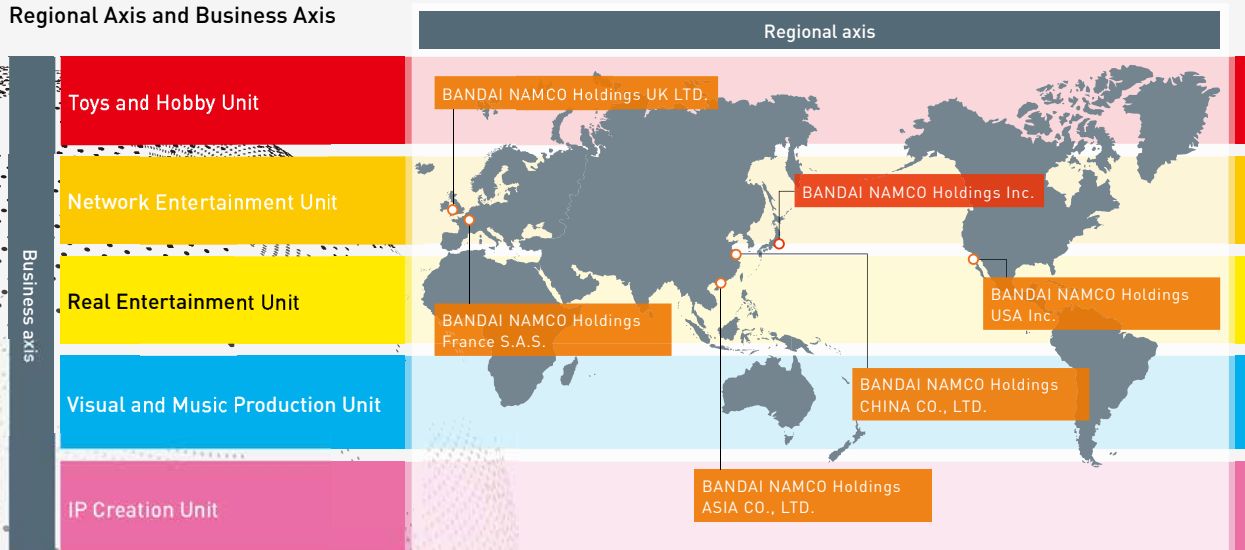
Our regional operations have the best understanding of local fans, and accordingly these operations will take the lead as we work to expand our business initiatives on a worldwide basis. In addition, it will be necessary for all of the Units to work together and strive to leverage the Group’s comprehensive strengths under the ALL BANDAI NAMCO concept. To that end, the BANDAI NAMCO Group has established BANDAI NAMCO Holdings, which is responsible for medium-to-long-term strategies for the entire Group, as well as companies that oversee regions. To strengthen the provision of implementation support for business companies and business strategies and to bolster monitoring in each region, these companies are working to reinforce the internal control and internal auditing functions and to establish crisis management systems. We aim to expand our overseas operations through two axes — this regional axis and the business axis.

In addition, we are taking steps to cultivate a sense of unity under the ALL BANDAI NAMCO concept, such as introducing integrated offices in which employees from multiple units work in a single office. By fostering the penetration of the ALL BANDAI NAMCO concept in terms of both systems and attitudes, we are working to promote the natural development of information sharing and collaboration among businesses.



Cultivating a sense of unity through the introduction of integrated offices

#### Regional Axis and Business Axis





## Initiatives in Europe and the Americas

### Network Entertainment

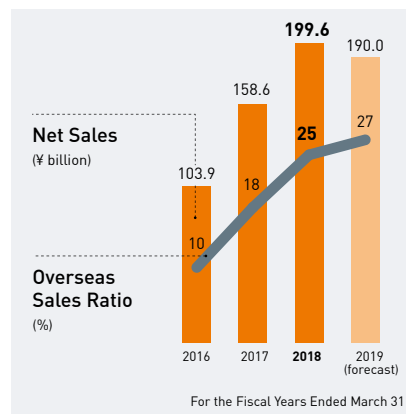
#### Network Content — Game Development and Operation that Reflect Regional Characteristics

In the network content business in FY2018.3, core titles made stable progress in each region, and we were able to achieve favorable growth in the overseas sales ratio.

In rolling out titles, we implement planning and development initiatives that consider global markets. In addition, we carefully analyze customer trends for each region, and the results are used to improve game content in line with local characteristics as well as to enhance events. The continuation of these initiatives has led to the roll out of titles that have maintained support over long periods of time, such as *DRAGON BALL Z DOKKAN BATTLE* (online distribution launched in 2015 in Japan and overseas) and *ONE PIECE Treasure Cruise* (online distribution launched in 2014 in Japan and in 2015 overseas).

Moving forward, we aim to achieve stable progress with existing core titles. In addition, we will launch new titles with a focus on quality and build a portfolio of titles that address the preferences of a wide range of customers.

#### Network Content Net Sales / Overseas Sales Ratio



DRAGON BALL Z  
DOKKAN BATTLE



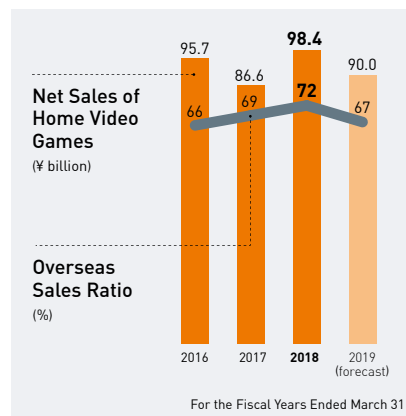
ONE PIECE Treasure Cruise

#### Cultivating Home Video Games with Long Lifespans through the Sustained Provision Of New Kinds of Fun

In home video games, against a background of game platform uptake, worldwide titles — such as the *DRAGON BALL* series, *TEKKEN* series, and *DARK SOULS* series — have achieved popularity. As with network content, in home video games there is a trend toward products remaining popular for longer periods of time, extending over multiple years, and by continuing such measures as the sales of additional content, the provision of information, and the implementation of updates, we are continually working to provide customers with new forms of entertainment.

Moving forward, we will continue to launch major titles in worldwide markets and to provide new entertainment while analyzing the results of various measures. In these ways,

#### Home Video Games Net Sales / Overseas Sales Ratio



DRAGON BALL FighterZ



DARK SOULS REMASTERED



we will roll out titles that earn support over long periods of time. Moreover, we will utilize our in-house sales network, centered on Europe, and continue to promote and sell titles from other companies. In addition to implementing an aggressive response to new game platforms, we will leverage a wide range of title variations and step up initiatives in the area of e-sports, which is recording growing popularity, centered on overseas markets. We have already established an organization specializing in e-sports, and in the future we will consider measures to activate communities, issue licenses, and implement in-house sponsorship of tournaments. (For further information about e-sports, please refer to page 33.)



Implementing worldwide launches of new titles with a focus on quality

## Toys and Hobby

**In conjunction with the launch of the Mid-term Plan, the Toys and Hobby Unit will revise its strategies. In addition to the previous initiatives for children, we will bolster our approaches to the mature fan base market, for which growth in scale is anticipated. Also, we aim to improve profits by taking steps to increase business efficiency, including our organizational structure.**

### Expanding Our Approaches to the Mature Fan Base Market

In the Toys and Hobby Unit, the mature fan base market is expanding not only in Japan but also in Europe and the Americas. To address that market, we will reinforce our product initiatives, including figures that show careful attention to detail. In implementing initiatives in Europe and the Americas, in addition to popular IP originating in Japan, we will also take steps to further expand IP product initiatives related to movies that are popular around the world. Furthermore, as a new category we launched a card game for *DRAGON BALL*, for which home video games and game apps are highly popular.

Moving forward, as we target the mature fan base market in Europe and the Americas we will pursue the development of high-quality products that leverage Japan's technical capabilities. We will also take steps to increase recognition among customers, such as sponsoring regular events. In FY2019.3, we will participate in animation events in Europe and the Americas, and we are also operating a large-scale booth on the *DRAGON BALL* NORTH AMERICA TOUR 2018, which are being held in seven cities in North America. In addition, through collaborative initiatives with local partners, we will strive to complement toy distribution routes with the inclusion of new sales routes, such as those for hobby and card sales. Furthermore, we will actively collaborate with other Group operations, such as home video games and game apps, and implement marketing initiatives. In these ways, we will aim to draw on the comprehensive strengths of the ALL BANDAI NAMCO concept.



Enhancing our IP lineup with movie IP products that are popular in Europe and the Americas



Entering new categories by leveraging IP that is highly popular in local markets



Promoting products by implementing exhibits at events

## Implementing Full-Blown Business Initiatives in the Chinese Market

### Making a Full-Blown Entry into China's Growing Entertainment Market

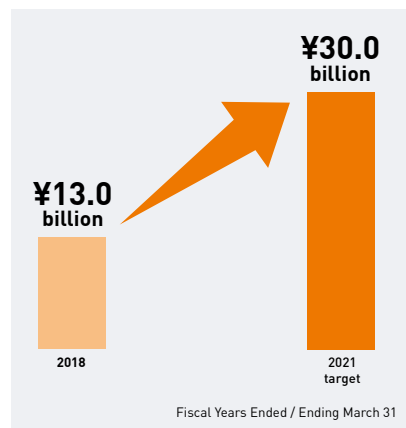
Further market growth is anticipated in China, where there are many IP fans, and under the current Mid-term Plan we have positioned China as a focus region. Accordingly, we will launch a full-blown entry into the Chinese market.

In December 2017, we established a holding company in Shanghai that has responsibility for mainland China. Through the holding company, which oversees the region, we will aggressively implement unified initiatives under the ALL BANDAI NAMCO concept, as well as collaboration with local partners.

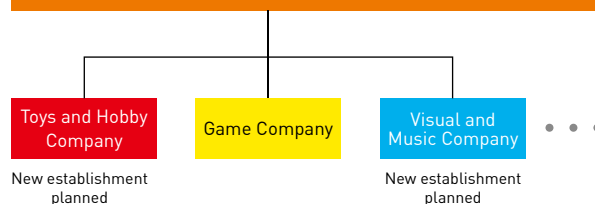
The Network Entertainment business company is working to develop and operate game apps and online games with local partners, and is earning popularity among local IP fans. We are also moving forward with preparations for the establishment of a business company in the Toys and Hobby business, which will enable us to roll out products for a wide range of customer age groups, including products for the mature fan base as well as toys for children. In addition, we will reinforce marketing initiatives that leverage networks, such as e-commerce sales. Furthermore, the Visual and Music Production business has been active in the Asian region, and moving forward the business will bolster its initiatives integrating visual, music, and live events in China as well.

By advancing these measures, we will build a foundation for the strengthening of business initiatives in the Chinese market and work to expand the scale of our operations.

### Sales of Products and Services in Mainland China (Including Japan accounts)



### BANDAI NAMCO Holdings CHINA CO., LTD.



### Toys and Hobby



Opening *Gundam* plastic model flagship store in Shanghai



*ULTRAMAN* are also highly popular in China

### Network Entertainment



Network content based on collaboration with local partners

### Visual and Music Production



Strengthening live-related businesses, such as live events and live viewings

### Measures to Deal with Counterfeit Products



As one example of measures to deal with counterfeit products overseas, with figure brands for the mature fan base, a logo mark that serves as proof of product reliability will be applied to all products launched in September 2018 or thereafter. The logo mark will be applied as a hologram seal with special specifications that include processing to prevent fakes. We will take steps to promote awareness in Japan and overseas that products to which the mark has been applied are genuine products.

Personnel Strategy Make Personnel the Core of the Group

## A Group Centered on Human Resource Management, Particularly on Entertainment and Imagination

The BANDAI NAMCO Group's human resources (employees) are its most important asset in achieving sustained growth. In accordance with the concept of aiming to be a group centered on human resource management, particularly on entertainment and imagination, the BANDAI NAMCO Group is working to establish an environment in which employees can work energetically and with peace of mind while enjoying their work. We are striving to show respect for and to ensure the individuality and diversity of our employees. At the same time, our operating environment is undergoing dramatic change, and we continue working to strongly advance the IP axis strategy, the Group's greatest strength. To that end, we are focusing our capabilities on the development of human resources who can address change.

### Initiatives to Support Employees Who Take On Challenges

Principal companies in the BANDAI NAMCO Group have introduced performance-linked remuneration frameworks that correlate a company's operating profit with employee profit sharing. Furthermore, we have established a variety of systems, such as the Groupwide IP recruitment system and idea proposal systems for Units and companies. We have established frameworks that transcend boundaries between companies and departments and enable employees to make proposals. In addition, we are advancing the delegation of authority to the front lines, implementing personnel rotations that transcend boundaries between Units as well as

between Japan and overseas regions, and introducing systems that give recognition to departments and employees for taking on challenges. In these ways, we are working to develop human resources and taking steps to establish foundations and corporate cultures that make it easier to take on challenges.



BANDAI NAMCO Awards

### Initiatives to Cultivate Global Human Resources

The cultivation of global human resources is essential for the Group to achieve sustained growth over the medium-to-long-term. In addition to actively implementing personnel rotations that transcend the boundaries between Japan and overseas locations, from FY2019.3 we are also operating the BANDAI NAMCO IP College, a program for employees at overseas Group companies. Under this program, we are conducting training at Group worksites involved with the IP axis strategy, such as directly operated facilities that utilize IP and development bases, and

implementing discussions with employees at Group companies in Japan. In this way, we are working to promote understanding of the IP axis strategy, develop know-how for creating and nurturing IP originating overseas, and cultivate the spirit of taking on challenges.



BANDAI NAMCO IP College

### Initiatives that Use Stock

We introduced measures utilizing an employee stock ownership plan. The objectives of this initiative are to cultivate a greater sense of unity within the Group and to foster interest in the activities of the entire Group from the perspective of shareholders. Group employees in Japan who support the objectives of the initiative and contribute a set amount or more each

month for three years or more from April 2018, when the Mid-term Plan started, receive 50 shares of BANDAI NAMCO Holdings stock. In addition, prior to shareholders' meetings, a proposal briefing is provided to employee shareholders to explain the importance of the shareholders' meetings and the details of proposals.

### Working-Style Reform Initiatives

We are implementing a variety of initiatives so that employees can work while remaining healthy in body and mind. As a

mental health measure, we have implemented stress checks and established a system for personal consultations with



industrial physicians. In addition, we have taken a number of steps from the viewpoint of countermeasures to long work hours. For example, we have instituted a rule that, in principle, prohibits overtime work after 10 p.m., and we have established a system that encourages employees to take paid leave. Also,

we have established departments with responsibility for countermeasures to long work hours. Moving forward, in addition to reducing work hours we will advance initiatives to increase productivity as a Group that provides “Dreams, Fun and Inspiration.”

## Initiatives to Achieve Work-Life Balance

We have introduced a variety of systems to establish workplace environments that support the achievement of work-life balance. We are operating a variety of systems to support child-rearing with peace of mind. For example, we have instituted flexible working arrangements using childcare leave, flextime systems, and shorter working hours; introduced a childbirth allowance benefit system to support childbirth and childcare;

and provided facilities to day care centers certified by Tokyo Prefecture. In addition, we have introduced lifestyle-support system that facilitate acquisition of leave time, shorter working hours, and flextime in order to address family circumstances, including not only child-rearing but also family nursing and caregiving, infertility treatment, etc.

### Overview of Systems to Promote Achievement of Work-Life Balance (Programs that surpass legal requirements)

System	Overview
Childcare leave	Can be taken until the day the child turns two years old.
Childcare support	Available until the child completes third grade. In addition to shorter working hours, includes exemption from overtime and late-night work.
Childbirth leave for male employees	Male employees can take up to five days of paid leave when their wife gives birth.
Flextime system	Normal working hours are determined not on a daily basis but on a monthly basis.
Child-rearing flextime system	For employees who are raising children who have not yet started junior high school, normal working hours are determined not on a daily basis but on a monthly basis.
Provision of support funds for childbirth and childcare	Provision of ¥200,000 at the birth of each of the first and second children. Provision of ¥2,000,000 at the birth of each of the third and subsequent children. (Acquisition of childcare leave for one continuous week or more is a requirement for the receipt of this support.)
Lifestyle-support system	Introducing lifestyle-support system with the objective of establishing supportive environments for employees in a variety of household circumstances. Offering 30-day leaves as well as shorter working hours/flextime, in accordance with the reason. Examples of reasons: (1) truant children, (2) infertility treatment, (3) family nursing or caregiving for spouses and 1st and 2nd degree relatives of employees, (4) receiving outpatient care at medical facilities due to disease

Note: Systems used by Group companies are different.

## Initiatives to Facilitate Active Participation by Diverse Human Resources

The BANDAI NAMCO Group is working to create environments in which diverse human resources with abundant individuality can work energetically, without regard to such factors as gender, work experience, nationality, or cultural background. We offer training programs to develop employees in line with a variety of positions and characteristics, from newly hired employees to candidates for the next generation of managers.

### Examples of Training Systems

- Training for new hires
- Fifth-year training
- Training to promote active careers for women
- Training for newly appointed managers
- Next-generation managers development training
- Training for newly appointed officers
- BANDAI NAMCO IP College

In addition, promotions are not influenced by gender, age, work experience, nationality, or cultural background.



Training to promote active careers for women



Establishment of special subsidiary for promoting the employment of people with disabilities

Number of Female Managers\*

93  102

2017

2018

For the Fiscal Years Ended March 31

\* Figures are for three business segment core companies in FY2018.3

Ratio of Female Managers to All Managers\*

15.4%  16.9%

2017

2018

Employment Ratio for People with Disabilities\*

2.04%  2.04%

2017

2018

For the Fiscal Years Ended March 31

\* For consolidated subsidiaries that entrust work to special subsidiary BANDAI NAMCO Will Co., Ltd.



## DISCUSSION AMONG OUTSIDE DIRECTORS

Satoko Kuwabara

Yuzuru Matsuda

Mikiharu Noma

## We will continue to support achievement of the Mid-term Plan and to implement appropriate monitoring.

The BANDAI NAMCO Group is implementing initiatives to strengthen corporate governance, including the establishment of the Independent Directors and Audit & Supervisory Board Members Committee, which comprises outside directors and outside Audit & Supervisory Board members. The three outside directors participated in the formulation of the Mid-term Plan that was launched in April 2018. They met for an open discussion on a range of topics, including the background of the plan's formulation, such as discussions and opinions offered at meetings of the Board of Directors; the Company's approach to human resource development; the best approach to collaboration with managers; and the driving force that will generate sustained growth.

### Independent Directors and Audit & Supervisory Board Members Committee

To evaluate from an objective standpoint whether the Board of Directors is functioning appropriately, the Company has formed the Independent Directors and Audit & Supervisory Board Members Committee. This committee is comprised of just three independent outside directors and three independent outside Audit & Supervisory Board members, and its secretariat function has been established within a third-party specialist organization. This arrangement facilitates the maintenance of a more-effective oversight function in the Board of Directors.

#### Members of the Independent Directors and Audit & Supervisory Board Members Committee

##### Outside Directors

##### Yuzuru Matsuda

Head of Kato Memorial Bioscience Foundation  
Outside Director of KUBOTA Corporation  
Outside Director of JSR Corporation

Attendance at meetings of the Board of Directors:  
18 / 18 meetings

Reasons for Appointment: Given Mr. Matsuda's extensive experience in corporate management and his excellent character and insight, the Company anticipates that he will be able to further strengthen management oversight and checking functions, and introduce a broader managerial perspective, and thus believes that he will be able to perform the duties of an outside director appropriately.

##### Satoko Kuwabara

Partner of Mori Hamada & Matsumoto

Attendance at meetings of the Board of Directors:  
18 / 18 meetings

Reasons for Appointment: Although Ms. Kuwabara has not been involved in corporate management other than through serving as an outside director, given her many years of experience as an attorney-at-law, the Company believes that she will be able to further strengthen management oversight and checking functions, mainly from a legal risk perspective, and thus believes that she will be able to perform the duties of an outside director appropriately.

##### Mikiharu Noma

Associate Professor, Graduate School of Business Administration,  
Hitotsubashi University Business School

Attendance at meetings of the Board of Directors:  
18 / 18 meetings

Reasons for Appointment: Although Mr. Noma has not been involved in corporate management other than through serving as an outside director, given his profound scholarly knowledge accumulated throughout his study and teaching activities in the field of corporate strategy, the Company anticipates that he will be able to further strengthen management oversight and checking functions, and thus believes that he will be able to perform the duties of an outside director appropriately.

##### Outside Audit & Supervisory Board Members

##### Toru Shinoda

(Full-time)

Attendance at meetings of the Board of Directors:  
—\*

Attendance at meetings of the Audit & Supervisory Board: —\*

Reasons for Appointment: Given his many years mastering the audit practices, and given he is a certified public accountant, the Company expects Mr. Toru Shinoda to utilize his wealth of knowledge and experience in accounting and auditing for the audit & supervisory system of the Company.

##### Osamu Sudoh

Partner in Sudoh & Partners  
Outside Audit & Supervisory Board Member of MITSUI-SOKO HOLDINGS Co., Ltd.  
Outside Corporate Auditor of PRONEXUS INC.  
Statutory Auditor of Keikey Corporation

Attendance at meetings of the Board of Directors:  
18 / 18 meetings

Attendance at meetings of the Audit & Supervisory Board: 14 / 14 meetings

Reasons for Appointment: Given his many years of experience as an attorney-at-law, the Company expects Mr. Osamu Sudoh to utilize his wealth of knowledge and experience in legal affairs for the audit & supervisory system of the Company.

##### Katsuhiko Kamijo

Professor at Faculty of Law of Teikyo University  
Outside Audit & Supervisory Board Member of The Resolution and Collection Corporation

Attendance at meetings of the Board of Directors:  
18 / 18 meetings

Attendance at meetings of the Audit & Supervisory Board: 14 / 14 meetings

Reasons for Appointment: Given his many years mastering tax affairs, and given that he is a certified public tax accountant, the Company expects Mr. Katsuhiko Kamijo to utilize his wealth of knowledge and experience in tax affairs for the audit & supervisory system of the Company.

\* Mr. Toru Shinoda was elected at the Thirteenth Ordinary General Meeting of Shareholders held on June 18, 2018, and accordingly did not attend meetings of the Board of Directors, etc. in FY2018.3.

## Review of the Previous Mid-term Plan

**Matsuda** Under the previous Mid-term Plan, the numerical targets for the plan's final year were reached one year ahead of schedule, and the Company achieved record-high net sales for six consecutive years and record-high operating income for two consecutive years. The objective of continuing to steadily generate net sales of more than ¥500.0 billion and operating profit of more than ¥50.0 billion was achieved, and I believe that the foundation was significantly reinforced.

However, as the Group aims for one stage higher, it will be essential to strengthen the IP axis strategy, which is the mainstay of management, and, in particular, to continually create original IP. By extending the initiatives that have been implemented to date, a variety of measures are being implemented under the current Mid-term Plan. Accordingly, I would like to see the Company achieve further dramatic growth, without being satisfied with the status quo.

**Kuwabara** I also think that the management results were excellent. There are certain areas in which more progress could have been made, but a significant step was taken in the sense of identifying areas with room for growth and linking them to measures in the current Mid-term Plan.

In regard to the IP axis strategy, I think it will be necessary to continue to enhance both the ability to create IP in-house and the ability to discover and nurture external IP. Moreover, in formulating the current Mid-term Plan the Company has stated that its vision for 10 years in the future is to be the "Leading Entertainment Company." To achieve this, further global growth will be essential. I think it will be important to streamline targets and regions and implement initiatives strategically, while working from a medium-to-long-term perspective.

**Noma** I am also focused on the level of ROE. When profits grow, there is a tendency for ROE to decline as equity increases. Nonetheless, the Company has also achieved its target of ROE of 10% or more on a consistent basis. I also have a high evaluation of how the Group has pursued profits while simultaneously implementing the investment necessary for growth and aggressive shareholder returns.

On the other hand, as indicated by Ms. Kuwabara, I think that certain Units and business areas have room for further growth. Measures to address technological innovation are already being implemented, but I think that it might be necessary to build a stronger earnings model.

## Key Points of the Current Mid-term Plan

**Matsuda** In formulating the current Mid-term Plan, the Company did not follow the typical method of setting targets based on past results. Rather, the Company



first clarified its vision for 10 years in the future, and then, looking back from that point, utilized backcasting in order to determine what needs to be done now. For example, in what sense are we aiming to be the number one Group? Exactly what do we mean by the word "global?" These essential issues were repeatedly discussed by all of the officers at the off-site meeting. I was very pleased that an agreement was reached.

**Kuwabara** When we worked on the Mid-term Plan at the off-site meeting, we worked on an intermediate stage draft proposal and discussed it without restrictions. As a result, we were able to understand the background to the Mid-term Plan and to introduce external, objective viewpoints. In this way, I believe that we were able to develop a Mid-term Plan that is more clear and easy to understand.

**Noma** In addition, one thing about the current Mid-term Plan that deserves special mention is that it reflects both a focus on mid-term numerical targets and a commitment to increasing competitiveness over the long term. Furthermore, it was also significant that during the discussion process we were able to confirm that the executives have a forward-looking, sound sense of crisis.

**Matsuda** Another important point is the inclusion of the corporate branding perspective. It has been 13 years since the management integration, and I believe that this is now the right time to emphasize the ALL BANDAI NAMCO concept. From the viewpoint of branding, this will likely hold the key to rolling out global business initiatives.

**Kuwabara** In regard to global business activities, I believe it is important to do more than simply dispatch employees overseas. The Group should also work to develop local human resources and strive to nurture employees in Japan so that they can be effective in global settings. I think that these will be issues for the Group to address in the future.

Noma

To realize growth under the ALL BANDAI NAMCO concept, it is necessary to accelerate lateral development of IP across Unit and regional boundaries. In developing IP laterally across regions, I think the Company should not just implement overseas development of IP originating in Japan but also nurture IP originating overseas and extend it to other regions, including Japan.

## Targeting the Development of Diverse Human Resources

Noma

I think that there are three important points in regard to hiring and developing human resources. These are developing “human resources who are strong in business operations” and can turn IP assets into earnings; developing “human resources who can manage” and can increase corporate value while engaging in dialogue with the capital markets; and finally, aggressively drawing on talented creators.

At a Group that is active in a wide range of businesses, the capabilities and skills that are needed for each position are different. In regard to the development and treatment of human resources, it is only natural that creators who are active around the world are handled differently than those employees who work in operations and management. For the Company to be able to attract the type of people who do creative work, perhaps we should have a wider range of options in such areas as personnel systems.

Kuwabara

In regard to the promotion of active careers for women, female officers have been appointed in major business companies, but I think that the ratio of female officers has room for further growth. In this setting, I think the Company has done a good job with steady initiatives, such as providing career formation support with attention to life events and creating networks among female employees. It might take a little more time until visible results are achieved, but executives have clearly set out the Company’s approach to promoting active careers for women, and there are a growing number of senior employees who can act as role models for younger employees. I would like to see the Company continue this solid work going forward.

Matsuda

One could say that the careers of working people are a series of learning experiences, right up to the end of their careers. In addition to desk-based study, how much experience are they accumulating on the front lines? Are they expanding their own horizons? Even after they become executives, the importance of study does not change.

I think this topic involves the theme of the “next generation of managers.” In that regard, in line with the issues that we brought forward, President Taguchi’s thoughts were put into written form and introduced as a new framework, the Next-Generation Managers Development Program. The three of



us will be lecturers in this program, which will include people with a wide range of viewpoints. I believe that this steady implementation of human resource development initiatives is worthy of high evaluation.

Kuwabara

In regard to human resource development, monitoring is the responsibility that we have to fulfill. In other words, rather than participating directly in the selection process, we check to ensure that this process is implemented in a fair manner in accordance with impartial procedures. Based on an objective viewpoint, I would like us to play a role in ensuring that selection is highly transparent.

## Responding to Opinions Rapidly

Kuwabara

The process of evaluating the effectiveness of the Board of Directors\* revealed a shared understanding of the problem of overseas business risk. In regard to the issue of how to monitor potential risk in global business initiatives, the Independent Directors and Audit & Supervisory Board Members Committee, which conducts effectiveness evaluations, has conducted repeated discussions. At regular Group Business Report Meetings, we have the opportunity to interview representatives from regional headquarters companies, which also provides a source of feedback for our discussions.

Noma

Outside directors are the advocates of shareholders. I believe that our mission is to act on behalf of shareholders to track risk and other information and to offer opinions about the course of action that the Company should take.

The approach of executives to the opinions of outside directors varies from company to company. In that regard, the BANDAI NAMCO Group’s system for handling these opinions is distinctive. I believe that the ability of outside directors to speak freely is a result of the executives cultivating a venue that makes it possible for us to communicate freely.



Matsuda

The establishment of “venues” for free expression are extremely important for company management. And it is equally important that the conclusions that are reached at those venues are moved on to the implementation stage. That sense of speed is notable at BANDAI NAMCO. The beginning of off-site meetings with all officers also resulted from opinions offered in the effectiveness evaluation. In consideration of our opinion that it was necessary to create IP in a Groupwide manner, the current Mid-term Plan includes a variety of initiatives. In any event, I have been surprised by the quick action taken in response to proposals, the majority of which have been implemented by the following fiscal year.

## The Source of BANDAI NAMCO's Strength

Kuwabara

IP initiatives are typically implemented with a focus extending several years into the future. Conversely, the current favorable results are attributable to the Company's continuous effort from several years ago. To understand the background to those favorable results, following a recommendation from Mr. Matsuda, I attend policy briefings for each Unit, which offer opportunities for contact with people from the business companies. At those briefings I directly experience how the people on the front lines are dynamic, forward-looking, and energetic.

I would like to support their efforts from the perspective of an independent, outside director.

Noma

In the entertainment industry, dynamism and excitement on the front lines, in other words, the level of employee satisfaction, leads directly to customer satisfaction. BANDAI NAMCO's corporate culture of taking on challenges and tolerating failure stems from this type of environment. I hope that this value will continue to be highly regarded in the future.

On the other hand, the fact that the Company can maintain steady growth in a highly volatile environment is due to the implementation of strategic portfolio management. In other words, I think that resources are being allocated appropriately to Units that need to contribute to results in the short term and Units that need to contribute to results in the future. In addition, management decisions regarding withdrawal from unprofitable businesses are made rapidly, and the Company is doing an excellent job in the implementation of “decisive decision-making” as discussed in Japan's Corporate Governance Code.

Matsuda

At many companies there is a pattern where the businesses that are doing well always do well, and the others remain in weak shape. In the Company's case, however, there are periods when favorable conditions in the toys and hobby business drive results, and other periods when home video games and network content drive results. In those periods, other businesses can steadily accumulate strength and prepare for their next stage of dramatic growth. This situation — in which many businesses vie for top position and the lead dynamically changes hands — is a very favorable cycle for investors. I look forward to great things from the BANDAI NAMCO Group in the future, and I would like to implement monitoring to support achievement of the objectives in the current Mid-term Plan.



### \* Evaluations of Effectiveness of the Board of Directors

To heighten the effectiveness of the Board of Directors and increase corporate value, the Company periodically conducts evaluations of the effectiveness of the Board of Directors. Specifically, questionnaires regarding the effectiveness of the Board are implemented, and responses are obtained from all directors and Audit & Supervisory Board members. Then, the Independent Directors and Audit & Supervisory Board Members Committee conducts analysis and verification based on the results and provides opinions to the Board of Directors. Based on these opinions, the Board shares the results of the evaluation of present circumstances as well as issues and holds constructive discussions regarding future action plans. An overview of the results of the evaluation are disclosed on the Company's website.

## CORPORATE GOVERNANCE

The Company and the Group sufficiently understand the importance of various stakeholders related to the Company and have a basic management policy of maximizing the corporate value of the Company and its shareholders' common interests over the medium to long term. In addition, the Company believes that construction of a solid management foundation (corporate governance) is absolutely essential in order to emerge victoriously in the global competition of the fast-changing world of entertainment. In accordance with this philosophy, the Company has established a Basic Philosophy on Corporate Governance. Furthermore, we truly embrace the intent and spirit of Japan's Corporate Governance Code, and our initiatives on each principle of the Code are disclosed in "Initiatives Related to Japan's Corporate Governance Code.\*"



\* For more information, please visit the Company's website.

<https://www.bandainamco.co.jp/en/social/governance/index.html>

### Corporate Governance System

#### Strengthen the Management Oversight Function

Number of Outside Directors

3 / 11



Number of Outside Audit & Supervisory Board Members

3 / 4



Number of Independent Directors or Independent Audit & Supervisory Board Members

6



All outside directors and outside Audit & Supervisory Board members meet the "Standards for the Independence of Outside Directors and Outside Audit & Supervisory Board Members" established by the Company.

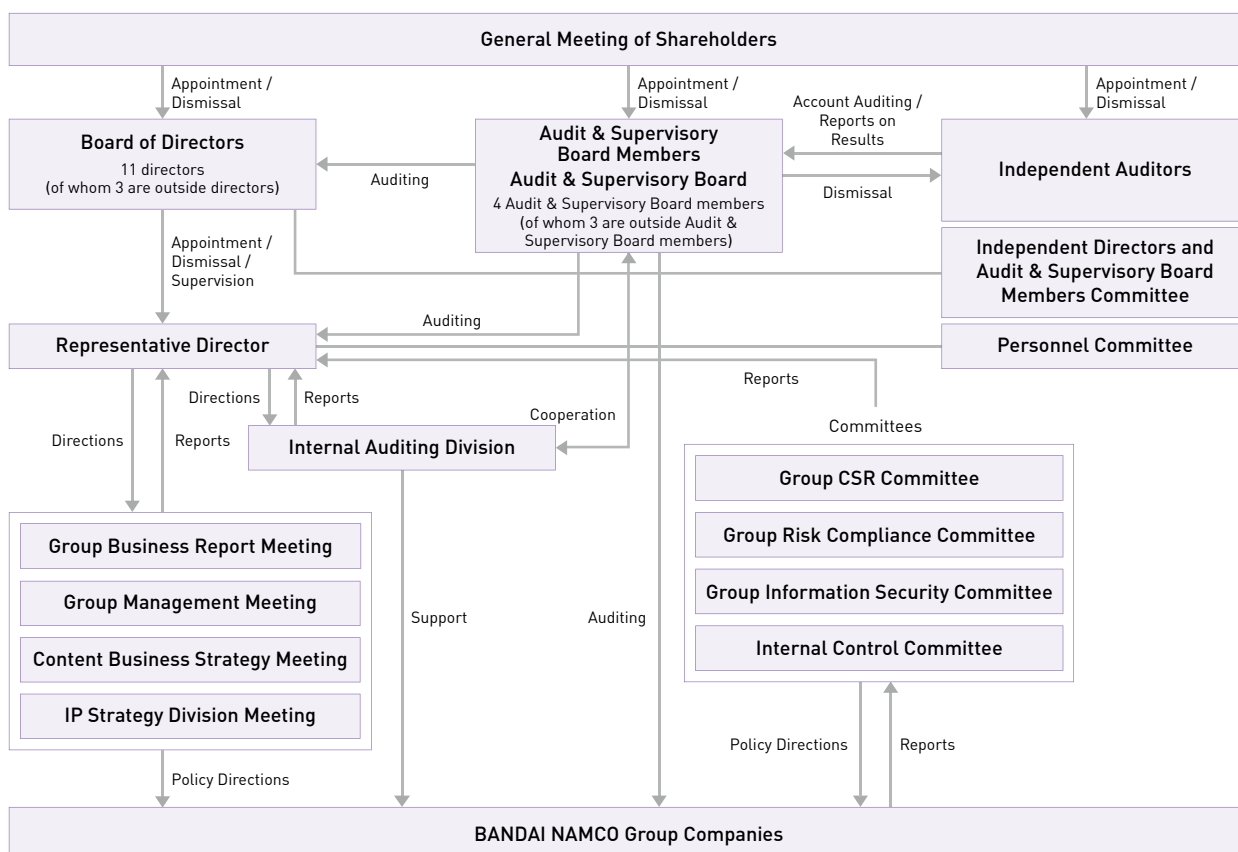
#### Clarify the Responsibilities of Directors

Term of Directors **1 Year or Less**

#### Organization

#### Company with Company Auditors

The Company believes that the auditing system based on the Audit & Supervisory Board, including outside Audit & Supervisory Board members, is an effective means of implementing the management oversight function.



As of June 18, 2018



## Board of Directors

The Company is a pure holding company, and the representative directors of the major subsidiaries concurrently serve as directors of the Company. Therefore, directors are able to deliberate on measures to address issues which overlap among the multiple business domains of Group companies, and quickly ascertain specific problems and address them.

The Company's Board of Directors decides important matters related to the Company and the Group, such as matters stipulated in laws and regulations or in the articles of incorporation, M&As, organizational restructuring, the election of major subsidiaries' directors and Audit & Supervisory Board members, and

the acquisition and disposal of assets with large monetary value. Concerning matters resolved by the Company's Board of Directors and matters delegated the authority as the business execution of subsidiaries, rules for criteria for matters on the Board of Directors' meeting agenda, etc., have been prepared and clarified. The Chairman of the Board of Directors is President and Representative Director Mitsuaki Taguchi.

In addition, with the objectives of heightening the effectiveness of the Board of Directors and increasing corporate value, evaluations of the effectiveness of the Board of Directors are conducted periodically.

## Audit & Supervisory Board

In regard to audits by the Audit & Supervisory Board, the four Audit & Supervisory Board members (of whom two are full-time Audit & Supervisory Board members and three are outside Audit & Supervisory Board members) attend important meetings, such as meetings of the Board of Directors. In addition, in conformance with the Audit & Supervisory Board regulations determined by the Audit & Supervisory Board, the audit standards for the Audit & Supervisory Board, and the implementation standards and auditing plans related to internal control systems, and in accordance with audit plans determined by the Audit & Supervisory Board, the Audit & Supervisory Board members

conduct audits regarding the status of business execution by the directors. In addition, Audit & Supervisory Board members work together with Audit & Supervisory Board members of Group companies, and in this way the effectiveness of audits for the Group as a whole is heightened.

The Audit & Supervisory Board members, the independent auditors, and the Internal Auditing Division 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.

## Personnel Committee

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 representative directors. The majority of the committee members are independent outside directors.

## Electing Directors and Audit & Supervisory Board Members

When electing candidates for director, the Company considers the necessary abilities, experience, personality, and others according to the role, and decisions are made by the Board of Directors following discussions and recommendations by the Personnel Committee, as well as following interviews by outside directors. When electing candidates for Audit & Supervisory Board members, the Company considers the necessary abilities, experience, personality, and others according to the role, and decisions are made by the Board of Directors after receiving consent from the Audit & Supervisory Board.

The election of directors is based on candidates possessing broad knowledge and experience required for decision-making

on company management, as well as possessing the track record and insight in the fields and businesses they have experience in which are required in order to provide management oversight. The Articles of Incorporation stipulate that the basic policy is to appoint at least two independent outside directors.

Specifically, the election of outside directors is made with consideration for an appropriate balance of individuals who possess a wealth of experience as corporate managers, individuals who possess deep academic knowledge on corporate strategy, and attorneys-at-law and other individuals who have thorough knowledge regarding compliance and other aspects of internal control.

### President and Representative Director

#### Mitsuaki Taguchi

Number of Company shares owned: 69,000 shares  
Attendance at meetings of the Board of Directors: 18 / 18 meetings

Reasons for Appointment: Mr. Taguchi has supervised the business appropriately since he was appointed as President and Representative Director of the Company in 2015 and he achieved the previous Mid-term Plan through his leadership skills based on extensive business experience and broad knowledge. He was nominated for director as the Company considers him capable of ensuring that the Group continues to grow.

### Director

#### Shuji Ohtsu

Division General Manager of the Group Administrative Headquarters

Number of Company shares owned: 33,200 shares  
Attendance at meetings of the Board of Directors: 18 / 18 meetings

Reasons for Appointment: Mr. Ohtsu possesses specialist expertise as a certified public accountant, as well as extensive experience and achievements as Division General Manager of the Group Administrative Headquarters of the Company. He was proposed as a candidate for director as the Company considers him capable of strengthening Group management structures and ensuring highly transparent management.

Note: Number of shares held is as of the end of March 2018.

## Directors

### Yuji Asako

Division General Manager of the Corporate Planning Division

Number of Company shares owned: 34,300 shares  
Attendance at meetings of the Board of Directors: 18 / 18 meetings

Reasons for Appointment: Mr. Asako possesses extensive experience, achievements, and knowledge relating to management and administration, including business planning and accounting, and also has experience in roles where he was responsible for internal and external communications, such as IR, PR, and SR. He was proposed as a candidate for director as the Company considers him capable of implementing the Group's management strategies and seeking a sustained increase in corporate value.

### Hitoshi Hagiwara

Director in charge of the Real Entertainment Unit

Number of Company shares owned: 16,000 shares  
Attendance at meetings of the Board of Directors: —\*

Reasons for Appointment: Mr. Hagiwara possesses extensive experience, achievements, and knowledge in the Real Entertainment Business. He has driven the business forward as the President and Representative Director of BANDAI NAMCO Amusement Inc., which is the core company of amusement facility operations in the Group, since 2014. He was proposed as a candidate for director as the Company considers him capable of building closer ties between the Real Entertainment Business and Group management.

### Masaru Kawaguchi

Director in charge of the Toys and Hobby Unit

Number of Company shares owned: 39,400 shares  
Attendance at meetings of the Board of Directors: 18 / 18 meetings

Reasons for Appointment: Mr. Kawaguchi possesses extensive experience, achievements, and knowledge in the Toys and Hobby Business and has driven the business forward as the President and Representative Director of BANDAI CO., LTD., which is the core company of the Group's Toys and Hobby Business, since 2015. He was proposed as a candidate for director as the Company considers him capable of building closer ties between the Toys and Hobby Business and Group management.

### Kazumi Kawashiro

Director in charge of the Visual and Music Production Unit

Number of Company shares owned: 21,100 shares  
Attendance at meetings of the Board of Directors: 18 / 18 meetings

Reasons for Appointment: Mr. Kawashiro possesses extensive experience, achievements, and knowledge in the Visual and Music Production Business. He has driven the business forward as the President and Representative Director of BANDAI NAMCO Arts Inc., which is the core company of the Group's Visual and Music Production Business, since 2012. He was proposed as a candidate for director as the Company considers him capable of building closer ties between the Visual and Music Production Business and Group management.

### Satoshi Oshita

Director in charge of the Network Entertainment Unit

Number of Company shares owned: 58,800 shares  
Attendance at meetings of the Board of Directors: 17 / 18 meetings

Reasons for Appointment: Mr. Oshita possesses extensive experience, achievements, and knowledge from his wide-ranging involvement in the Group's Toys and Hobby, Network Entertainment, and Visual and Music Production businesses. He has driven the business forward as the President and Representative Director of BANDAI NAMCO Entertainment Inc., which is the core company of the Group's Network Entertainment Business, since 2012. He was proposed as a candidate for director as the Company considers him capable of building closer ties between the Network Entertainment Business and Group management.

### Yasuo Miyakawa

Director in charge of the IP Creation Unit

Number of Company shares owned: 11,950 shares  
Attendance at meetings of the Board of Directors: —\*

Reasons for Appointment: Mr. Miyakawa possesses extensive experience, achievements, and knowledge in the IP Creation Business. He has driven the business forward as the President and Representative Director of SUNRISE INC., which is the core company of the IP Creation Business in the Group, since 2014. He was proposed as a candidate for director as the Company considers him capable of building closer ties between the IP Creation Business and Group management.

\* Mr. Hagiwara and Mr. Miyakawa were elected at the 13th Ordinary General Meeting of Shareholders held on June 18, 2018, and thus did not attend meetings of the Board of Directors in FY2018.3.

Note: Number of shares held is as of the end of March 2018.

## Main Top Management Meetings

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

Meeting Name	Schedule	Agenda / Purpose	Participants
<b>Board of Directors</b>	Monthly and otherwise as needed	Decisions / reports on matters stipulated by law, items to be resolved in accordance with authority standards, reports on the status of operational execution, reports regarding CSR, crisis management, and compliance	Directors, Audit & Supervisory Board members, other designated employees
<b>Group Business Report Meeting</b>	Quarterly	Consolidated numerical reports, Unit reports, other items to be reported	Directors, Audit & Supervisory Board members, other designated employees
<b>Group Management Meeting</b> (including off-site meetings)	10 times a year	Deliberations regarding issues extending across Units, other Group management issues, strategic deliberations	Directors (excluding outside directors), other designated employees
<b>Content Business Strategy Meeting</b>	Quarterly	Sharing of information about each Unit initiatives related to the Group's important IP	Directors with related responsibilities, directors from major subsidiaries with related responsibilities, other designated employees
<b>IP Strategy Division Meeting</b>	Quarterly	Discussions for the purpose of formulating / advancing the Group's IP axis strategy over the medium-to-long-term	Directors with related responsibilities, other designated employees
<b>Group CSR Committee</b>	Semiannually	Deliberations and information sharing regarding the Group's important CSR strategies, consideration of resolutions, items to be reported, and deliberations at meetings of the Board of Directors, overall supervision of Group CSR subcommittees, overall supervision of progress of important items for each Unit and affiliated business company	Directors (excluding outside directors), other designated employees
<b>Waigaya Meeting</b>	Weekly	Weekly reports regarding the departments for which directors are responsible	Directors (excluding outside directors), other designated employees

## Outside Directors and Outside Audit & Supervisory Board Members

Of the Company's 11 directors, three meet the conditions for outside directors. The Company is working to strengthen the management oversight function. In addition, of the four Audit & Supervisory Board members (including two full-time Audit & Supervisory Board members), three meet the conditions for outside Audit & Supervisory Board members. They work together

and monitor the Company's internal control situation on a daily basis. As described on page 50, the Company has established "Standards for the Independence of Outside Directors and Outside Audit & Supervisory Board Members," and outside directors and outside Audit & Supervisory Board members are appointed in accordance with those standards. In the Company's judgment,

the outside directors and outside Audit & Supervisory Board members meet those standards, there is no concern that they will have a conflict of interest with general shareholders, and they possess high levels of independence. Accordingly, the Company has notified the Tokyo Stock Exchange (TSE) that they are all independent directors or independent Audit & Supervisory Board members in accordance with TSE regulations. The status of audits by internal auditors, audits by the Audit & Supervisory Board members, and audits by the independent auditors are reported to the Board of Directors. By attending meetings of the Board of Directors, the outside directors track the status of these audits and work to maintain close ties. In addition to tracking the status of internal audits reported at meetings of the Board of Directors, outside Audit & Supervisory Board members track the status of audits by the Audit & Supervisory Board members at meetings of the Audit & Supervisory Board and maintain cooperative relationships with the internal auditors and the other Audit & Supervisory Board members. In addition, all members

of the Audit & Supervisory Board, including outside Audit & Supervisory Board members, receive explanations from the independent auditors of the status of account audits on a quarterly basis. In this way, they track the status of these audits and maintain cooperative relationships with the independent auditors.

Furthermore, through matters brought to the Board of Directors, outside directors and outside Audit & Supervisory Board members track the status of internal control departments (all of the Company's departments). In addition, they attend the Group Business Report Meeting, where reports on the status of the Group's operations are made; strengthen supervisory and other functions; and provide advice as needed.

Moreover, as an information access support system, the Corporate Planning Division supports outside directors and outside Audit & Supervisory Board members. In regard to the communication of information from the Corporate Planning Department, principally, materials are sent prior to meetings of the Board of Directors and explanations are provided as needed.

### Policy Regarding Compensation of Directors and Audit & Supervisory Board Members

The basic policy of the remuneration system for the Company's directors, excluding outside directors, is to create a remuneration framework that promotes the Company's continuous growth and improves the Company's corporate value over the medium-to-long-term by promoting the sharing of values with shareholders, ensuring objectivity and transparency so that the Company can adequately fulfill its accountability obligations, and fostering a healthy sense of entrepreneurship in the directors while taking into account the level of remuneration that will enable the Company to secure and retain top-grade personnel. The same basic policy applies to the directors of the five core companies of the Group's Units: BANDAI CO., LTD., BANDAI NAMCO Entertainment Inc., BANDAI NAMCO Amusement Inc., BANDAI NAMCO Arts Inc., and SUNRISE INC., as well as to the directors of BANDAI SPIRITS CO., LTD.

From the viewpoint of promoting the sharing of values with shareholders, steadily improving results each fiscal year, and supporting an appropriate level of risk-taking to enhance the Company's corporate value over the medium-to-long-term, the specific remuneration framework comprises fixed remuneration consisting of base remuneration and variable remuneration consisting of performance-based bonuses and performance-based stock compensation.

Each director contributes a fixed proportion of the base remuneration to the shareholding association for directors and officers to purchase the Company's shares. During his or her term of office, each director continues to hold such shares, as well as shares acquired through performance-based stock compensation.

Remuneration standards are determined by utilizing a management remuneration database with which data on remunerations are aggregated and analyzed by an external specialist organization, setting objective benchmarks in light of the scales of the Company's business operations and other factors, and comprehensively taking into consideration the proportion of medium- and long-term performance-based remuneration within annual total remuneration and the level of difficulty of achieving business performance targets. Where the standard performance for the period of the Mid-term Plan has been achieved, the ratio of fixed remuneration to variable remuneration within annual total remuneration shall be about

50:50. Also, each Director contributes a fixed proportion of the base remuneration to the shareholding association for directors and officers, and the ratio of share-type remuneration which is the added amount of this contribution and the performance-based stock compensation shall be slightly more than 20%.

The policy for remuneration, the remuneration framework, and the structure for performance-based remuneration for directors, excluding outside directors, shall be decided at Board of Directors' meetings after receiving opinions from the Personnel Committee, in order to elicit outside directors' adequate participation and appropriate advice. In the course of deliberations by this committee, sufficient information is provided to the outside directors so that they are able to perform their analysis, including for instance by asking for advice from external specialist organizations where necessary.

Remuneration for outside directors comprises base remuneration only, to ensure their independence from the Company, and the amount of remuneration for each outside director is determined by Board of Directors' meetings.

Remuneration for Audit & Supervisory Board members comprises base remuneration only, with the amount set in accordance with their job positions, considering that they bear the duty to audit the execution of all businesses across the Group. The amount of remuneration for each Audit & Supervisory Board member is determined by Audit & Supervisory Board meetings.

Officer category	Total amount of compensation, etc., by type (Millions of yen)	Total amount of compensation, etc., by type (Millions of yen)			Number of eligible officers (People)
		Basic compensation	Performance-based stock compensation*	Bonus	
Directors (excluding outside directors)	675	248	78	347	7
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	24	24	—	—	1
Outside officers	82	82	—	—	6

\* Difference between the amount of performance-based stock compensation for FY2018.3 that is expected to have arisen as of the end of FY2019.3 and the amount for FY2017.3 that is expected to have arisen, and the actual payment amount (monetary compensation receivables and monetary payment amounts).

### 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 addition, the Company has formulated the BANDAI NAMCO Group Compliance Charter and has published the BANDAI NAMCO Group Compliance Handbook to ensure thorough knowledge of compliance throughout the Group. The Group also 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.

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 particular, positing the occurrence of a situation that could cause drastic damage to the management of the Group through a major disaster or the like, the Group has defined the basic policy for a Business Continuity Plan (BCP) for the Group, and is drawing up a BCP for the Group and organizing a Business Continuity Management (BCM) system to achieve rapid recovery and restart of operations.

### Takeover Defenses

At present, the Company has taken no specific measures as takeover defenses. The Group regards implementing its management and business strategies in accordance with the measures to increase the corporate value of the Group and aiming to increase the corporate value of the Group as a whole as a substantial defense against inappropriate takeovers.

That said, since the Group is entrusted by shareholders as the management of the Group, we will work on studying and develop a system of takeover defenses, with a close eye on legal and social trends, in anticipation of situations in which an inappropriate entity or person might emerge to have decision-making power over the Company's financial and business policies.

In concrete terms, in the event an inappropriate bidder emerges, the management team will not take steps to guard its own interests against the takeover offer by the bidder, but will sufficiently deliberate the matter at the Board of Directors' meetings after referring the matter to the Independent Directors and Audit & Supervisory Board Members Committee for their review from objective viewpoints, to enable the Company to make a judgment from the perspective of improving corporate value first. The Company will also work to collect sufficient information and secure necessary time, so as to be conducive to appropriate judgment by the shareholders.

### Initiatives Related to Respect for the Viewpoints of Stakeholders

#### Rules related to respect for the viewpoints of stakeholders through internal regulations

To meet the expectations of the Company's various stakeholders and maximize corporate value, we have formulated the BANDAI NAMCO Group Compliance Charter, which stipulates that the Company will respect the viewpoints of stakeholders.

#### Implementation of environmental conservation activities and CSR activities

In regard to CSR, we have established the "Important CSR Themes" section on the Company's website. We also hold meetings of the Group CSR Committee (chairperson: president) and the Group CSR Subcommittee, which is a subcommittee of the Group CSR Committee. In these ways, we are implementing initiatives to strengthen CSR on a Groupwide basis. Also, in regard to the details of these initiatives we issue a CSR activity publication and disclose initiatives on the Company's website.

#### Formulation of policies related to the provision of information to stakeholders

We have formulated an IR policy that is available on the Company's website. This policy covers such matters as benchmarks for disclosure of information and the strengthening of IR opportunities.

### IR Activities

Aiming to enhance corporate value, BANDAI NAMCO Holdings is implementing a variety of investor relations (IR) activities in accordance with the IR policy. In addition, the status of IR activities and the reactions of investors and analysts are continually communicated as feedback to the Unit core companies and throughout the Group.

#### Results of Major IR Activities in FY 2018.3

Results presentations and Mid-term Plan presentation for investors and analysts	3 (268 people)
Results telephone conferences for investors and analysts	1 (80 people)
Overseas IR	3 (3 regions)
Separate meetings for investors and analysts	289 people
Presentations for individual investors in Japan	3 times (791 people)

As well, BANDAI NAMCO aims to be a highly transparent company that clearly communicates management strategies and business policies to shareholders and investors. Accordingly, the Company works to enhance opportunities for executives to speak directly to individual investors, institutional investors, and securities analysts, such as corporate presentations and results presentations.



In presentations for investors and analysts, explanations are provided directly by presidents of major Group companies who are directors of BANDAI NAMCO Holdings.

## Internal Control System

### 1. Internal Control System: Basic Approach

- (i) **Systems to Ensure that the Execution of the Duties by Directors, etc., and Employees of the Company and Its Subsidiaries Is in Compliance with the Laws and Regulations and the Articles of Incorporation**
  - a. The Company shall set in place the Group's Corporate Philosophy and the BANDAI NAMCO Group Compliance Charter, ensure that Directors and employees of the Company and its subsidiaries are familiar with them, and always pay due attention to ensure they carry out their duties lawfully and fairly.
  - b. Directors of the Company shall report periodically to the Board of Directors on the structure and operating status of internal control systems.
  - c. The Company shall install a Director in charge of compliance who is responsible for supervision of compliance overall based on its compliance regulations, and establish a structure ensuring that the Company and the entire Group abides by the law, behaves ethically, and complies with internal regulations.
  - d. Should violations of compliance or suspicions thereof occur within the Group, the Company shall immediately convene the Group Risk Compliance Committee with the Company's President and Representative Director as its chair to discuss and decide how the issue should be handled.
  - e. Overseas, an overseas regional headquarters shall be determined for each region to manage risk and support compliance.
  - f. Internal reporting systems including an internal consultation point, an external consultation point comprising external legal advisors, and the Audit & Supervisory Board Members hotline, which enables reporting directly delivered to the Audit & Supervisory Board Members, shall be put in place in the Company and its major subsidiaries.
  - g. The Internal Auditing Division shall be established independently of the executive sections in the Company and its major subsidiaries to work towards maintaining the properness of execution of operations through internal audits.
- (ii) **Systems for Preserving and Managing Information Related to Directors' Execution of Their Duties**
  - a. The Company shall establish regulations concerning document management and ensure (i) the centralized collection and management of minutes of several kinds of meetings, contracts, and other documents, and (ii) appropriate safekeeping and management of important documents including documents circulated for approval in each department. The Company shall have a system to ensure that Directors and Audit & Supervisory Board Members may peruse those documents at any time.
  - b. The Company shall establish regulations concerning information security as a part of Group management. These regulations will provide for a system to ensure appropriate safekeeping and preservation of information.
- (iii) **Regulations Concerning Management for Risk of Loss of the Company and Its Subsidiaries and Other Systems**
  - a. The Company shall establish regulations concerning risk management and compliance as a part of Group management. Throughout the Group, we will work to prevent risk and to discover risk factors as rapidly as possible.
  - b. When risk arises, the Company shall convene the Group Risk Compliance Committee without delay to minimize the impact of risk on our business by responding to risk quickly and in an appropriate manner.
  - c. Anticipating the occurrence of situations that could cause drastic damage to the management of the Group through a major disaster or the like, the Group shall define the basic policy for a Business Continuity Plan (BCP) for the Group, and formulate a BCP for the Group and organize a Business Continuity Management (BCM) system to achieve rapid recovery and restart of operations. Directors and employees of the Company and its subsidiaries shall be made aware of this.
- (iv) **Systems to Ensure that Directors, etc., of the Company and Its Subsidiaries Execute Their Duties Efficiently**
  - a. The Company shall assign each subsidiary into units categorized by business segment, and appoint a Director and lead company in charge of each unit in order to improve efficiency of business operations based on the division of duties, chain of command structure, authorities and competencies, decision-making frameworks and other regulations regarding structure within the Group.
  - b. The Company shall formulate a Mid-term Plan with a period of three business years for the entire Group and each unit, and determine the budget for each business year based on those Mid-term Plans.
- (v) **Systems Concerning Reporting Matters Regarding Execution of Duties of Directors, etc., of Subsidiaries to the Company**
  - a. The Company shall establish meetings such as the Group Business Report Meeting and the Group Management Meeting, and put in place a system for reporting inside the Group and decision-making.
- (vi) **Other Systems to Ensure Proper Business Behavior by the Company and Its Subsidiaries**
  - a. The Company shall revise the BANDAI NAMCO Group Compliance Charter as appropriate in response to revisions to laws and regulations and changes in the social context surrounding the Group, and shall ensure that the contents of the Charter are made thoroughly known to Directors, etc., and employees of the Company and its subsidiaries through distributing the BANDAI NAMCO Group Compliance Handbook and through training.
  - b. The Company and its subsidiaries shall endeavour to improve and standardize business processes considering the importance of effectiveness and efficiency in business operations, and shall evaluate and operate internal controls on financial reporting based on related laws and regulations, etc.
- (vii) **Matters Regarding Employees Required by Audit & Supervisory Board Members to Assist Their Duties, and Matters Regarding the Independence of such Employees from the Board of Directors**
  - a. The Company shall provide a speedy response when Audit & Supervisory Board Members ask the President and Representative Director to provide employees to assist their duties. Where that employee simultaneously works for any other section, his or her business duties pertaining to the Audit & Supervisory Board Members shall take priority.
  - b. The Company shall provide an opportunity for Directors and Audit & Supervisory Board Members to consult in advance regarding personnel matters relating to such employees, so as to ensure independence from the Board of Directors.
- (viii) **Matters Concerning Ensuring the Effectiveness of Instructions to Employees who Assist the Audit & Supervisory Board Members**
  - a. The Company shall keep Directors and employees thoroughly informed that employees who assist the Audit & Supervisory Board Members in their duties are under the command of the Audit & Supervisory Board Members.
- (ix) **System for Directors, etc., and Employees of the Company and Its Subsidiaries to Report to the Company's Audit & Supervisory Board Members**
  - a. Directors, etc., and employees of the Company and its subsidiaries shall report to the Audit & Supervisory Board promptly with regard to matters prescribed by laws and regulations, other matters likely to have a major impact on the Company and the Group, and matters related to the current status of internal audits and compliance.
  - b. Directors, etc., and employees of the Company and its subsidiaries shall report promptly and appropriately when requested to do so by an Audit & Supervisory Board Member of the Company regarding the performance of their duties.
  - c. The Company shall put in place an Audit & Supervisory Board Members Hotline to allow reports to be made directly to the Company's Audit & Supervisory Board Members as an internal reporting system.
- (x) **System for Ensuring that Persons Making Reports to Audit & Supervisory Board Members shall not be Treated Disadvantageously**
  - a. The Company shall prohibit the disadvantageous treatment of persons who have reported or consulted with Audit & Supervisory Board Members, and shall state that clearly in the Group Risk Compliance Regulations and make it thoroughly known to Directors, etc., and employees of the Company and its subsidiaries.
- (xi) **Matters Regarding Policies Pertaining to Procedures for Advance Payments or Reimbursement of Expenses Arising in the Performance of Duties by Audit & Supervisory Board Members and Other Payment of Expenses and Liabilities Arising in the Performance of Said Duties**
  - a. The Company shall immediately pay expenses or liabilities where an Audit & Supervisory Board Member has requested advance payments or reimbursement of expenses arising in the performance of his or her duties, excluding cases where they were not considered necessary for the performance of said duties.
- (xii) **Other Systems to Ensure the Effectiveness of Audits Conducted by the Audit & Supervisory Board Members**
  - a. Directors of the Company shall formulate a system whereby Audit & Supervisory Board Members can attend important meetings, and ensure that a system exists whereby they can meet periodically or on an ad hoc basis with Directors and employees, and cooperate with the Internal Auditing Division and Accounting Auditors.
  - b. Subsidiaries of the Company shall install an appropriate number of Audit & Supervisory Board Members according to their scale, business category, etc., and ensure that there are systems in place wherein Audit & Supervisory Board Members of subsidiaries report periodically to the Audit & Supervisory Board Members of the Company.

### 2. Elimination of Anti-Society Groups: Basic Approach and Status of Implementation

To meet the expectations of the Company's various stakeholders and maximize corporate value, we have formulated the BANDAI NAMCO Group Compliance Charter, which provides standards for the Group's activities.

In regard to the rejection of anti-society groups, our approach is as follows: "We will maintain no ties with and will firmly reject any and all forces and groups that threaten the safety and order of society."



### **Standards for the Independence of Outside Directors and Outside Audit & Supervisory Board Members**

In order for the Outside Directors and Outside Audit & Supervisory Board Members of the Company to be judged as being independent, such Outside Directors and Outside Audit & Supervisory Board Members must not fall under any of the following items.

1. Any person who purports to be a major business partner of the Company (including group companies of the Company; the same applies hereinafter)
2. Any Executive Director, Executive Officer, Manager, or other employee of a company that purports to be a major business partner of the Company
3. Any person who is a major business partner of the Company
4. Any Executive Director, Executive Officer, Manager, or other employee of a company that is a major business partner of the Company
5. Any attorney-at-law, certified public accountant, certified public tax accountant, consultant, or other expert who receives monies or other economic benefits above a certain amount from the Company, in addition to his or her remuneration as a Director or Audit & Supervisory Board Member
6. Any person belonging to a company, association, or other organization such as a law firm, auditing firm, tax accountant corporation, and consultancy which receives monies or other economic benefits above a certain amount from the Company
7. Any person receiving donations or subsidies from the Company above a certain amount
8. Any person who is a Board member or other Executive Officer in a company, association, or other organization which receives donations or subsidies from the Company above a certain amount
9. If an Executive Director or full-time Audit & Supervisory Board Member for the Company concurrently holds a position as an Outside Director or Outside Audit & Supervisory Board Member at another company, any person who is an Executive Director, Executive Officer, Manager, or other employee of that company
10. Any person who has come under one of the categories listed in items 1 through 9 above in the past 5 years
11. If a person coming under one of the categories listed in items 1 through 9 above is an important person, that person's spouse or relative within the second degree of kinship
12. The spouse or relative within the second degree of kinship of any person who is a Director, Executive Officer, Manager, or other important employee of the Company or its subsidiaries

Notes: 1. In items 1 and 2, where it reads "any person who purports to be a major business partner of the Company," this means "any person (or company) who has received a payment from the Company of 2% or more of its annual consolidated net sales for the most recent business year."  
 2. In items 3 and 4, where it reads "any person who is a major business partner of the Company," this means "any person (or company) who has paid to the Company an amount of 2% or more of the Company's annual consolidated net sales for the most recent business year, or any person (or company) who has provided the Company with a loan of an amount of 2% or greater of the value of the Company's consolidated total assets as of the end of the most recent business year."  
 3. In items 5, 7, and 8, where it reads "a certain amount," this means "¥10 million a year."  
 4. In item 6, where it reads "a certain amount," this means "2% or more of the total net sales for that company, association, or organization for the most recent business year, or ¥100 million; whichever is greater."

## CSR INITIATIVES

To realize the provision of “Dreams, Fun and Inspiration,” the BANDAI NAMCO Group conducts CSR activities in accordance with the concept of “Fun For the Future!”



楽しみながら、楽しい未来へ。

### BANDAI NAMCO Group CSR Management

Themes that require special initiatives have been identified as the BANDAI NAMCO Group's Important CSR Themes. In addition, each Unit formulates its own CSR Major Initiative Themes and leverages the special characteristics of its operations to implement activities in accordance with those themes.

### BANDAI NAMCO Group's CSR Policy



### Formulation of Important CSR Themes

Aiming to further enhance the effectiveness of CSR activities, we formulated the BANDAI NAMCO Group's Important CSR Themes through the Group CSR Committee. These themes have been in use since 2010 and are periodically reviewed. With consideration for the influence that companies have on society in addressing the various social issues that surround

the Group, we implemented multifaceted initiatives to identify and evaluate themes that require special initiatives. In this way, we formulated the BANDAI NAMCO Group's Important CSR Themes. As a company that provides "Dreams, Fun and Inspiration" to customers around the world, we will work toward the resolution of social issues.

### Important CSR Theme Formulation Process

In formulating the BANDAI NAMCO Group's Important CSR Themes, we advanced through a process of reconfirming which CSR themes are the most important from the perspective of the BANDAI NAMCO Group and its stakeholders.

First, we interviewed four outside experts to identify the needs of society surrounding the Group. Next, based on a variety of information, such as reports on investigations conducted by external organizations, we then compiled 68 specific items related to CSR activities. We evaluated these items from the perspectives of the Mid-term Plan, guidelines, and the other sources listed below, and subsequently organized and classified them. Through this process, we established the four Important CSR Themes.

#### Important Viewpoints for the Formulation of the Themes

- 1 BANDAI NAMCO Group guidelines related to CSR
- 2 BANDAI NAMCO Group Mid-term Plan
- 3 Standards such as the GRI Guidelines, ISO 26000 (Japanese translation), and the Ministry of the Environment's Environmental Report Guidelines
- 4 Initiatives of corporations with innovative CSR activities
- 5 Opinions of outside experts

#### Opinions and Approaches that We Referenced for the Formulation of the Themes

##### Opinions of Stakeholders

- Interviews with outside experts
- Third-party opinions in CSR reports
- Reports on investigations conducted by external organizations (Sustainable Brand Survey, Global NGO Survey (E-Square Inc.), etc.)

##### The BANDAI NAMCO Group's Policies

- BANDAI NAMCO Group Corporate Philosophy
- BANDAI NAMCO Group Compliance Charter
- CSR Initiatives
- BANDAI NAMCO Group Environmental Policy
- BANDAI NAMCO Group Environmental Vision
- BANDAI NAMCO Group Basic Policy on Social Contribution
- BANDAI NAMCO Group Mid-term Plan

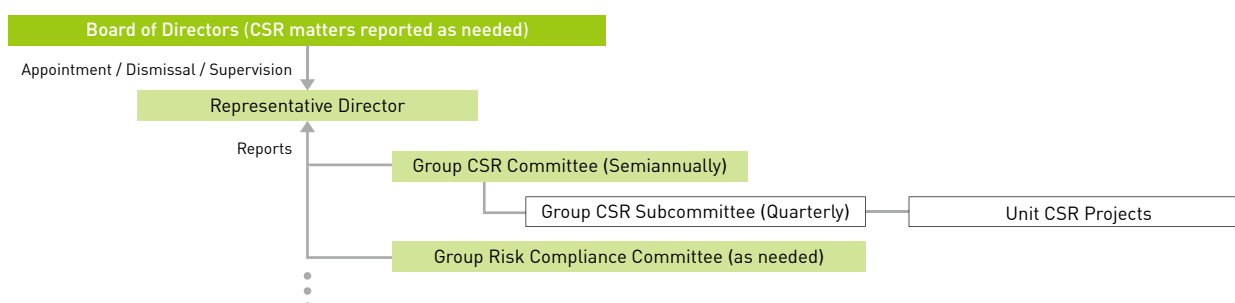
### Important CSR Themes—Establishment and Process Steps



### BANDAI NAMCO Group's CSR Promotion System

The Group CSR Committee mainly comprises the presidents of BANDAI NAMCO Holdings and the Unit core companies. In this way, the Group is making decisions rapidly and advancing CSR activities in a manner that is integrated with operations.

#### Deliberating / Reporting on Matters Related to CSR



## Examples of Initiatives Addressing Important CSR Themes

### 1 Safety and Cleanliness of Products and Services

#### Pursuing toy designs and materials with consideration for safety

For each product, BANDAI CO., LTD., anticipates misuse by children and a wide range of customer needs, and is working to further enhance safety management systems. As one part of those initiatives, we conduct necessary tests in accordance with such factors as product characteristics, selecting from among testing standards (approximately 350 items) to confirm product safety, strength, durability, etc. For example, with the *Super Sentai* series combination robot, we implement rigorous testing, inspection, and confirmation of more than 200 items, and we confirm product quality from a variety of perspectives. In addition, standards related to the safety of materials include more than 20 items.

In addition to acquiring certification from third-party inspection institutions, we also conduct internal analysis and inspection to confirm that the products do not include poisonous heavy metals or regulated chemical substances that have the potential to harm the human body.



Using gas chromatography-mass spectrometry equipment, inspections are conducted to determine the presence or absence of regulated chemical substances that have the potential to harm the human body.

### 2 Environmental Consideration

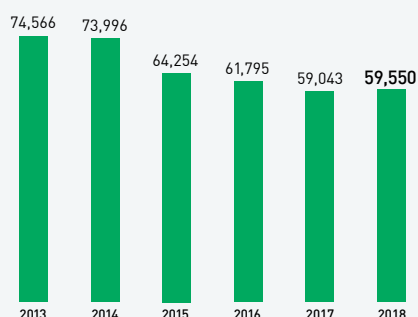
#### Initiatives to reduce CO<sub>2</sub> emissions and conserve energy

The BANDAI NAMCO Group is working to reduce CO<sub>2</sub> emissions and has set objectives for the reduction of CO<sub>2</sub> emissions each year in each business segment. Consequently, Groupwide emissions in FY2018.3 were down approximately 20% from FY2013.3, to 59,550 tons of CO<sub>2</sub>. From FY2019.3, in addition to total emissions management, we are also working to control CO<sub>2</sub> emissions through the introduction of management based on emissions intensity for each Unit.

In addition, as one part of our initiatives to conserve energy, in amusement machines and store lighting at amusement facilities we are converting from halogen lamps and fluorescent lighting to LED lamps. The Group is also implementing a range of other initiatives, such as increasing operational efficiency at plants, aggressively utilizing LEDs at live events, recycling materials, and promoting eco-driving.

#### BANDAI NAMCO Group CO<sub>2</sub> Emissions

(t-CO<sub>2</sub>)



For the Fiscal Years Ended March 31

#### Electricity use reduction for amusement facility amusement machines (FY2018.3)



#### Green procurement (chemical substance management) initiatives

In response to stricter environmental laws and regulations around the world, in 2005 BANDAI NAMCO Entertainment Inc. issued Version 1.0 of the Green Procurement Standards Manual, the first in the amusement industry. The manual has subsequently been repeatedly revised, and production of products in Japan and overseas is now being conducted in accordance with the laws and regulations of each country, based on Version 4.01 of the Green Procurement Standards Manual, which prohibits the inclusion of 29 substances. To strictly observe regulations, we investigate

information regarding the chemical substances in parts received from suppliers, and we conduct analysis and inspection in the principal manufacturing countries — Japan and China — to confirm that specified chemical substances are within regulatory limits. In addition, we implement supplier audits to confirm that chemical substance management systems have been established and are being operated effectively, such as at the manufacturing plants of suppliers in Japan and overseas.

### 3 Policies Regarding Influence on Society of the Group's Content and Products

#### Implementing timely training and collecting and sharing information regarding ethical expression

Each business segment implements a variety of employee training related to ethical expression in order to facilitate the provision of products and services in accordance with appropriate expression. In addition, we are taking steps to advance the sharing of information related to ethical expression, such as holding study sessions based on the latest information and past examples and distributing mail magazines to employees.



Study session related to ethical expression

#### IP Protection Initiatives

The BANDAI NAMCO Group is working closely with related companies to protect the image of its IP and to ensure that its customers can enjoy worry-free use of safe products. We are moving forward with measures targeting counterfeit goods in Japan and overseas.

In Japan, we monitor the domestic market, including the online market, and ask customs authorities to prohibit the import of counterfeit products. In these ways, we are working to promptly detect counterfeit products, to prevent their appearance on the market, and to secure their prompt removal if found. In addition, we are also advancing monitoring and countermeasures in overseas markets, including online sales. Moreover, we are sponsoring a lecture at universities in Shanghai in order to foster understanding

related to IP protection. We are implementing activities to help eradicate pirated versions. Furthermore, as a member of the International Intellectual Property Protection Forum (IIPPF), we are cooperating and exchanging opinions with the related administrative agencies and organizations to implement effective measures.



Lecture related to IP protection at a university in Shanghai

### 4 Supply Chain Management

#### Implementing a variety of audits

The BANDAI NAMCO Group strictly observes the laws and regulations of each country. We also establish our own standards. In this way, the Group is working to strengthen supply chain management.

As well, BANDAI CO., LTD., implements BANDAI Factory Audits (BFAs), which combine new plant audits and Code of Conduct (COC) audits, at overseas final packaging plants that make BANDAI products (174 plants in FY2018.3). The basic policy for BFAs is the BANDAI Code of Conduct, which calls for strict observance of eight COC standards regarding such issues as forced labor. Audits are conducted in accordance with our original BFA manual.

In addition, when it starts to do business with a supplier, BANDAI NAMCO Entertainment Inc. implements a CSR Procurement Questionnaire related to seven major items — overall CSR; human rights (prevention of forced labor, discrimination, harassment, etc.); safety (work

environment, emergency response, etc.); the environment (management of chemical substances in products, waste management, etc.); fair trade and ethics; quality and safety; and information security. BANDAI NAMCO Entertainment Inc. only conducts business with suppliers that do not have issues with illegal activity (166 companies in FY2018.3). Also, at manufacturing plants for children's products (one company in FY2018.3), audits are conducted in regard to the production management system for the plant line.



Audit at plant in China



# FINANCIAL SECTION

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# CONSOLIDATED SIX-YEAR FINANCIAL SUMMARY

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

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

	2013	2014	2015	2016	2017	2018
<b>For the Year:</b>						
Net sales	¥487,241	¥507,679	¥565,486	¥575,505	¥620,062	¥678,312
Gross profit	183,079	190,829	213,112	202,601	223,759	241,582
Selling, general and administrative expenses	134,436	146,156	156,791	152,960	160,520	166,557
Operating profit	48,643	44,673	56,321	49,641	63,239	75,025
Recurring profit*1	49,973	47,457	59,384	50,775	63,291	75,380
Profit attributable to owners of parent	32,383	25,055	37,589	34,584	44,160	54,110
Comprehensive income	41,505	32,633	43,357	27,377	43,105	56,025
Capital expenditures	23,836	28,979	27,761	26,987	25,016	60,502
Depreciation and amortization	20,416	21,726	23,712	21,626	21,854	23,545
Cash flows from operating activities	36,411	41,291	50,103	58,050	64,137	55,138
<b>At Year-End:</b>						
Total assets	¥374,203	¥405,093	¥441,764	¥448,336	¥488,033	¥540,491
Total current assets	264,804	284,398	317,516	322,177	357,783	359,614
Total current liabilities	108,391	120,135	123,136	114,334	126,111	136,273
Total net assets	248,770	267,951	303,513	317,304	348,784	387,355
<b>Per Share Data (Yen):</b>						
Basic earnings per share	¥147.40	¥114.05	¥171.10	¥157.43	¥201.03	¥246.29
Cash dividends	45.00	35.00	62.00	52.00	82.00	123.00
<b>Main Financial Indicators:</b>						
Return on equity (ROE)*2 (%)	14.1	9.7	13.2	11.2	13.3	14.7
Return on assets (ROA)*3 (%)	14.0	12.2	14.0	11.4	13.5	14.7
Selling, general and administrative expenses to net sales (%)	27.6	28.8	27.7	26.6	25.9	24.6
Operating profit margin (%)	10.0	8.8	10.0	8.6	10.2	11.1
Profit attributable to owners of parent margin (%)	6.6	4.9	6.6	6.0	7.1	8.0
Shareholders' equity ratio (%)	66.0	66.0	68.6	70.6	71.3	71.5
Debt/equity ratio (times)	0.05	0.03	0.01	0.01	0.00	0.00

Notes:

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

\*2 ROE = Profit attributable to owners of parent / Average total shareholders' equity (= Total net assets – Stock acquisition rights – Non-controlling interests)

\*3 ROA = Recurring profit / Average total assets

# FINANCIAL REVIEW

## Overview of Performance in the Fiscal Year Ended March 31, 2018

During the fiscal year ended March 31, 2018, the Japanese economy continued to moderately recover, supported mainly by a recovery in personal consumption and improved corporate profitability. However, the outlook for the overall economy remained uncertain. Overseas, personal consumption was impacted by uncertainty in social conditions and other factors.

In this environment, the BANDAI NAMCO Group ("the Group") has pushed ahead with the three-year Mid-term Plan that started in April 2015. Under the Vision of "NEXT STAGE: Empower, Gain Momentum and Accelerate Evolution," the Group is targeting medium- and long-term growth and has focused on creating and cultivating new IP (Intellectual Property: meaning characters and other intellectual property), expanding target markets, and growing new businesses as part of efforts to strengthen the "IP axis strategy" that aims to maximize IP value through the provision of the best products and services at the best possible times. The Group also worked to expand its IP lineup, business fields, and areas in overseas markets.

During this fiscal year, we pushed ahead with key measures of the Mid-term Plan, where network content such as game applications for smartphones and home video games performed well in Japan and overseas. In addition, key IP products and services in each business segment also performed favorably. The Group achieved record-high results for both net sales and operating profit.

### Net Sales

On a consolidated basis, the Group's net sales were ¥678,312 million (year-on-year increase of 9.4%)

### Cost of Sales

Cost of sales was ¥436,730 million, and the ratio of cost of sales to

net sales increased to 64.4%, an increase of 0.5 percentage points from the previous fiscal year. As a result, gross profit was ¥241,582 million, and the gross profit margin was 35.6%, a decrease of 0.5 percentage points from the previous fiscal year.

### SG&A Expenses

Selling, general and administrative (SG&A) expenses were ¥166,557 million (year-on-year increase of 3.8%), and the ratio of SG&A expenses to net sales declined to 24.6%, from 25.9% in the previous fiscal year. Principal items included advertising expenses of ¥39,720 million, directors' remuneration and employees' wages of ¥43,996 million, employees' retirement and severance benefits of ¥2,607 million, provision for directors' bonuses of ¥1,743 million, and research and development expenses of ¥19,399 million.

### Operating Profit

Operating profit was ¥75,025 million (year-on-year increase of 18.6%), and the operating profit margin increased to 11.1%, from 10.2% in the previous fiscal year.

### Other Income (Loss)

In other income (loss), loss on impairment of fixed assets was ¥1,463 million, and gain (loss) on sales and disposal of fixed assets, net was ¥734 million. As a result, there was a net other loss of ¥2,527 million.

### Profit Attributable to Owners of Parent

The Group recorded profit attributable to owners of parent of ¥54,110 million (year-on-year increase of 22.5%). The profit attributable to owners of parent margin was 8.0%, and basic earnings per share increased to ¥246.29, from ¥201.03 in the previous fiscal year.

## Results by Segment

	Millions of yen			Millions of yen		
	Net sales			Segment profit		
	2018	2017	Year on year	2018	2017	Year on year
Toys and Hobby	¥222,417	¥218,099	¥ 4,318	¥14,476	¥13,331	¥ 1,145
Network Entertainment	405,986	355,586	50,400	52,375	42,035	10,340
Visual and Music Production	56,059	56,290	(231)	12,509	13,437	(928)
Other	27,641	26,797	844	767	702	65

### Toys and Hobby Business

As for Toys and Hobby Business, in Japan, long-established IP products such as the *KAMEN RIDER* series, the *PRETTY CURE!* series, and the *Dragon Ball* series continued to perform well, while products of the *Mobile Suit Gundam* series performed steadily, mainly in plastic models. In addition, the Group enhanced efforts to expand its target markets for mature fans and implemented measures to strengthen the IP axis strategy by taking steps to expand IP lineup and the like. Overseas, in the Asian region, products of the *Mobile Suit Gundam* series and collectable toys for mature fans continued gaining in popularity. In Americas and Europe, we continued with the roll-out of card products and the like for the mature fan base.

As a result, net sales in the Toys and Hobby Business were ¥222,417 million (year-on-year increase of 2.0%), and segment profit was ¥14,476 million (year-on-year increase of 8.6%).

### Network Entertainment Business

As for the Network Entertainment Business, in network content such as game applications for smartphones, key titles being distributed

worldwide such as *DRAGON BALL Z DOKKAN BATTLE* and *ONE PIECE Treasure Cruise*, and, in Japan, key titles such as *The iDOLM@STER* series continued to perform well and contributed significantly to earnings. In home video games, the new titles *TEKKEN 7* and *DRAGONBALL FighterZ* became popular mainly in the Americas and Europe, and repeat sales of existing titles were favorable. In the amusement business, the Group's existing amusement facilities in Japan performed favorably, and the Group proactively developed machines and opened new facilities utilizing virtual reality (VR) as a fresh initiative combining new technologies.

As a result, net sales in the Network Entertainment Business were ¥405,986 million (year-on-year increase of 14.2%), and segment profit was ¥52,375 million (year-on-year increase of 24.6%).

### Visual and Music Production Business

In the Visual and Music Production Business, the Company rolled out videos and products linked to new and existing key IP products, such as the *Mobile Suit Gundam* series, the *LoveLive!* series, and the *GIRLS und PANZER* series, and these became popular. Although

earnings also made a contribution from license revenue related to products such as the *LoveLive!* series, differences mainly in the launch timing for key products resulted in a year-on-year decline in earnings for the business overall.

As a result, net sales in the Visual and Music Production Business were ¥56,059 million (year-on-year decrease of 0.4%), and segment profit was ¥12,509 million (year-on-year decrease of 6.9%).

### Other Businesses

Other Businesses consist of companies that conduct businesses such as logistics support, printing, and other kinds of administration and operational support for each of the Group's strategic business units: Toys and Hobby SBU, Network Entertainment SBU, and Visual and Music Production SBU. We made efforts to manage such operations related to group support in an efficient manner.

As a result, net sales in the Other Businesses were ¥27,641 million (year-on-year increase of 3.1%), and segment profit was ¥767 million (year-on-year increase of 9.3%).

## Financial Position

As of March 31, 2018, total assets stood at ¥540,491 million, an increase of ¥52,458 million from the end of the previous fiscal year. Cash and time deposits declined ¥20,000 million due to the acquisition of land, the payment of dividends, purchases of investment securities, and other factors. However, the Company recorded increases of ¥12,542 million in trade receivables, ¥8,862 million in work in process, ¥33,919 million in property, plant and equipment mainly due to the acquisition of land, and ¥17,293 million in investment securities.

Total liabilities amounted to ¥153,136 million, an increase of ¥13,887 million from the end of the previous fiscal year. This increase was principally attributable to increases of ¥5,382 million in trade payables and of ¥4,840 million in other current liabilities, which resulted from increases in accrued expenses, etc.

Total net assets stood at ¥387,355 million, an increase of ¥38,571 million from the end of the previous fiscal year. The main factors were an increase of ¥36,280 million in retained earnings due to the recording of profit attributable to owners of parent of ¥54,110 million, and an increase of ¥3,811 million in valuation difference on available-for-sale securities, net of tax, despite ¥18,023 million in cash dividends paid.

As a result, the shareholders' equity ratio was 71.5%, compared with 71.3% at the end of the previous fiscal year. The current ratio\*<sup>1</sup> was 263.9%, compared with 283.7% at the end of the previous fiscal year; the quick ratio\*<sup>2</sup> was 200.8%, compared with 222.8%; and the interest coverage ratio\*<sup>3</sup> was 1,468.2 times, compared with 1,718.0 times.

Notes:

\*<sup>1</sup> Current ratio = Total current assets / Total current liabilities

\*<sup>2</sup> Quick ratio = (Cash and time deposits + Trade receivables) / Total current liabilities

\*<sup>3</sup> Interest coverage ratio = Cash flows from operating activities / Interest paid

## Cash Flows

As of the end of the fiscal year, cash and cash equivalents ("funds") remaining on hand had decreased by ¥24,836 million from the end of the previous fiscal year to ¥180,832 million.

Below is the breakdown of cash flows by activities.

### Cash Flows from Operating Activities

The amount of funds provided by operating activities totaled ¥55,138 million (year-on-year decrease of 14.0%). As a breakdown of funds used, income taxes paid was ¥19,710 million (compared with ¥10,462 million in the previous fiscal year). However, overall, there

was a net increase in funds due to profit before income taxes of ¥72,498 million (compared with ¥60,861 million in the previous fiscal year) and depreciation and amortization of ¥23,545 million (compared with ¥21,854 million in the previous fiscal year).

### Cash Flows from Investing Activities

The amount of funds used in investing activities totaled ¥63,339 million (year-on-year increase of 386.6%). The main breakdown of funds used was purchases of property, plant and equipment and intangible assets totaling ¥48,243 million (compared with ¥14,822 million in the previous fiscal year) and purchases of investment securities of ¥11,461 million (compared with ¥2,946 million in the previous fiscal year).

### Cash Flows from Financing Activities

The amount of funds used in financing activities totaled ¥17,086 million (year-on-year increase of 29.7%). The main breakdown of funds used was cash dividends paid of ¥18,023 million (compared with ¥11,430 million in the previous fiscal year).

## Basic Policy on the Distribution of Profits

The Company ranks the return of profits to shareholders as one of its highest priorities in its management. The fundamental policy is to further strengthen the Group's competitiveness and, while maintaining a sound financial status, to achieve regular distributions of dividends and improvement in the Company's corporate value. As part of starting the new Mid-term Plan in April 2018, and in light of the Group's strategy and the environment surrounding its business, the basic policy for providing returns to shareholders was examined from various angles. As a result, the Company changed over to a basic policy of providing a return to shareholders that targets a total return ratio of 50% or more based on stable dividend payments of 2% of DOE (dividends on equity). Under this policy, the Company strives to maintain long-term and stable dividend levels and be more aware of capital cost. At a Board of Directors meeting held on February 9, 2018, it was decided that the application of this new basic policy would be moved forward, and that it would be applied starting with the year-end dividend for the fiscal year ended March 31, 2018.

In regard to annual dividends per share for the fiscal year ended March 31, 2018, the Company paid an annual dividend of ¥123 per share, which consists of base dividends of ¥32 per share, a performance-based dividend of ¥66 per share, and an additional special dividend of ¥25 per share that expresses the Company's appreciation for shareholders in regard to the record-high levels of net sales and profits. The Company paid an interim dividend of ¥12 per share on December 7, 2017, and accordingly the year-end dividend was ¥111 per share.

For the fiscal year ending March 31, 2019, in accordance with the basic policy on the distribution of profits, the Company plans to pay the base dividend of ¥36 per share, and the year-end dividend will be considered separately by the Company in accordance with the basic policy on the distribution of profits.

## Targets and Management Performance Indicators

The Group aims to increase profitability and capital efficiency and emphasizes return on equity (ROE) as a management performance indicator. Under the new three-year Mid-term Plan that started from April 2018, the Company will continue working to achieve revenue growth and higher capital efficiency by advancing its main strategies. In this way, the Company will aim to achieve the numerical targets for

the final year of the Mid-term Plan—net sales of ¥750,000 million, operating profit of ¥75,000 million, an operating margin of 10% or more, and ROE of 10% or more in the fiscal year ending March 31, 2021.

### Outlook for the Fiscal Year Ending March 31, 2019

Looking ahead, although there are bright signs in Japanese and overseas economic trends, the business environment is expected to remain beset by uncertainties, including the impact on personal consumption from uncertainties in the overall society and the overall economy, as well as overseas political trends. Such factors are also expected to have an impact on the entertainment industry, in which the Group is extensively involved, resulting in ongoing uncertainty in this business environment, and also, even severe changes in the market environment and user preferences.

Facing these circumstances, the Group started a three-year new Mid-term Plan in April 2018, under the Mid-term Vision of “CHANGE for the NEXT: Empower, Gain Momentum, and Accelerate Evolution” which reflects our aspiration to achieve changes in all aspects to progress to a next stage rather than being bound by previous business models and established ideas. In the new Mid-term Plan, the Group will aim to evolve “IP Axis Strategy” further to maximize IP value through taking advantage of the worldview and unique characteristics of its IPs and providing the best products and services at the best possible times, thereby achieving penetration and expansion in global markets. At the same time, we will also strengthen development in regions and businesses with high growth potential. Furthermore, we will drive creation of new IP and regionally oriented strategies by unifying the efforts in each region across the Group under the ALL BANDAI NAMCO concept.

We will implement the following four strategies as the main strategies in the new Mid-term Plan:

1. IP axis strategy “Accelerate evolution in IP axis strategy”  
Boost capability to create IP (structural changes) / Invest aggressively in IP creation
2. Business strategy “Empower push into new entertainment”  
Establish and enhance business infrastructure / Expand and strengthen business fields / Promote incubation
3. Region strategy “Gain momentum with ALL BANDAI NAMCO”  
Make full-blown entry into Chinese market / Establish system for ALL BANDAI NAMCO
4. Personnel strategy “Make personnel the core of the Group”  
Establish environment to optimize employees’ performance by tapping their individual strengths, and to empower new ventures

By implementing these main strategies, we aim to further strengthen the Group’s business foundation and achieve growth in global markets. Our numerical targets for the fiscal year ending March 31, 2021, the final year of the new Mid-term Plan, are net sales of ¥750,000 million and operating profit of ¥75,000 million. We are also targeting operating margin at 10% or more and ROE (profit attributable to owners of parent / net assets) at 10% or more.

Starting April 2018, the Group has changed its organizational structure to promote the advancement of each of the strategies of the new Mid-term Plan. The name of the units of aggregated business companies that are to execute the respective business strategies has been changed from “SBUs” (Strategic Business Units) to “Units.” In addition, to enable swifter advancement of the main strategies for each mission stated in the Mid-term Plan, the Group has shifted from its previous three-SBU structure to a five-Unit structure. Specifically, the Network Entertainment SBU has been reorganized into the Network Entertainment Unit, which

develops business in fields such as network content and home video games, and the Real Entertainment Unit, which provides content for real-world based facilities, services, equipment, and so forth, unique to the Group. Moreover, the IP Creation Unit has been established as a spin-off from the Visual and Music Production SBU to focus on creating new IP.

In the fiscal year ending March 31, 2019, the first year of the new Mid-term Plan, the Group will work to push forward implementation of main strategies in each Unit. As part of the initiatives to be implemented across the Units, we will strengthen new IP creation and cultivation capability in various ways including product or service-originated IP, visual product-originated IP, utilization of an internal idea posting system, collaboration with partner companies and strategic investments. The Group also plans to push ahead with strengthening foundations across the Units in preparation for a full-blown entry into the Chinese market. In the Toys and Hobby Unit, we will maintain and expand our domestic market share while strengthening the business in products for mature fan base in Japan and overseas. In the Network Entertainment Unit, we will further accelerate the worldwide roll-out of network content and home video games, and also push ahead with activities for creating new entertainment including a new platform. In the Real Entertainment Unit, we will strengthen our capability of providing venues, services and content leveraging unique strength of the Group. In the Visual and Music Production Unit, we will promote the IP expansion with visuals, music and live performance integrated. In the IP Creation Unit, we will strengthen new IP creation through collaboration among Units over respective products and services.

We will strengthen the foundation for growth under the Mid-term Plan by implementing these initiatives. In light of the above considerations, the consolidated projections of the fiscal year ending March 31, 2019 are as follows: net sales of ¥650,000 million (year-on-year decrease of 4.2%), operating profit of ¥60,000 million (year-on-year decrease of 20.0%), recurring profit of ¥61,000 million (year-on-year decrease of 19.1%), and profit attributable to owners of parent of ¥43,000 million (year-on-year decrease of 20.5%).

### Consolidated Plan for the Fiscal Year Ending March 31, 2019

Segments	Millions of yen	
	Net sales	Segment profit
Toys and Hobby	¥230,000	¥15,000
Network Entertainment	300,000	35,000
Real Entertainment	100,000	3,500
Visual and Music Production	40,000	6,000
IP Creation	15,000	4,500
Other	30,000	1,000
Adjustments	(65,000)	(5,000)
Consolidated	¥650,000	¥60,000

### Forward-Looking Statements

Forecasts for the next fiscal year and other future projections in this 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 due to 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

BANDAI NAMCO Holdings Inc. and Consolidated Subsidiaries  
As of March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2018	2018
<b>Assets</b>			
<b>Current assets:</b>			
Cash and time deposits (notes 4, 12 and 22)	¥ 205,517	¥ 185,517	\$ 1,746,207
Trade receivables (notes 6 and 12)	75,519	88,061	828,887
Allowance for doubtful receivables	(453)	(1,172)	(11,032)
Inventories (note 7)	46,688	55,682	524,115
Deferred tax assets (note 13)	9,240	8,995	84,667
Other current assets (notes 4 and 5)	21,272	22,531	212,077
Total current assets	357,783	359,614	3,384,921
<b>Investments and other assets:</b>			
Investment securities (notes 5 and 12)	39,203	56,496	531,777
Net defined benefit asset (note 11)	72	117	1,101
Deferred tax assets (note 13)	12,444	13,252	124,736
Other investments and assets (notes 8 and 22)	18,321	16,827	158,388
Allowance for doubtful receivables	(1,662)	(1,395)	(13,131)
Total investments and other assets	68,378	85,297	802,871
<b>Property, plant and equipment:</b>			
Buildings and structures (note 8)	30,700	30,122	283,528
Amusement facilities and machines (note 8)	58,975	63,008	593,072
Land (note 8)	11,155	43,420	408,697
Other property, plant and equipment (note 8)	117,200	118,869	1,118,873
Total	218,030	255,419	2,404,170
Less accumulated depreciation	(165,845)	(169,315)	(1,593,703)
Net property, plant and equipment	52,185	86,104	810,467
<b>Intangible assets:</b>			
Total intangible assets (note 8)	9,687	9,476	89,194
Total assets	¥ 488,033	¥ 540,491	\$ 5,087,453

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2018	2018
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Trade payables (notes 10 and 12)	¥ 64,173	¥ 69,555	\$ 654,697
Accrued income taxes (note 12)	8,658	8,598	80,930
Other current liabilities (notes 9 and 13)	53,280	58,120	547,063
Total current liabilities	126,111	136,273	1,282,690
<b>Long-term liabilities:</b>			
Net defined benefit liability (note 11)	5,766	8,486	79,876
Deferred tax liabilities (note 13)	1,223	1,578	14,853
Other long-term liabilities (note 9)	6,149	6,799	63,995
Total long-term liabilities	13,138	16,863	158,724
Total liabilities	139,249	153,136	1,441,414
<b>Net assets:</b>			
Shareholders' equity:			
Common stock (note 19)			
Authorized: 1,000,000,000 shares			
Issued: 222,000,000 shares	10,000	10,000	94,127
Additional paid-in capital	52,065	52,196	491,303
Retained earnings (note 17)	297,984	334,264	3,146,310
Treasury stock, at cost; 2,334,579 shares in 2017 and 2,239,901 shares in 2018 (note 19)	(2,423)	(2,326)	(21,894)
Subtotal	357,626	394,134	3,709,846
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of tax (notes 5 and 15)	7,885	11,696	110,090
Deferred gains or losses on hedges, net of tax (note 15)	210	(300)	(2,823)
Revaluation reserve for land, net of tax (note 18)	(5,694)	(5,887)	(55,412)
Foreign currency translation adjustments (note 15)	(8,725)	(8,330)	(78,407)
Remeasurements of defined benefit plans, net of tax (notes 11 and 15)	(3,196)	(4,756)	(44,766)
Subtotal	(9,520)	(7,577)	(71,318)
Share acquisition rights	100	—	—
Non-controlling interests	578	798	7,511
Total net assets	348,784	387,355	3,646,039
Total liabilities and net assets	¥488,033	¥540,491	\$5,087,453

# CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

BANDAI NAMCO Holdings Inc. and Consolidated Subsidiaries  
Years Ended March 31, 2017 and 2018

## Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2018	2018
<b>Net sales</b>	¥620,062	¥678,312	\$6,384,714
<b>Cost of sales</b>	396,303	436,730	4,110,787
Gross profit	223,759	241,582	2,273,927
<b>Selling, general and administrative expenses</b> (note 14)	160,520	166,557	1,567,743
Operating profit	63,239	75,025	706,184
<b>Other income (loss):</b>			
Interest and dividend income	594	604	5,685
Interest expense	(36)	(37)	(348)
Gain (loss) on sales of investment securities, net	72	1	9
Loss on valuation of investment securities	(0)	(52)	(489)
Gain (loss) on sales and disposal of fixed assets, net	(334)	(734)	(6,909)
Loss on impairment of fixed assets (note 8)	(1,307)	(1,463)	(13,771)
Other	(1,367)	(846)	(7,963)
	(2,378)	(2,527)	(23,786)
<b>Profit (loss) before income taxes</b>	60,861	72,498	682,398
<b>Income taxes</b> (note 13)	16,663	18,609	175,160
<b>Profit</b>	44,198	53,889	507,238
<b>Profit (loss) attributable to non-controlling interests</b>	38	(221)	(2,081)
<b>Profit attributable to owners of parent</b>	¥ 44,160	¥ 54,110	\$ 509,319

	Yen		U.S. dollars (note 3)
	2017	2018	2018
<b>Per share data</b> (note 16):			
Net assets at March 31	¥1,584.71	¥1,758.99	\$16.56
Earnings per share:			
Basic	201.03	246.29	2.32
Diluted	200.97	246.23	2.32
Cash dividends applicable to period (note 17)	82.00	123.00	1.16

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2018	2018
<b>Profit</b>	¥44,198	¥53,889	\$507,238
<b>Other comprehensive income</b> (note 15):			
Valuation difference on available-for-sale securities, net of tax (note 5)	891	3,612	33,998
Deferred gains or losses on hedges, net of tax	907	(510)	(4,800)
Foreign currency translation adjustments	(2,936)	395	3,718
Remeasurements of defined benefit plans, net of tax (note 11)	(51)	(1,560)	(14,683)
Share of other comprehensive income of associates accounted for using equity method	96	199	1,873
Total other comprehensive income	(1,093)	2,136	20,106
<b>Comprehensive income</b>	¥43,105	¥56,025	\$527,344
<b>Comprehensive income attributable to:</b>			
Owners of parent	¥43,067	¥56,246	\$529,425
Non-controlling interests	38	(221)	(2,081)

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

BANDAI NAMCO Holdings Inc. and Consolidated Subsidiaries  
Years Ended March 31, 2017 and 2018

Year ended March 31, 2017

	Shareholders' equity					Accumulated other comprehensive income						Millions of yen		
	Common stock (note 19)	Additional paid-in capital	Retained earnings (note 17)	Treasury stock (note 19)	Total shareholders' equity	Valuation difference on available-for-sale securities, net of tax (notes 5 and 15)	Deferred gains or losses on hedges, net of tax (note 15)	Revaluation reserve for land, net of tax (note 18)	Foreign currency translation adjustments (note 15)	Remeasurements of defined benefit plans, net of tax (notes 11 and 15)	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets at end of year
Balance at beginning of year	¥10,000	¥52,247	¥265,231	¥(2,411)	¥325,067	¥6,907	¥(706)	¥(5,671)	¥(5,789)	¥(3,145)	¥(8,404)	¥100	¥541	¥317,304
Cash dividends			(11,430)		(11,430)									(11,430)
Profit attributable to owners of parent			44,160		44,160									44,160
Purchase of treasury stock				(4)	(4)									(4)
Disposal of treasury stock		1		0	1									1
Changes in treasury stock of parent arising from transactions with non-controlling shareholders		(183)			(183)									(183)
Changes in treasury stock accompanying changes to holdings in companies to which the equity method is applied				(8)	(8)									(8)
Reversal of revaluation reserve for land			23		23			(23)			(23)			—
Net changes of items other than shareholders' equity						978	916	—	(2,936)	(51)	(1,093)	—	37	(1,056)
Balance at end of year	¥10,000	¥52,065	¥297,984	¥(2,423)	¥357,626	¥7,885	¥210	¥(5,694)	¥(8,725)	¥(3,196)	¥(9,520)	¥100	¥578	¥348,784

Year ended March 31, 2018

	Shareholders' equity					Accumulated other comprehensive income						Millions of yen		
	Common stock (note 19)	Additional paid-in capital	Retained earnings (note 17)	Treasury stock (note 19)	Total shareholders' equity	Valuation difference on available-for-sale securities, net of tax (notes 5 and 15)	Deferred gains or losses on hedges, net of tax (note 15)	Revaluation reserve for land, net of tax (note 18)	Foreign currency translation adjustments (note 15)	Remeasurements of defined benefit plans, net of tax (notes 11 and 15)	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets at end of year
Balance at beginning of year	¥10,000	¥52,065	¥297,984	¥(2,423)	¥357,626	¥ 7,885	¥ 210	¥(5,694)	¥(8,725)	¥(3,196)	¥(9,520)	¥ 100	¥578	¥348,784
Cash dividends			(18,023)		(18,023)									(18,023)
Profit attributable to owners of parent			54,110		54,110									54,110
Change of scope of consolidation			(0)		(0)									(0)
Change of scope of consolidation - foreign currency translation adjustment									(8)		(8)			(8)
Purchase of treasury stock				(4)	(4)									(4)
Disposal of treasury stock		131		101	232									232
Changes in treasury stock accompanying changes to holdings in companies to which the equity method is applied				0	0									0
Reversal of revaluation reserve for land			193		193			(193)			(193)			—
Net changes of items other than shareholders' equity						3,811	(510)	—	403	(1,560)	2,144	(100)	220	2,264
Balance at end of year	¥10,000	¥52,196	¥334,264	¥(2,326)	¥394,134	¥11,696	¥(300)	¥(5,887)	¥(8,330)	¥(4,756)	¥(7,577)	—	¥798	¥387,355

Year ended March 31, 2018

	Shareholders' equity					Accumulated other comprehensive income						Thousands of U.S. dollars (note 3)		
	Common stock (note 19)	Additional paid-in capital	Retained earnings (note 17)	Treasury stock (note 19)	Total shareholders' equity	Valuation difference on available-for-sale securities, net of tax (notes 5 and 15)	Deferred gains or losses on hedges, net of tax (note 15)	Revaluation reserve for land, net of tax (note 18)	Foreign currency translation adjustments (note 15)	Remeasurements of defined benefit plans, net of tax (notes 11 and 15)	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets at end of year
Balance at beginning of year	\$94,127	\$490,070	\$2,804,819	\$(22,807)	\$3,366,209	\$ 74,219	\$ 1,977	\$(53,596)	\$(82,125)	\$(30,083)	\$(89,608)	\$ 941	\$5,441	\$3,282,983
Cash dividends			(169,644)		(169,644)									(169,644)
Profit attributable to owners of parent			509,319		509,319									509,319
Change of scope of consolidation			(0)		(0)									(0)
Change of scope of consolidation - foreign currency translation adjustment									(75)		(75)			(75)
Purchase of treasury stock				(40)	(40)									(40)
Disposal of treasury stock		1,233		952	2,185									2,185
Changes in treasury stock accompanying changes to holdings in companies to which the equity method is applied				1	1									1
Reversal of revaluation reserve for land			1,816		1,816			(1,816)			(1,816)			—
Net changes of items other than shareholders' equity						35,871	(4,800)	—	3,793	(14,683)	20,181	(941)	2,070	21,310
Balance at end of year	\$94,127	\$491,303	\$3,146,310	\$(21,894)	\$3,709,846	\$110,090	\$(2,823)	\$(55,412)	\$(78,407)	\$(44,766)	\$(71,318)	—	\$7,511	\$3,646,039

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

BANDAI NAMCO Holdings Inc. and Consolidated Subsidiaries  
Years Ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2018	2018
<b>Cash flows from operating activities:</b>			
Profit (loss) before income taxes	¥ 60,861	¥ 72,498	\$ 682,398
Depreciation and amortization	21,854	23,545	221,621
Loss on impairment of fixed assets	1,307	1,463	13,771
Loss (gain) on sales and disposal of fixed assets, net	334	734	6,909
Loss on disposal of amusement facilities and machines	576	533	5,017
Loss (gain) on sales of investment securities, net	(72)	(1)	(9)
Decrease (increase) in trade receivables	(3,000)	(13,048)	(122,816)
Decrease (increase) in inventories	(1,048)	(9,008)	(84,789)
Acquisition of amusement facilities and machines	(3,472)	(7,350)	(69,183)
Increase (decrease) in trade payables	1,517	5,412	50,941
Other	(4,797)	(502)	(4,726)
Subtotal	74,060	74,276	699,134
Interest and dividends received	576	610	5,742
Interest paid	(37)	(38)	(358)
Income taxes paid	(10,462)	(19,710)	(185,523)
Net cash provided by operating activities	64,137	55,138	518,995
<b>Cash flows from investing activities:</b>			
Decrease (increase) in time deposits, net	4,283	(3,941)	(37,095)
Purchases of property, plant and equipment	(9,452)	(42,850)	(403,332)
Sales of property, plant and equipment	1,191	602	5,666
Purchases of intangible assets	(5,370)	(5,393)	(50,762)
Purchases of investment securities	(2,946)	(11,461)	(107,878)
Sales of investment securities	178	53	499
Purchases of investments in subsidiaries and associates	(1,473)	(80)	(753)
Proceeds from sales of shares of subsidiaries and associates	35	—	—
Purchases of shares of subsidiaries resulting in change in scope of consolidation (note 4)	(341)	—	—
Proceeds from purchases of shares of subsidiaries resulting in change in scope of consolidation (note 4)	955	385	3,624
Payments of loans receivable	(1,591)	(2,274)	(21,404)
Collection of loans receivable	760	2,727	25,668
Payments of guarantee money deposited	(782)	(1,704)	(16,039)
Collection of guarantee money deposited	1,587	633	5,958
Other	(51)	(36)	(340)
Net cash used in investing activities	(13,017)	(63,339)	(596,188)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	(341)	6	56
Proceeds from long-term loans payable	200	790	7,436
Repayments of long-term loans payable	(1,316)	(218)	(2,052)
Repayments of lease obligations	(63)	(78)	(734)
Decrease (increase) in treasury stock, net	(4)	(4)	(38)
Proceeds from share issuance to non-controlling shareholders	—	441	4,151
Cash dividends paid	(11,430)	(18,023)	(169,644)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(218)	—	—
Net cash used in financing activities	(13,172)	(17,086)	(160,825)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(1,823)	352	3,313
<b>Net increase (decrease) in cash and cash equivalents</b>	36,125	(24,935)	(234,705)
<b>Cash and cash equivalents at beginning of year</b>	169,543	205,668	1,935,881
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	—	99	932
<b>Cash and cash equivalents at end of year (note 4)</b>	¥ 205,668	¥180,832	\$1,702,108

See accompanying Notes to Consolidated Financial Statements.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BANDAI NAMCO Holdings Inc. and Consolidated Subsidiaries

## 1 Basis of Presentation

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

The accounts of foreign subsidiaries are based on their accounting records maintained principally 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's consolidated financial statements to conform to the presentation used for the fiscal year ended March 31, 2018.

## 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 inter-company accounts and transactions have been eliminated in consolidation.

### (b) Cash and Cash Equivalents

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

### (c) Foreign Currency Translation

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

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

The assets and liabilities of foreign consolidated subsidiaries and affiliates are translated into yen at the rates of exchange in effect at the balance sheet date. Revenue and expenses of foreign consolidated subsidiaries and affiliates are translated into yen at the average rates of exchange during the fiscal year. Gains and losses, resulting from the translation of foreign currency financial statements are generally excluded from the consolidated statements of income and are included in "Foreign currency translation adjustments" 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) Marketable Securities and Investment Securities

Available-for-sale securities with market quotations are principally carried at fair value. The difference, net of tax, between the acquisition cost and the carrying amount of available-for-sale securities with market quotations is recognized in "Valuation difference on available-for-sale securities, net of tax" in "Net assets" in the consolidated balance sheets until realized. Available-for-sale securities without market quotations are principally carried at cost. The cost of available-for-sale securities sold is principally computed based on the moving-average method. Investments in investment limited partnerships or similar associations (investments that are deemed to be securities under the Financial Instruments and Exchange Act, Article 2, Clause 2) are carried at the net amount proportionate to the Company's ownership interests, based on the most recent financial statements available in accordance with the financial reporting date specified in the partnership agreement.

**(f) Allowance for Doubtful Receivables**

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

**(g) Inventories****Domestic Consolidated Subsidiaries**

Generally, inventories are stated at cost determined by the average-cost method. The value stated in the consolidated balance sheets is calculated by writing down the carrying amount based on declining profitability.

**Foreign Consolidated Subsidiaries**

Generally, 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 in 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 date enacted by the Diet.

The Company and some of its domestic consolidated subsidiaries have been applying the consolidated taxation system.

**(i) Property, Plant and Equipment****The Company and Its Domestic Consolidated Subsidiaries:**

Depreciation of property, plant and equipment is principally computed by the declining-balance method based on estimated useful lives. The straight-line method is used for buildings (except for building fixtures) acquired since April 1, 1998. The estimated useful lives for Buildings and structures and Amusement facilities and machines are 3–50 years and 3–15 years, respectively.

**Foreign Consolidated Subsidiaries:**

Depreciation of property, plant and equipment is principally computed by the straight-line method based on estimated useful lives. The estimated useful lives for Buildings and structures and Amusement facilities and machines are 5–50 years and 3–7 years, respectively.

**(j) Intangible Assets**

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

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

**(k) Leased Assets**

Depreciation of leased assets is computed by the straight-line method over the period of the lease with a residual value of zero.

**(l) Derivatives and Hedging Activities**

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

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

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

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

In the event that a hedge becomes ineffective, hedge accounting is no longer applied and the recognition of the gains or losses on the hedge transaction is no longer deferred.

**(m) Retirement and Severance Benefits**

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

In calculating the retirement benefit obligations, the benefit formula basis is principally used to attribute expected benefit payments to the period extending up to the end of the current fiscal year. Prior service costs are amortized from the time they are incurred by the straight-line method for a certain number of years (10 years) within employees' average remaining years of service. Actuarial gains or losses are amortized from the consolidated fiscal year following the year in which the gain or loss is incurred by the straight-line method for a certain number of years (9–19 years) not longer than employees' average remaining years of service. The Company and certain consolidated subsidiaries use a simplified method in calculating net defined benefit asset, net defined benefit liability, and periodic pension cost under which retirement benefit obligations are principally based on accrued benefits at the end of the year.

#### (n) Appropriation of Retained Earnings

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.

#### (o) Per Share Data

In computing basic earnings per share, the average number of shares outstanding during each year has been used. Diluted earnings 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.

#### (p) New Accounting Standards Not Yet Applied

The Company and Its Domestic Consolidated Subsidiaries:

- Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, revision on February 16, 2018; Accounting Standards Board of Japan)
- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26; final revision on February 16, 2018; Accounting Standards Board of Japan)

##### (1) Overview

In regard to the "Implementation Guidance on Tax Effect Accounting," etc., when the Practical Guidelines on Accounting Standards for Tax Effect Accounting of the Japanese Institute of Certified Public Accountants were transferred to the Accounting Standards Board of Japan, while fundamentally observing the content of those guidelines, the following revisions, which were considered to be necessary, were implemented.

##### Major revised accounting treatments

- In non-consolidated financial statements, the accounting treatment of taxable temporary differences related to subsidiaries' shares, etc.
- For companies that come under Category 1, accounting treatment related to the recoverability of deferred tax assets

##### (2) Planned date of application

Application will start from the fiscal year ending March 31, 2019.

##### (3) Impact of the application of the guidance

No impact is expected on the consolidated financial statements resulting from the application of the "Implementation Guidance on Tax Effect Accounting," etc.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 30, 2018; Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30; March 30, 2018; Accounting Standards Board of Japan)

##### (1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed comprehensive accounting standards related to revenue recognition. In May 2014, "Revenue from Contracts with Customers" (IASB IFRS 15 and FASB Topic 606) were published. IFRS 15 is to be applied from fiscal years starting on or after January 1, 2018, and Topic 606 is to be applied from fiscal years starting after December 15, 2017. Accordingly, the Accounting Standards Board of Japan has developed comprehensive accounting standards related to revenue recognition, which have been published in conjunction with implementation guidance.

From the viewpoint of comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15, the basic policy of the Accounting Standards Board of Japan in regard to the development of accounting standards related to revenue recognition is to determine the accounting standards by starting with the incorporation of the basic principles of IFRS 15. Furthermore, if there are items that should be taken into account regarding practices, etc., that has been implemented to date in Japan, then alternative accounting treatments are added, given that this addition will not cause a loss of comparability.

##### (2) Planned date of application

Application will start from the fiscal year ending March 31, 2022.

##### (3) Impact of the application of the guidance

The impact on the consolidated financial statements resulting from the application of the "Implementation Guidance on Accounting Standard for Revenue Recognition," etc., is currently under evaluation.

#### Overseas consolidated subsidiaries

- IFRS 15 "Revenue from Contracts with Customers" and ASU 2014-09 "Revenue from Contracts with Customers"

##### (1) Overview

Under these accounting standards, at the point when a company transfers promised goods or services to the customer, the company should recognize revenue in an amount that reflects the consideration to which the company is entitled in exchange for the goods or services.

##### (2) Planned date of application

IFRS 15 will be applied from the fiscal year ending March 31, 2019, and ASU 2014-09 will be applied from the fiscal year ending March 31, 2020.

##### (3) Impact of the application of the guidance

The impact of the application of these accounting standards, etc., on the consolidated financial statements, it is expected to be immaterial.

### 3 Financial Statement Translation

The consolidated financial statements are expressed in yen. However, solely for the convenience of the reader, the consolidated financial statements as of and for the fiscal year ended March 31, 2018 have been translated into U.S. dollars at the rate of ¥106.24=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2018.

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, 2017 and 2018 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
	2017	2018	2018
Cash and time deposits	¥205,517	¥185,517	\$1,746,207
Marketable securities included in other current assets under current assets	1,641	773	7,276
Time deposits with maturities in excess of three months	(1,490)	(5,458)	(51,375)
Cash and cash equivalents	¥205,668	¥180,832	\$1,702,108

The breakdowns of major assets and liabilities of companies that newly became consolidated subsidiaries due to the acquisition of shares are as follows:

#### Fiscal year ended March 31, 2017

As of the start of consolidation of WiZ Co., Ltd., due to the acquisition of shares, the breakdown of major assets and liabilities and the relationship between the acquisition cost of the shares of WiZ Co., Ltd., and the expenditures (net) for the acquisition, were as follows:

Current assets	¥745 million
Fixed assets	¥15 million
Goodwill	¥567 million
Current liabilities	-¥450 million
Long-term liabilities	-¥38 million
Non-controlling interests	-¥35 million
Acquisition cost of the shares of WiZ Co., Ltd.	¥804 million
WiZ Co., Ltd.'s cash and cash equivalents	-¥463 million
Net expenditures for the acquisition of WiZ Co., Ltd.	¥341 million

As of the start of consolidation of Anime Consortium Japan Inc. due to the acquisition of shares, the breakdown of major assets and liabilities and the relationship between the acquisition cost of the shares of Anime Consortium Japan Inc. and the net proceeds from the acquisition, were as follows:

Current assets	¥3,223 million
Fixed assets	¥97 million
Current liabilities	-¥1,023 million
Long-term liabilities	-¥7 million
Investment value under the equity method up to the time of acquisition of control	-¥856 million
Acquisition cost of the shares of Anime Consortium Japan Inc.	¥1,434 million
Anime Consortium Japan Inc.'s cash and cash equivalents	-¥2,389 million
Net proceeds from acquisition of Anime Consortium Japan Inc.	-¥955 million

Fiscal year ended March 31, 2018

As of the start of consolidation of Actas Inc. due to the acquisition of shares, the breakdown of major assets and liabilities and the relationship between the acquisition cost of the shares of Actas Inc. and the net proceeds from the acquisition, were as follows:

Current assets	¥562 million	( \$5,290 thousand)
Fixed assets	¥31 million	( \$292 thousand)
Goodwill	¥76 million	( \$715 thousand)
Current liabilities	-¥599 million	(-\$5,638 thousand)
Long-term liabilities	-¥40 million	(-\$377 thousand)
Acquisition cost of the shares of Actas Inc.	¥30 million	( \$282 thousand)
Actas Inc.'s cash and cash equivalents	-¥415 million	(-\$3,906 thousand)
Net proceeds from acquisition of Actas Inc.	-¥385 million	(-\$3,624 thousand)

## 5 Marketable Securities and Investment Securities

Marketable securities and investment securities as of March 31, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Securities with market quotations	¥22,219	¥38,249	\$360,024
Securities without market quotations	2,737	2,830	26,638
Investments in non-consolidated subsidiaries and affiliated companies	15,381	15,792	148,645
Convertible bond-type bonds with subscription rights to shares	50	—	—
Contributions to investment partnerships	457	398	3,746
Total	¥40,844	¥57,269	\$539,053

The original cost, carrying amount (fair value), and gross unrealized gain (loss) for securities with market quotations as of March 31, 2017 and 2018 are summarized as follows:

	Millions of yen			
	2017			
	Original cost	Gross unrealized gain	Gross unrealized loss	Carrying amount (fair value)
<b>Securities with market quotations:</b>				
Equity securities	¥10,241	¥10,341	¥(4)	¥20,578
Other	1,641	—	—	1,641
Total	¥11,882	¥10,341	¥(4)	¥22,219

	Millions of yen			
	2018			
	Original cost	Gross unrealized gain	Gross unrealized loss	Carrying amount (fair value)
<b>Securities with market quotations:</b>				
Equity securities	¥21,573	¥16,622	¥(719)	¥37,476
Other	773	—	—	773
Total	¥22,346	¥16,622	¥(719)	¥38,249

	Thousands of U.S. dollars			
	2018			
	Original cost	Gross unrealized gain	Gross unrealized loss	Carrying amount (fair value)
<b>Securities with market quotations:</b>				
Equity securities	\$203,059	\$156,457	\$(6,768)	\$352,748
Other	7,276	—	—	7,276
Total	\$210,335	\$156,457	\$(6,768)	\$360,024



The following is a summary of the carrying amount of securities without market quotations as of March 31, 2017 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
	Carrying amount	Carrying amount	Carrying amount
<b>Securities without market quotations:</b>			
Unlisted securities	¥2,737	¥2,830	\$26,638
Total	¥2,737	¥2,830	\$26,638

Proceeds and gross realized gains and losses from the sales of securities in the fiscal years ended March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Equity securities	¥146	¥34	\$320
Other	32	19	179
Proceeds from the sales of securities	¥178	¥53	\$499
Gross realized gains from the sales of securities	72	1	9
Gross realized losses from the sales of securities	0	—	—

## 6 Trade Receivables

Trade receivables as of March 31, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Notes receivable	¥ 4,515	¥ 3,324	\$ 31,287
Accounts receivable—trade	71,004	84,737	797,600
Total	¥75,519	¥88,061	\$828,887

## 7 Inventories

Inventories as of March 31, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Finished goods and merchandise	¥14,467	¥14,781	\$139,128
Work in process	28,823	37,685	354,716
Raw materials and supplies	3,398	3,216	30,271
Total	¥46,688	¥55,682	\$524,115

## 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 assets for lease. In the amusement facility operations of the Network Entertainment Business, the individual facility is the smallest unit used in management accounting and is the basic unit for evaluating impairment.

The carrying amounts of the following assets, which exclude reusable assets, were reduced to the recoverable amount. The amounts of reduction recorded as an impairment loss in "Other income (loss)" for the fiscal years ended March 31, 2017 and 2018 are as follows:

Strategic business unit	Location	Items	Classification	Millions of yen		Thousands of U.S. dollars
				2017	2018	2018
Toys and Hobby	Zhongshan, China and others (note 1)	Business assets	Other property, plant and equipment	¥ 550	¥ —	\$ —
	Shibuya-ku, Tokyo and others (note 3)	Assets scheduled for disposal	Buildings and structures	16	—	—
	Taito-ku, Tokyo and others (note 4)	Assets scheduled for disposal	Other property, plant and equipment	5	—	—
			Intangible assets	4	—	—
Network Entertainment	Okinawa City, Okinawa and others (note 1)	Business assets	Other property, plant and equipment	65	—	—
	Minato-ku, Tokyo (note 2)	Amusement facilities	Amusement facilities and machines	49	—	—
		Business assets	Other property, plant and equipment	62	—	—
	Nagoya City, Aichi and others (note 3)	Amusement facilities	Amusement facilities and machines	42	—	—
	Illinois, USA (note 4)	Assets scheduled for disposal	Other investments and assets	1	—	—
			Other property, plant and equipment	1	—	—
	Illinois, USA (note 5)	Amusement facilities	Amusement facilities and machines	422	—	—
Others	Shizuoka City, Shizuoka and others (note 1)	Business assets	Intangible assets	19	—	—
			Buildings and structures	15	—	—
			Other property, plant and equipment	51	—	—
			Intangible assets	0	—	—
Corporate (Common)	Urasoe City, Okinawa (note 4)	Assets scheduled for disposal	Other property, plant and equipment	5	—	—
Toys and Hobby	Zhongshan, China and others (note 1)	Business assets	Buildings and structures	—	56	527
			Other property, plant and equipment	—	282	2,654
			Intangible assets	—	26	245
			Intangible assets	—	50	471
	Taito-ku, Tokyo (note 3)	Assets scheduled for disposal	Intangible assets	—	50	471
			Buildings and structures	—	81	762
	Sumida-ku, Tokyo (note 4)	Assets scheduled for disposal	Buildings and structures	—	81	762
			Other property, plant and equipment	—	7	66
	Shimotsuga-gun, Tochigi (note 6)	Assets scheduled for disposal	Intangible assets	—	0	0
			Buildings and structures	—	62	584
Other property, plant and equipment			—	0	0	
Network Entertainment	Toshima-ku, Tokyo and others (note 1)	Amusement facilities	Land	—	251	2,363
			Amusement facilities and machines	—	465	4,377
			Intangible assets	—	5	47
			Other investments and assets	—	15	141
	Minato-ku, Tokyo (note 2)	Business assets	Other property, plant and equipment	—	15	141
			Amusement facilities and machines	—	98	923
	Nishinomiya City, Hyogo and others (note 3)	Amusement facilities	Other investments and assets	—	1	9
			Other property, plant and equipment	—	40	377
Corporate (Common)	Yokohama City, Kanagawa (note 4)	Assets scheduled for disposal	Other property, plant and equipment	—	8	75
			Intangible assets	—	1	9
Total				¥1,307	¥1,463	\$13,771

Notes: 1. Impairment loss was recorded because it was forecast 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 that the value in use is considered to be zero.

2. Impairment loss was recorded because it was forecast 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 forecasted future cash flows, but these cash flows were not discounted because the expected period of use was short.

3. Impairment loss was recorded because it was judged that the recoverable amount of these fixed assets had decreased substantially due to the decision to close the facility. In addition, these assets were determined that the value in use is considered to be zero.

4. Impairment loss was recorded on these fixed assets for which no future use is anticipated. In addition, these assets were determined that the value in use is considered to be zero.

5. Impairment loss was recorded because it was forecast 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.

6. Impairment loss was recorded on these fixed assets for which no future use is anticipated. The recoverable amount of land is calculated based on net sale value, and evaluation is based on roadside land prices. Other assets were determined that the value in use is considered to be zero.

## 9 Loans Payable and Lease Obligations

Loans payable and lease obligations as of March 31, 2017 and 2018 are summarized as follows:

	Millions of yen				Thousands of U.S. dollars
	2017		2018		2018
	Carrying amount	Weighted average interest rate (%)	Carrying amount	Weighted average interest rate (%)	Carrying amount
Short-term loans payable	¥400	0.28	¥ 405	0.29	\$ 3,812
Current portion of long-term loans payable	155	0.40	232	0.34	2,184
Current portion of lease obligations	49	14.38	51	14.39	480
Long-term loans payable (Less current portion)	179	0.37	715	0.59	6,730
Lease obligations (Less current portion)	76	6.04	65	7.16	612
Total	¥859	—	¥1,468	—	\$13,818

The aggregate annual maturities of long-term loans payable and lease obligations outstanding as of March 31, 2018 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ 283	\$ 2,664
2020	189	1,779
2021	97	913
2022	493	4,641
2023	1	9
Total	¥1,063	\$10,006

## 10 Trade Payables

Trade payables as of March 31, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Notes payable	¥12,287	¥12,403	\$116,745
Accounts payable-trade	51,886	57,152	537,952
Total	¥64,173	¥69,555	\$654,697

## 11 Retirement and Severance Benefits

### 1. Defined benefit plans

(a) For the fiscal years ended March 31, 2017 and 2018, the reconciliation of the beginning and ending balances of retirement benefit obligations is as follows (excluding plans for which the simplified method is applied):

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Beginning balance of retirement benefit obligations	¥20,227	¥22,399	\$210,834
Service cost	1,299	1,439	13,545
Interest cost	85	96	904
Actuarial gains or losses incurred	371	3,092	29,103
Retirement benefits paid	(630)	(554)	(5,215)
Prior service costs incurred	(38)	—	—
Increase resulting from changes from the simplified method to the principle method	1,085	—	—
Effect of business combinations	—	(260)	(2,447)
Ending balance of retirement benefit obligations	¥22,399	¥26,212	\$246,724

(b) For the fiscal years ended March 31, 2017 and 2018, the reconciliation of the beginning and ending balances of plan assets is as follows (excluding plans for which the simplified method is applied):

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Beginning balance of plan assets	¥11,486	¥17,897	\$168,458
Expected rate of return on assets	247	364	3,426
Actuarial gains or losses incurred	(272)	160	1,506
Contributions to plan from employer	1,126	1,488	14,006
Retirement benefits paid	(598)	(553)	(5,205)
Contribution to retirement benefit trust	5,350	—	—
Increase resulting from changes from the simplified method to the principle method	558	—	—
Effect of business combinations	—	(212)	(1,995)
Ending balance of plan assets	¥17,897	¥19,144	\$180,196

(c) For the fiscal years ended March 31, 2017 and 2018, the reconciliation of the beginning and ending balances of net defined benefit liability and net defined benefit asset for plans using the simplified method is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Beginning balance of net defined benefit liability and net defined benefit asset, net	¥1,108	¥1,192	\$11,220
Retirement benefit expenses	401	250	2,353
Retirement benefits paid	(52)	(64)	(602)
Contributions to plan from employer	(210)	(139)	(1,308)
Decrease resulting from changes from the simplified method to the principle method	(84)	—	—
Effect of business combinations	—	48	452
Other	29	14	131
Ending balance of net defined benefit liability and net defined benefit asset, net	¥1,192	¥1,301	\$12,246

(d) As of March 31, 2017 and 2018, the reconciliation of the ending balances of retirement benefit obligations and plan assets with the net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Retirement benefit obligations of funded plans	¥ 23,657	¥ 24,405	\$ 229,716
Plan assets	(19,310)	(20,875)	(196,489)
	4,347	3,530	33,227
Retirement benefit obligations of non-funded plans	1,347	4,839	45,548
Net amount of liabilities and assets recorded on consolidated balance sheet	5,694	8,369	78,775
Net defined benefit liability	5,766	8,486	79,876
Net defined benefit asset	(72)	(117)	(1,101)
Net amount of liabilities and assets recorded on consolidated balance sheet	¥ 5,694	¥ 8,369	\$ 78,775

(e) For the fiscal years ended March 31, 2017 and 2018, the breakdown of retirement benefit expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Service cost	¥1,299	¥1,439	\$13,545
Interest cost	85	96	904
Expected rate of return on assets	(247)	(364)	(3,426)
Amortization of actuarial gains or losses	568	687	6,466
Amortization of prior service costs	(33)	20	188
Retirement benefit expenses calculated using the simplified method	401	250	2,353
Amortization resulting from changes from the simplified method to the principle method	443	—	—
Retirement benefit expenses related to defined benefit plans	2,516	2,128	20,030
Other (note)	517	617	5,808
Total retirement benefit expenses	¥3,033	¥2,745	\$25,838

Note: In the fiscal year ended March 31, 2017, the following extra retirement payments were recorded: ¥492 million in "Selling, general and administrative expenses" and ¥25 million in "Other income (loss)." In the fiscal year ended March 31, 2018, the following extra retirement payments were recorded: ¥555 million (\$5,224 thousand) in "Selling, general and administrative expenses" and ¥62 million (\$584 thousand) in "Other income (loss)."

(f) For the fiscal years ended March 31, 2017 and 2018, the breakdown of items recorded in remeasurements of defined benefit plans (before tax effect) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Prior service costs	¥ 5	¥ 20	\$ 188
Actuarial gains or losses	(76)	(2,244)	(21,121)
Total	¥(71)	¥(2,224)	\$(20,933)

(g) As of March 31, 2017 and 2018, the breakdown of items recorded in cumulative remeasurements of defined benefit plans (before tax effect) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Unrecognized prior service costs	¥ (110)	¥ (90)	\$ (847)
Unrecognized actuarial gains or losses	(4,450)	(6,695)	(63,018)
Total	¥(4,560)	¥(6,785)	\$(63,865)



(h) As of March 31, 2017 and 2018, the major categories of plan assets as a percentage of total plan assets are as follows:

	2017	2018
Bonds	24%	36%
Equities	18	15
Life insurance general account	22	21
Cash and cash equivalents	25	21
Other	11	7
Total	100%	100%

Note: The total of plan assets includes 30% and 28% representing assets contributed to a retirement benefit trust for the corporate pension plan as of March 31, 2017 and 2018 respectively.

(i) For the fiscal years ended March 31, 2017 and 2018, the principal actuarial assumptions are as follows:

	2017	2018
Discount rate	0.10%~0.80%	0.10%~0.80%
Long-term expected rate of return on assets	2.14%~2.50%	2.04%~2.50%
Method of determining long-term expected rate of return on assets	To determine the long-term expected rate of return on plan assets, reference was made to the current and expected future allocations of plan assets and to the current and expected future long-term rate of returns on the various assets that make up plan assets.	
Salary increase rate	1.91%~5.74%	1.86%~5.58%

## 2. Defined contribution plans

For the fiscal years ended March 31, 2017 and 2018, the required contributions to defined contributions plans for the Company and its consolidated subsidiaries was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Required contributions to defined contribution plans	¥526	¥618	\$5,817

## 3. Multi-employer plans

For the fiscal years ended March 31, 2017 and 2018, the required contributions of certain subsidiaries to multi-employer plans, for which the accounting treatment is the same as defined contribution plans, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Required contributions to multi-employer plans	¥1	¥—	\$—

Note: The Fund in which certain subsidiaries participated was dissolved on September 28, 2016 with the approval of the Minister of Health, Labour and Welfare and is currently in the process of liquidation. No additional liability resulting from the dissolution of the Fund is anticipated.

## 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) Types of financial instruments and related risks

With regard to credit risk posed by customers with respect to trade receivables, the Company and its consolidated subsidiaries manage balance 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, 2017 and 2018, designated large customers were counterparties for 24.6% and 23.5% of trade receivables, respectively. Receivables denominated in foreign currencies arising as a result of the fact that the Company and its consolidated subsidiaries conduct business on a global basis are subject to foreign exchange rate fluctuation risk. The Company and its consolidated subsidiaries manage balances by counterparty and currency, and in addition the Company and its consolidated subsidiaries track market trends and, as necessary, utilize forward foreign exchange contracts for hedging.

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

All trade payables substantially 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,

in addition the Company and its consolidated subsidiaries track market trends and, as necessary, utilize forward foreign exchange contracts and currency option contracts for hedging.

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

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

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

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

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

The contract amounts of derivative transactions in Note "21 Foreign Exchange Risk Management and Interest Rate Risk Management" 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, 2017 and 2018, and the differences between carrying amounts and fair values are as stated below. This table does not include assets for which it was judged extremely difficult to assess the fair value (Note 2 below).

	Millions of yen						Thousands of U.S. dollars		
	2017			2018			2018		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
(1) Cash and time deposits	¥205,517	¥205,517	¥ —	¥185,517	¥185,517	¥ —	\$1,746,207	\$1,746,207	\$ —
(2) Trade receivables	75,519	75,519	—	88,061	88,061	—	828,887	828,887	—
(3) Marketable securities and investment securities	34,870	41,148	6,278	51,777	57,078	5,301	487,359	537,255	49,896
Total assets	¥315,906	¥322,184	¥6,278	¥325,355	¥330,656	¥5,301	\$3,062,453	\$3,112,349	\$49,896
(1) Trade payables	64,173	64,173	—	69,555	69,555	—	654,697	654,697	—
(2) Accrued income taxes	8,658	8,658	—	8,598	8,598	—	80,930	80,930	—
Total liabilities	¥ 72,831	¥ 72,831	¥ —	¥ 78,153	¥ 78,153	¥ —	\$ 735,627	\$ 735,627	\$ —
Derivative financial instruments*	¥ 447	¥ 447	¥ —	¥ (1,265)	¥ (1,265)	¥ —	\$ (11,907)	\$ (11,907)	\$ —

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

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

### Assets

#### (1) Cash and time deposits

Since these are readily convertible into cash, their fair value is almost identical with the book value, and thus these are stated at the book value.

#### (2) Trade receivables

Since trade receivables that are settled in a short period of time are readily convertible into cash, their fair value is almost identical with the book value, and thus these are stated at the book value. For trade receivables that are settled after a long period of time, the fair values are measured based on the present values calculated by discounting receivable amounts classified by certain periods of time at a rate for which time to maturity and credit risk has been taken into account.

#### (3) Marketable securities and investment securities

Since the Money Management Fund is readily convertible into cash, its fair value is almost identical with the book value; and is stated at the book value. Stocks and others are stated at the price on the stock exchange or the price as presented by counterparty financial institutions and others. With regard to marketable securities and investment securities by holding purpose, please refer to Note "5 Marketable Securities and Investment Securities."

### Liabilities

#### (1) Trade payables, (2) Accrued income taxes

Since these are readily convertible into cash, their fair value is almost identical with the book value; and thus these are stated at the book value.

### Derivative financial instruments

Please refer to Note "21 Foreign Exchange Risk Management and Interest Rate Risk Management."

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

	Millions of yen		Thousands of U.S. dollars	
	2017	2018	2018	
	Carrying amount	Carrying amount	Carrying amount	
Unlisted stocks	¥2,737	¥2,830	\$26,638	
Stocks of affiliated companies (unlisted stocks)	2,730	2,264	21,310	
Convertible bond-type bonds with subscription rights to shares	50	—	—	
Contributions to investment partnerships	457	398	3,746	

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

## 3. Maturity analysis of financial assets

	Millions of yen								Thousands of U.S. dollars			
	2017				2018				2018			
	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	¥203,509	¥ —	¥ —	¥ —	¥182,500	¥ —	¥ —	¥ —	\$1,717,809	\$ —	\$ —	\$ —
Trade receivables	74,812	707	—	—	86,515	1,546	—	—	814,335	14,552	—	—
Total	¥278,321	¥707	¥ —	¥ —	¥269,015	¥1,546	¥ —	¥ —	\$2,532,144	\$14,552	\$ —	\$ —

## 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 30.9% for the years ended March 31, 2017 and 2018.

Income tax expenses reflected in the accompanying consolidated statements of income for the fiscal years ended March 31, 2017 and 2018 consist of the following:

		Millions of yen	Thousands of U.S. dollars
	2017	2018	2018
Income taxes—current	¥17,344	¥19,868	\$187,011
Income taxes—deferred	(681)	(1,259)	(11,851)
Total	¥16,663	¥18,609	\$175,160

Reconciliation of the normal tax rate and the effective tax rate as a percentage of profit before income taxes for the fiscal years ended March 31, 2017 and 2018 is as follows:

	2017	2018
Normal tax rate	30.9%	30.9%
Entertainment expenses not deductible for tax purposes	0.9	0.7
Corporate inhabitant tax on per capita basis	0.4	0.4
Directors' bonuses	0.7	0.9
Change in valuation allowance for deferred tax assets	2.3	(2.4)
Differences of tax rates of foreign consolidated subsidiaries	(0.1)	(0.8)
Tax credits for research and development expenses	(8.0)	(4.2)
Tax credits for salary growth	—	(0.6)
Amortization of goodwill	0.4	0.1
Other	(0.1)	0.7
Effective tax rate	27.4%	25.7%

### Change in Presentation

"Effect of changes in tax rates on net deferred tax assets," which had been presented separately in the previous fiscal year, is included in "other" from the fiscal year ended March 31, 2018, due to a decrease in significance. To reflect this change in presentation, the notes for the previous fiscal year have been reclassified.

Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
<b>Deferred tax assets:</b>			
Losses carried forward	¥17,838	¥12,086	\$113,761
Excess depreciation of fixed assets	9,747	10,855	102,174
Accrued employee bonuses	3,554	3,446	32,436
Inventory valuation losses	2,245	1,677	15,785
Net defined benefit liability	3,348	4,108	38,667
Loss on valuation of advance payments	1,335	1,325	12,472
Loss on impairment of fixed assets	944	661	6,222
Accrued enterprise taxes and others	966	869	8,180
Research and development expenses	361	596	5,610
Allowance for doubtful receivables	199	569	5,356
Revaluation reserve for land	2,043	2,043	19,230
Other	7,628	8,079	76,045
Total gross deferred tax assets	50,208	46,314	435,938
Valuation allowance	(25,490)	(19,844)	(186,785)
<b>Total deferred tax assets</b>	<b>24,718</b>	<b>26,470</b>	<b>249,153</b>
<b>Deferred tax liabilities:</b>			
Reserve for advanced depreciation of fixed assets	(66)	(63)	(593)
Retained earnings of foreign consolidated subsidiaries	(429)	(558)	(5,252)
Valuation difference on available-for-sale securities	(2,788)	(4,489)	(42,253)
Revaluation reserve for land	(434)	(348)	(3,276)
Other	(549)	(413)	(3,888)
<b>Total deferred tax liabilities</b>	<b>(4,266)</b>	<b>(5,871)</b>	<b>(55,262)</b>
<b>Net deferred tax assets</b>	<b>¥20,452</b>	<b>¥20,599</b>	<b>\$193,891</b>

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

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Current assets—Deferred tax assets	¥ 9,240	¥ 8,995	\$ 84,667
Investments and other assets—Deferred tax assets	12,444	13,252	124,736
Current liabilities—Other (deferred tax liabilities)	(9)	(70)	(659)
Long-term liabilities—Deferred tax liabilities	(1,223)	(1,578)	(14,853)
Total	¥20,452	¥20,599	\$193,891



## 14 Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Advertising expenses	¥ 39,356	¥ 39,720	\$ 373,870
Directors' remuneration and employees' wages	41,534	43,996	414,119
Employees' retirement and severance benefits	2,908	2,607	24,539
Provision for directors' bonuses	1,771	1,743	16,406
Research and development expenses	17,762	19,399	182,596
Provision of allowance for doubtful accounts	(45)	110	1,035
Other	57,234	58,982	555,178
Total	¥160,520	¥166,557	\$1,567,743

## 15 Other Comprehensive Income

The components of "Other comprehensive income" for the fiscal years ended March 31, 2017 and 2018 are as follows:

	Millions of yen				
	2017				
	Amounts arising	Reclassification adjustments	Before tax effect	Tax effect	Net of tax effect
Valuation difference on available-for-sale securities, net of tax	¥ 1,194	¥ (0)	¥1,194	¥(303)	¥ 891
Deferred gains or losses on hedges, net of tax	86	1,091	1,177	(270)	907
Foreign currency translation adjustments	(2,936)	—	(2,936)	—	(2,936)
Remeasurements of defined benefit plans, net of tax	(606)	535	(71)	20	(51)
Share of other comprehensive income of associates accounted for using equity method	97	(1)	96	—	96
Total	¥(2,165)	¥1,625	¥ (540)	¥(553)	¥(1,093)

	Millions of yen					Thousands of U.S. dollars				
	2018					2018				
	Amounts arising	Reclassification adjustments	Before tax effect	Tax effect	Net of tax effect	Amounts arising	Reclassification adjustments	Before tax effect	Tax effect	Net of tax effect
Valuation difference on available-for-sale securities, net of tax	¥ 5,521	¥ 1	¥5,522	¥(1,910)	¥ 3,612	\$ 51,967	\$ 9	\$51,976	\$(17,978)	\$33,998
Deferred gains or losses on hedges, net of tax	(115)	(508)	(623)	113	(510)	(1,082)	(4,782)	(5,864)	1,064	(4,800)
Foreign currency translation adjustments	395	—	395	—	395	3,718	—	3,718	—	3,718
Remeasurements of defined benefit plans, net of tax	(2,932)	708	(2,224)	664	(1,560)	(27,598)	6,665	(20,933)	6,250	(14,683)
Share of other comprehensive income of associates accounted for using equity method	212	(13)	199	—	199	1,995	(122)	1,873	—	1,873
Total	¥ 3,081	¥ 188	¥3,269	¥(1,133)	¥ 2,136	\$ 29,000	\$ 1,770	\$30,770	\$(10,664)	\$20,106

## 16 Reconciliation of Differences between Basic and Diluted Earnings per Share

The reconciliation of the differences between basic and diluted earnings per share for the fiscal years ended March 31, 2017 and 2018 is as follows:

		Millions of yen	Thousands of U.S. dollars
	2017	2018	2018
Profit attributable to owners of parent	¥44,160	¥54,110	\$509,319
Profit attributable to owners of parent available to common stockholders	44,160	54,110	509,319
Profit attributable to owners of parent for diluted EPS calculation	44,160	54,110	509,319

		Thousands of shares
Average number of common shares outstanding	219,672	219,699
Effect of dilutive securities:		
Stock options	63	53
Average number of common shares for diluted EPS calculation	219,735	219,752

	Yen	U.S. dollars
Earnings per share:		
Basic	¥201.03	\$2.32
Diluted	200.97	2.32

## 17 Retained Earnings and Dividends

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

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

The Company's retained earnings includes legal reserves of ¥1,645 million and ¥1,645 million (\$15,484 thousand) at March 31, 2017 and 2018, respectively. Proposed appropriations of retained earnings have not been reflected in the consolidated financial statements at the end of the fiscal year. The Company's approved appropriations of retained earnings for the fiscal year ended March 31, 2018 were cash dividends of ¥24,408 million (\$229,744 thousand). In addition, a mid-year dividend may be paid based on approval by the Board of Directors, which is subject to limitations. The mid-year dividend for the fiscal year ended March 31, 2018 was ¥2,638 million (\$24,831 thousand).

### Dividend limitation

On March 23, 2016, the Company concluded global credit facility agreements with financial institutions. These agreements have the following restrictive financial covenants:

- (1) The Company shall maintain the amount of net assets in the consolidated balance sheet as of the closing dates of the second quarter and the end of each fiscal year (the "Second Quarter or End of Fiscal Year") at 75% or above of whichever is greater:
  - (i) the amount of net assets in the consolidated balance sheet as of the closing date of the immediately preceding Second Quarter or End of Fiscal Year, or
  - (ii) the amount of net assets in the consolidated balance sheet as of March 31, 2015.
- (2) With respect to the recurring profit and loss\* in the consolidated statement of income for each fiscal year, the Company shall not record recurring losses for two consecutive fiscal years.

\* Recurring profit and loss is a Japanese accounting term denoting profit (loss) before extraordinary items.

## 18 Revaluation Reserve for Land

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

### Revaluation method

The 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 the 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 ¥707 million (\$6,655 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, 2018.

## 19 Common Stock and Treasury Stock

The changes in the number of common stock and treasury stock for the fiscal years ended March 31, 2017 and 2018 are as follows:

	Shares	
	2017	2018
Common stock (number of shares)		
Number of shares at beginning of year	222,000,000	222,000,000
Number of shares at end of year	222,000,000	222,000,000

	Shares	
	2017	2018
Treasury stock (number of shares)		
Number of shares at beginning of year	2,321,565	2,334,579
Purchases and other	13,014	(94,678)
Number of shares at end of year	2,334,579	2,239,901

## 20 Leases

### As lessee

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

### Operating leases

Future minimum payments required under operating leases as of March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Within one year	¥1,764	¥1,823	\$17,159
Over one year	6,309	5,535	52,099
Total	¥8,073	¥7,358	\$69,258

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

Derivative financial instruments are comprised principally of forward foreign exchange contracts and currency option contracts. These instruments are used to reduce the risk of changes in foreign exchange 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 currency option contracts, 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, 2017 and 2018 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

Hedging method	Millions of yen						Thousands of U.S. dollars		
	2017			2018			2018		
	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	¥ 2,524	¥106	¥106	¥ 2,656	¥(141)	¥(141)	\$ 25,000	\$(1,327)	\$(1,327)
U.S. dollars	8,151	21	21	1,238	30	30	11,653	282	282
Euro	212	3	3	726	7	7	6,834	66	66
Purchased:									
U.S. dollars	1,980	56	56	876	(48)	(48)	8,245	(452)	(452)
H.K. dollars	90	(4)	(4)	51	(1)	(1)	480	(9)	(9)
Currency option contracts									
Sold/Purchased:									
U.S. dollars	1,022	11	11	5,445	(719)	(719)	51,252	(6,768)	(6,768)
H.K. dollars	76	(0)	(0)	330	(24)	(24)	3,106	(226)	(226)
Total	¥14,055	¥193	¥193	¥11,322	¥(896)	¥(896)	\$106,570	\$(8,434)	\$(8,434)

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 mainly for the transactions between consolidated subsidiaries in non-consolidated financial statements, but these transactions have been eliminated in the consolidated financial statements. As a result, these transactions are not treated as effective hedges of the hedged assets and/or liabilities in the consolidated financial statements.

3. Currency option contracts are zero cost options, and option premiums are not paid or received. In addition, call options and put options are contained within a single integrated contract and are therefore listed as a single amount.

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

			Millions of yen				Thousands of U.S. dollars	
			2017		2018		2018	
Hedge accounting method	Hedging method	Hedged items	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	¥ 2,412	¥ 68	¥3,187	¥(158)	\$ 29,998	\$(1,487)
	U.S. dollars	Accounts receivable—trade	283	3	468	1	4,405	9
	Purchased:							
	U.S. dollars	Accounts payable—trade	10,383	184	7,845	(216)	73,843	(2,033)
	Yen	Accounts payable—trade	93	(0)	69	(3)	649	(28)
	H.K. dollars	Accounts payable—trade	88	(1)	189	(6)	1,779	(56)
	Chinese yuan	Other current liabilities	—	—	606	13	5,704	122
Foreign exchange allocation method	Forward foreign exchange contracts							
	Purchased:							
	U.S. dollars	Accounts payable—trade	645	(note 2)	403	(note 2)	3,793	(note 2)
Total			¥13,904	¥254	¥12,767	¥(369)	\$120,171	\$(3,473)

Notes: 1. Method of calculating fair value

Calculated based on prices provided by counterparty financial institutions.

2. Forward foreign exchange contracts and other contracts for which the designation method is applied are accounted for together with the accounts payable-trade that are the hedged items, and as a result the fair values of those contracts are included in the fair values of the accounts payable-trade.

## 22 Commitments and Contingent Liabilities

### 1. Pledged assets

As of March 31, 2017 and 2018, the detail of pledged assets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Cash and time deposits	¥79	¥74	\$697

As of March 31, 2018, there were no claims relating to pledged assets.

In addition to the above, there were assets deposited as a security deposit for issuance under the Payment Services Act of ¥738 million and ¥1,175 million (\$11,060 thousand) in "Other investments and assets" at March 31, 2017 and 2018, respectively.

### 2. Commitments

Commitments as of March 31, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Guarantees for loans payable from financial institutions to companies other than consolidated subsidiaries	¥237	¥67	\$631

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Guarantee of obligation resulting from rental contracts of unconsolidated subsidiary	¥42	¥24	\$226

## 23 Real Estate for Lease

The Company and certain consolidated subsidiaries own real estate for lease (including land) in Tokyo and other regions. Lease income or loss associated with this real estate for lease in the previous fiscal year was ¥115 million (Lease revenues are recorded in non-operating income, and major lease expenses are recorded in SG&A expenses.) In this fiscal year, lease income or loss associated with this real estate for lease was ¥227 million (\$2,135 thousand) (lease revenues recorded in non-operating income; major lease expenses recorded in SG&A expenses); impairment loss was ¥251 million (\$2,359 thousand) (recorded in extraordinary loss); gain on sale was ¥14 million (\$127 thousand) (recorded in extraordinary income).

Also, the book value stated in the consolidated balance sheet, amount of increase during the fiscal period, and the amount of decrease during the fiscal period are as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Consolidated balance sheet			
Balance at beginning of year	¥2,180	¥ 2,141	\$ 20,152
Changes during the period	(39)	33,206	312,557
Balance at end of year	2,141	35,347	332,709
Fair value at end of year	¥6,590	¥39,714	\$373,814

- Notes: 1. The book value stated in the consolidated balance sheet is calculated by deducting accumulated depreciation and accumulated impairment loss from acquisition cost.  
2. Among the changes during the period, the principal decline in the previous fiscal year was depreciation ¥29 million. The principal increase in the current consolidated fiscal year was acquisition of real estate ¥34,019 million (\$320,207 thousand).  
3. The fair value at the end of this fiscal year is the amount calculated by the Company primarily based on the Real Estate Appraisal Standards (including that adjusted using relevant indices, etc.). For those newly acquired real estate for lease, etc. during this fiscal year, the fair value is the book value stated in the consolidated balance sheet because it is believed that the change in the fair value of the real estate is negligible.



## 24 Segment Information

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

The Group is made up of three strategic business units ("SBUs"), one for each business domain, namely the Toys and Hobby SBU, the Network Entertainment SBU, and the Visual and Music Production SBU, and the affiliated business companies that mainly serve a supporting role for these SBUs. The core company of each SBU leads the planning and promotion of the business strategies of the SBU for Japan and overseas.

Accordingly, the Group has the following three reportable segments: Toys and Hobby Business, Network Entertainment Business, and Visual and Music Production Business.

The Toys and Hobby Business conducts manufacturing and sales of toys, candy toys, and products for vending machines. The Network Entertainment Business conducts planning, development and distribution services for network content, planning, development and sales of home video games and arcade game machines, and planning and operation of amusement facilities. The Visual and Music Production Business conducts production and sales of visual and music-related products and live entertainment operations.

The planning, development, production, and sales of such products as prizes for amusement facilities and lottery-related products for convenience stores, etc., had previously been classified as part of the Network Entertainment Business, but from this fiscal year the classification has been changed to the Toys and Hobby Business.

Segment information for the previous fiscal year has been prepared and presented in accordance with the reportable segment classification after the change.

The methods for accounting for reportable segments are the same as those described in Note "2 Summary of Significant Accounting Policies."

Segment profit in the segment information below is based on operating profit, and segment assets are based on total assets. Amounts of inter-segment transactions are based on the prevailing market prices.

Millions of yen								
2017								
	Reportable Segment			Subtotal	Other (note 1)	Total	Adjustments (note 2)	Consolidated total (note 3)
	Toys and Hobby	Network Entertainment	Visual and Music Production					
Net sales:								
To external customers	¥208,812	¥348,890	¥52,896	¥610,598	¥ 9,464	¥620,062	¥ —	¥620,062
Inter-segment sales and transfers	9,287	6,696	3,394	19,377	17,333	36,710	(36,710)	—
Total	¥218,099	¥355,586	¥56,290	¥629,975	¥26,797	¥656,772	¥(36,710)	¥620,062
Segment profit	13,331	42,035	13,437	68,803	702	69,505	(6,266)	63,239
Segment assets	118,108	167,871	44,032	330,011	31,319	361,330	126,703	488,033
Other items:								
Depreciation and amortization	¥ 12,736	¥ 7,145	¥ 615	¥ 20,496	¥ 438	¥ 20,934	¥ 920	¥ 21,854
Amortization of goodwill	649	26	66	741	—	741	—	741
Loss on impairment of fixed assets	574	661	—	1,235	67	1,302	5	1,307
Investments in associates accounted for using equity method	890	—	—	890	12,499	13,389	—	13,389
Increase in property, plant and equipment and intangible assets	14,304	7,891	836	23,031	545	23,576	1,440	25,016

Millions of yen								
2018								
	Reportable Segment					Total	Adjustments (note 2)	Consolidated total (note 3)
	Toys and Hobby	Network Entertain- ment	Visual and Music Production	Subtotal	Other (note 1)			
Net sales:								
To external customers	¥213,296	¥403,561	¥52,060	¥668,917	¥ 9,395	¥678,312	¥ —	¥678,312
Inter-segment sales and transfers	9,121	2,425	3,999	15,545	18,246	33,791	(33,791)	—
Total	¥222,417	¥405,986	¥56,059	¥684,462	¥27,641	¥712,103	¥ (33,791)	¥678,312
Segment profit	14,476	52,375	12,509	79,360	767	80,127	(5,102)	75,025
Segment assets	127,924	196,571	49,134	373,629	29,205	402,834	137,657	540,491
Other items:								
Depreciation and amortization	¥ 12,717	¥ 9,222	¥ 647	¥ 22,586	¥ 411	¥ 22,997	¥ 548	¥ 23,545
Amortization of goodwill	83	29	79	191	—	191	—	191
Loss on impairment of fixed assets	816	638	—	1,454	—	1,454	9	1,463
Investments in associates accounted for using equity method	845	—	—	845	13,254	14,099	—	14,099
Increase in property, plant and equipment and intangible assets	11,116	14,374	702	26,192	507	26,699	33,803	60,502

Thousands of U.S. dollars								
2018								
	Reportable Segment					Total	Adjustments (note 2)	Consolidated total (note 3)
	Toys and Hobby	Network Entertain- ment	Visual and Music Production	Subtotal	Other (note 1)			
Net sales:								
To external customers	\$2,007,681	\$3,798,578	\$490,023	\$6,296,282	\$ 88,432	\$6,384,714	\$ —	\$6,384,714
Inter-segment sales and transfers	85,853	22,826	37,641	146,320	171,743	318,063	(318,063)	—
Total	\$2,093,534	\$3,821,404	\$527,664	\$6,442,602	\$260,175	\$6,702,777	\$ (318,063)	\$6,384,714
Segment profit	136,258	492,987	117,743	746,988	7,219	754,207	(48,023)	706,184
Segment assets	1,204,104	1,850,254	462,481	3,516,839	274,897	3,791,736	1,295,717	5,087,453
Other items:								
Depreciation and amortization	\$ 119,701	\$ 86,803	\$ 6,090	\$ 212,594	\$ 3,869	\$ 216,463	\$ 5,158	\$ 221,621
Amortization of goodwill	781	273	744	1,798	—	1,798	—	1,798
Loss on impairment of fixed assets	7,681	6,005	—	13,686	—	13,686	85	13,771
Investments in associates accounted for using equity method	7,954	—	—	7,954	124,755	132,709	—	132,709
Increase in property, plant and equipment and intangible assets	104,631	135,297	6,608	246,536	4,772	251,308	318,176	569,484

Notes: 1. The "Other" business segment is not a reportable segment and includes logistics services and printing services for the Group's SBUs.

2. Details of Adjustments are as follows:

- (1) The adjustment to segment profit of -¥6,266 million for the fiscal year ended March 31, 2017 includes elimination of inter-segment transactions of -¥257 million and corporate expenses not allocated to reportable segments of -¥6,009 million. The adjustment to segment profit of -¥5,102 million (-\$48,023 thousand) for the fiscal year ended March 31, 2018 includes elimination of inter-segment transactions of ¥981 million (\$9,234 thousand) and corporate expenses not allocated to reportable segments of -¥6,083 million (-\$57,257 thousand). Principal corporate expenses are expenses related to administrative divisions not belonging to reportable segments.
- (2) The adjustment to segment assets of ¥126,703 million as of March 31, 2017 includes elimination of inter-segment transactions of -¥20,696 million and corporate assets not allocated to reportable segments of ¥147,399 million. The adjustment to segment assets of ¥137,657 million (\$1,295,717 thousand) as of March 31, 2018 includes elimination of inter-segment transactions of -¥23,270 million (-\$219,033 thousand) and corporate assets not allocated to reportable segments of ¥160,927 million (\$1,514,750 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 ¥920 million for the fiscal year ended March 31, 2017 includes elimination of inter-segment transactions of -¥736 million and depreciation and amortization expense not allocated to reportable segments of ¥1,656 million. The adjustment to depreciation and amortization expense of ¥548 million (\$5,158 thousand) for the fiscal year ended March 31, 2018 includes elimination of inter-segment transactions of -¥611 million (-\$5,751 thousand) and depreciation and amortization expense not allocated to reportable segments of ¥1,159 million (\$10,909 thousand).
- (4) The adjustment to loss on impairment of fixed assets of ¥5 million and ¥9 million (\$85 thousand) for the fiscal years ended March 31, 2017 and 2018, respectively, is related to corporate assets not allocated to reportable segments.
- (5) The adjustment to increase in property, plant and equipment and intangible assets of ¥1,440 million and ¥33,803 million (\$318,176 thousand) as of March 31, 2017 and 2018, respectively, is related to corporate assets not allocated to reportable segments.

3. Segment profit is reconciled to operating profit in the consolidated statements of income.

Additional segment information as of and for the fiscal years ended March 31, 2017 and 2018 is as follows:

### 1. Information by product and service

This information is included in the segment information above.

### 2. Information by geographic region

Net sales and property, plant and equipment

					Millions of yen
					2017
	Japan	Americas	Europe	Asia, excluding Japan	Total
Net sales	¥454,631	¥65,059	¥45,115	¥55,257	¥620,062
Property, plant and equipment	40,856	2,358	3,935	5,036	52,185

					Millions of yen
					2018
	Japan	Americas	Europe	Asia, excluding Japan	Total
Net sales	¥478,281	¥79,278	¥60,054	¥60,699	¥678,312
Property, plant and equipment	74,613	2,155	4,428	4,908	86,104

					Thousands of U.S. dollars
					2018
	Japan	Americas	Europe	Asia, excluding Japan	Total
Net sales	\$4,501,892	\$746,216	\$565,267	\$571,339	\$6,384,714
Property, plant and equipment	702,306	20,284	41,679	46,198	810,467

### 3. Information by major customer

Fiscal year ended March 31, 2017	Name	Net sales (Millions of yen)	Related segment
	Apple Inc.	¥68,579	Network Entertainment Business, Visual and Music Production Business
	Google Inc.	¥62,539	Toys and Hobby Business, Network Entertainment Business, Visual and Music Production Business

Notes: Apple Inc. and Google Inc. are both platform-provision companies. The actual results of sales to these companies are usage fees, etc., for users (ordinary users) of game services provided by the Group.

Fiscal year ended March 31, 2018	Name	Net sales (Millions of yen)	Net sales (Thousands of U.S. dollars)	Related segment
	Apple Inc.	¥95,260	\$896,649	Network Entertainment Business, Visual and Music Production Business
	Google Inc.	¥82,370	\$775,320	Toys and Hobby Business, Network Entertainment Business, Visual and Music Production Business

Notes: Apple Inc. and Google Inc. are both platform-provision companies. The actual results of sales to these companies are usage fees, etc., for users (ordinary users) of game services provided by the Group.

### 4. By reportable segment, information regarding the amount of amortization of goodwill for the fiscal years ended March 31, 2017 and 2018, and the unamortized balance of goodwill as of March 31, 2017 and 2018, is as follows:

						Millions of yen
						2017
	Toys and Hobby	Network Entertainment	Visual and Music Production	Other	Corporate and eliminations	Total
Amortization of goodwill	¥649	¥26	¥66	¥—	¥—	¥741
Unamortized balance of goodwill	165	87	86	—	—	338

Millions of yen						
	2018					
	Toys and Hobby	Network Entertainment	Visual and Music Production	Other	Corporate and eliminations	Total
Amortization of goodwill	¥83	¥29	¥79	¥—	¥—	¥191
Unamortized balance of goodwill	83	58	82	—	—	223

Thousands of U.S. dollars						
	2018					
	Toys and Hobby	Network Entertainment	Visual and Music Production	Other	Corporate and eliminations	Total
Amortization of goodwill	\$781	\$273	\$744	\$—	\$—	\$1,798
Unamortized balance of goodwill	781	546	772	—	—	2,099

## 25 Related-Party Disclosures

### Transactions with Related Parties

#### Fiscal year ended March 31, 2017

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, 2017
Affiliated company	Happinet Corporation	Taito-ku, Tokyo	¥2,751 million	Wholesaler of toys, video games, and amusement products	Holding directly 27.2% indirectly 0.3%	Sales agency	Sales of products, and others	¥55,622 million	Accounts receivable-trade	¥10,378 million

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

2. Transaction terms and policy for determining transaction terms

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

#### Fiscal year ended March 31, 2018

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

Type	Company	Address	Capital or contribution to capital	Content of business	Ratio of voting rights ownership	Relationship with related party	Content	Transaction amount	Account items	Balance as of March 31, 2018
Affiliated company	Happinet Corporation	Taito-ku, Tokyo	¥2,751 million (\$25,894 thousand)	Wholesaler of toys, video games, and amusement products	Holding directly 27.1% indirectly 0.3%	Sales agency	Sales of products, and others	¥54,592 million (\$513,855 thousand)	Accounts receivable-trade	¥11,112 million (\$104,593 thousand)

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

2. Transaction terms and policy for determining transaction terms

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

## (2) Transactions between the Company and related parties

Directors, Audit &amp; Supervisory Board Members, major shareholders (limited to individuals), etc.

Type	Name	Address	Capital or contribution to capital	Content of business	Ratio of voting rights ownership	Relationship with related party	Content	Transaction amount	Account items	Balance as of March 31, 2018
Officer	Shukuo Ishikawa	—	—	Chairman and Representative Director of the Company	Ownership directly 0.0%	—	Disposal of treasury stock accompanying exercise of stock options (note 1)	¥17 million (\$160 thousand)	—	—
							Disposal of treasury stock accompanying contribution in kind of the monetary compensation claims (note 2)	¥12 million (\$113 thousand)	—	—
Officer	Mitsuaki Taguchi	—	—	President and Representative Director of the Company	Ownership directly 0.0%	—	Disposal of treasury stock accompanying contribution in kind of the monetary compensation claims (note 2)	¥12 million (\$113 thousand)	—	—
Officer	Shuji Ohtsu	—	—	Director of the Company	Ownership directly 0.0%	—	Disposal of treasury stock accompanying exercise of stock options (note 1)	¥9 million (\$85 thousand)	—	—
							Disposal of treasury stock accompanying contribution in kind of the monetary compensation claims (note 2)	¥6 million (\$56 thousand)	—	—
Officer	Yuji Asako	—	—	Director of the Company	Ownership directly 0.0%	—	Disposal of treasury stock accompanying exercise of stock options (note 1)	¥7 million (\$66 thousand)	—	—
							Disposal of treasury stock accompanying contribution in kind of the monetary compensation claims (note 2)	¥6 million (\$56 thousand)	—	—
Officer	Masaru Kawaguchi	—	—	Director of the Company	Ownership directly 0.0%	—	Disposal of treasury stock accompanying contribution in kind of the monetary compensation claims (note 2)	¥12 million (\$113 thousand)	—	—
Officer	Satoshi Oshita	—	—	Director of the Company	Ownership directly 0.0%	—	Disposal of treasury stock accompanying exercise of stock options (note 1)	¥16 million (\$151 thousand)	—	—
							Disposal of treasury stock accompanying contribution in kind of the monetary compensation claims (note 2)	¥12 million (\$113 thousand)	—	—

Notes: 1. The disposal price of treasury stock is determined based on the stock options (share acquisition rights) exercise price set by the resolution at the seventh and eighth Ordinary General Meetings of Shareholders of the Company.

2. These items are due to contribution in kind of monetary compensation claims accompanying the performance-based stock compensation plan. The disposal price of treasury stock is determined based on the closing price of common stock of the Company on the First Section of the Tokyo Stock Exchange on June 16, 2017 (the business day immediately preceding the date of the resolution at the Board of Directors Meeting).



## 26 Business Combinations

### Common Control Transactions, etc.

#### Reorganization in Europe

##### 1. Overview of business combination

###### (1) Name and description of combined business

Toys and Hobby business in France of BANDAI NAMCO Holdings France S.A.S. (hereinafter: BNHFR), a subsidiary of the Company (former name: BANDAI S.A.S.)

###### (2) Date of business combination

September 30, 2017

###### (3) Legal form of business combination

Method corresponding to a Japanese absorption-type company split, BNHFR as the splitting company and BANDAI S.A.S. (former name: BANDAI Toy S.A.S.) as the successor company.

###### (4) Company name after combination

BANDAI S.A.S.

###### (5) Other matters related to overview of transaction

In Europe, BNHFR was a subsidiary of the Company based in France under the regional headquarters in the U.K. BNHFR was

a business holding company responsible for the Company's operations in Continental Europe and had two functions—a Toys and Hobby Business company and a holding company. The Company decided to reorganize BNHFR in order to promote greater cooperation within the Group and expand operations by clearly separating the business company and holding company functions of BNHFR and strengthening the governance function in Continental Europe.

##### 2. Overview of accounting process

In accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013), and Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013), the transaction was carried out as a transaction conducted by commonly controlled entities.

## 27 Significant Subsequent Events

### Change to reportable segments

The Group has been executing business strategies centered on three units of aggregated businesses called strategic business units ("SBU"), one for each business domain, namely the Toys and Hobby SBU, the Network Entertainment SBU, and the Visual and Music Production SBU. However, starting April 2018, the Group has changed its organizational structure to promote the advancement of each of the strategies of the new Mid-term Plan. The name of the units of aggregated business companies that are to execute the respective business strategies has been changed from "SBUs" to "Units." In addition, to enable swifter advancement of the main strategies for each mission stated in the Mid-term Plan, the Group has shifted from its previous three-SBU structure to a five-Unit structure.

Specifically, the Network Entertainment SBU has been reorganized into the Network Entertainment Unit, which develops business in fields such as network content and home video games, and the Real Entertainment Unit, which provides content for real-world based facilities, services, equipment, and so forth, unique to the Group. Moreover, the new IP Creation Unit has been established as a spin-off from the Visual and Music Production SBU to focus on creating new IP.

In conjunction with this organizational restructure, the reporting segments are to be changed from the current Toys and Hobby Business, Network Entertainment Business, and the Visual and Music Production Business. From the fiscal year ending March 31, 2019, the reporting segments will be the Toys and Hobby Business, Network Entertainment Business, Real Entertainment Business, Visual and Music Production Business, and IP Creation Business.

Information regarding the amounts of net sales, profit/loss, assets, liabilities and others by reportable segment for the current fiscal year, assuming the classification of its reportable segments after the organizational change is as follows.

Millions of yen										
2018										
	Reportable Segment						Other (note 1)	Total	Adjustments (note 2)	Consolidated total (note 3)
	Toys and Hobby Business	Network Entertain- ment Business	Real Enter- tainment Business	Visual and Music Production Business	IP Creation Business	Subtotal				
Net sales:										
To external customers	¥213,296	¥319,568	¥89,877	¥35,831	¥10,345	¥668,917	¥ 9,395	¥678,312	¥ —	¥678,312
Inter-segment sales and transfers	9,121	6,970	672	4,860	6,625	28,248	18,246	46,494	(46,494)	—
Total	¥222,417	¥326,538	¥90,549	¥40,691	¥16,970	¥697,165	¥27,641	¥724,806	¥ (46,494)	¥678,312
Segment profit	14,476	50,151	3,169	6,619	5,264	79,679	767	80,446	(5,421)	75,025
Segment assets	127,924	145,101	58,203	28,391	18,190	377,809	29,205	407,014	133,477	540,491
Other items:										
Depreciation and amortization	¥ 12,717	¥ 2,830	¥ 6,431	¥ 564	¥ 49	¥ 22,591	¥ 411	¥ 23,002	¥ 543	¥ 23,545
Amortization of goodwill	83	0	29	79	—	191	—	191	—	191
Loss on impairment of fixed assets	816	—	638	—	—	1,454	—	1,454	9	1,463
Investments in associates accounted for using equity method	845	—	—	—	—	845	13,254	14,099	—	14,099
Increase in property, plant and equipment and intangible assets	11,116	2,806	11,611	598	61	26,192	507	26,699	33,803	60,502

Thousands of U.S. dollars										
2018										
	Reportable Segment						Other (note 1)	Total	Adjustments (note 2)	Consolidated total (note 3)
	Toys and Hobby Business	Network Entertain- ment Business	Real Enter- tainment Business	Visual and Music Production Business	IP Creation Business	Subtotal				
Net sales:										
To external customers	\$2,007,681	\$3,007,973	\$845,981	\$337,267	\$ 97,380	\$6,296,282	\$ 88,432	\$6,384,714	\$ —	\$6,384,714
Inter-segment sales and transfers	85,853	65,602	6,329	45,747	62,354	265,885	171,743	437,628	(437,628)	—
Total	\$2,093,534	\$3,073,575	\$852,310	\$383,014	\$159,734	\$6,562,167	\$260,175	\$6,822,342	\$ (437,628)	\$6,384,714
Segment profit	136,258	472,057	29,828	62,298	49,551	749,992	7,219	757,211	(51,027)	706,184
Segment assets	1,204,104	1,365,781	547,846	267,235	171,216	3,556,182	274,897	3,831,079	1,256,374	5,087,453
Other items:										
Depreciation and amortization	\$ 119,701	\$ 26,634	\$ 60,541	\$ 5,307	\$ 460	\$ 212,643	\$ 3,869	\$ 216,512	\$ 5,109	\$ 221,621
Amortization of goodwill	781	2	271	744	—	1,798	—	1,798	—	1,798
Loss on impairment of fixed assets	7,681	—	6,005	—	—	13,686	—	13,686	85	13,771
Investments in associates accounted for using equity method	7,954	—	—	—	—	7,954	124,755	132,709	—	132,709
Increase in property, plant and equipment and intangible assets	104,631	26,409	109,290	5,627	579	246,536	4,772	251,308	318,176	569,484

Notes: 1. The "Other" business segment is not a reportable segment and includes logistics services and printing services for the Group's Units.

2. Details of Adjustments are as follows:

- (1) The adjustment to segment profit of -¥5,421 million (-\$51,027 thousand) includes elimination of inter-segment transactions of ¥662 million (\$6,233 thousand) and corporate expenses not allocated to reportable segments of -¥6,083 million (-\$57,260 thousand). Principal corporate expenses are expenses related to administrative divisions not belonging to reportable segments.
- (2) The adjustment to segment assets of ¥133,477 million (\$1,256,374 thousand) includes elimination of inter-segment transactions of -¥27,450 million (-\$258,377 thousand) and corporate assets not allocated to reportable segments of ¥160,927 million (\$1,514,751 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 ¥543 million (\$5,109 thousand) includes elimination of inter-segment transactions of -¥616 million (-\$5,800 thousand) and depreciation and amortization expense not allocated to reportable segments of ¥1,159 million (\$10,909 thousand).
- (4) The adjustment to loss on impairment of fixed assets of ¥9 million (\$85 thousand) is related to corporate assets not allocated to reportable segments.
- (5) The adjustment to increase in property, plant and equipment and intangible assets of ¥33,803 million (\$318,176 thousand) is related to corporate assets not allocated to reportable segments.

3. Segment profit is reconciled to operating profit in the consolidated statements of income.

## Reorganization of Subsidiaries

At the Board of Directors Meeting held on February 9, 2018, the Company passed a resolution to reorganize its subsidiaries and carried out the reorganization on April 1, 2018.

### 1. Absorption-type company split between subsidiaries

#### (1) Purpose

In the Toys and Hobby Unit, a wholly-owned subsidiary of the Company, BANDAI SPIRITS CO., LTD. was established on February 15, 2018 as a split preparation company to strengthen the business in products for mature fan base in Japan and overseas. From the effective date of April 1, 2018, the business divisions of BANDAI CO., LTD. that deal with products for the mature fan base such as figures and plastic models and the business divisions that deal with prizes for convenience stores, etc. within BANPRESTO CO., LTD. have been transferred in a company split to BANDAI SPIRITS CO., LTD.

#### (2) Transactions conducted by commonly controlled entities

##### 1. Overview of transaction

a. Name and description of business transferred  
BANDAI CO., LTD.'s planning, development, manufacture and sales of figures and plastic models for the mature fan base  
BANPRESTO CO., LTD.'s planning, development, and sales of prizes for convenience stores, etc.

b. Date of business combination  
April 1, 2018

c. Legal form of business combination  
Absorption-type company split with BANDAI CO., LTD. and BANPRESTO CO., LTD. as the splitting companies and BANDAI SPIRITS CO., LTD. as the successor company

d. Company name after combination  
No change.

##### 2. Overview of accounting process

The accounting process has been carried out as transactions conducted by commonly controlled entities, in accordance with the Accounting Standard for Business Combinations and Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures.

### 2. Absorption-type company split between subsidiaries and change in trade name of subsidiary

#### (1) Purpose

To strengthen the Real Entertainment Business, which provides content for real-world based facilities, services, and equipment, etc., unique to the Group, on the effective date of April 1, 2018, the amusement machine business division of BANDAI NAMCO Entertainment Inc. was transferred in an absorption-type company split to NAMCO LIMITED, which conducts the planning and operation of amusement facilities. Furthermore, on the effective date, the trade name of NAMCO LIMITED was changed to BANDAI NAMCO Amusement Inc.

#### (2) Transactions conducted by commonly controlled entities

##### 1. Overview of transaction

a. Name and description of business transferred  
BANDAI NAMCO Entertainment Inc.'s planning, production, and sales of amusement machines

b. Date of business combination  
April 1, 2018

c. Legal form of business combination  
Absorption-type company split with BANDAI NAMCO Entertainment Inc. as the splitting company and NAMCO LIMITED as the successor company

d. Company name after combination  
BANDAI NAMCO Amusement Inc.

##### 2. Overview of accounting process

The accounting process has been carried out as transactions conducted by commonly controlled entities, in accordance with the Accounting Standard for Business Combinations and Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures.

### 3. Absorption-type merger between subsidiaries and change in trade name of subsidiary

#### (1) Purpose

To enable more integrated development of visual products, music, and live events, on the effective date of April 1, 2018, the visual business operating company BANDAI VISUAL CO., LTD. has merged as the surviving company with the music business operating company Lantis Co., Ltd. Furthermore, on the effective date, the trade name of BANDAI VISUAL CO., LTD. has been changed to BANDAI NAMCO Arts Inc.

#### (2) Transactions conducted by commonly controlled entities

##### 1. Overview of transaction

a. Name and description of business of the company involved in combination  
Merging company (surviving company)

Name: BANDAI VISUAL CO., LTD.

Description of business: Planning, production, and sales of visual software

Merged company (disappearing company)

Name: Lantis Co., Ltd.

Description of business: Planning, production, and sales of music software

b. Date of business combination  
April 1, 2018

c. Legal form of business combination  
Absorption-type merger with BANDAI VISUAL CO., LTD. as the surviving company and Lantis Co., Ltd. as the disappearing company

d. Company name after combination  
BANDAI NAMCO Arts Inc.

##### 2. Overview of accounting process

The accounting process has been carried out as transactions conducted by commonly controlled entities, in accordance with the Accounting Standard for Business Combinations and Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures.

### Disposal of Treasury Stock as Stock Compensation

Based on a resolution at a Board of Directors meeting held on June 18, 2018, a disposal of treasury stock as stock compensation has been implemented, as follows:

#### 1. Overview of disposal

- (1) Date of disposal      July 6, 2018
- (2) Class and number of shares to be disposed  
31,500 shares of the Company's common stock
- (3) Disposal value      ¥4,620 per share
- (4) Total disposal value   ¥145 million
- (5) Method of offering or disposal  
Stock compensation allotment method
- (6) People eligible for allotment, number of eligible people,  
number of shares to be allotted  
Directors, etc. of the Company (note 1)  
4 people    9,000 shares  
Directors of subsidiaries of the Company (note 2)  
17 people   22,500 shares
- (7) Other  
The taking effect of the securities registration statement filed in accordance with the Financial Instruments and Exchange Act is a condition for this disposal of treasury stock.

#### Notes:

1. Company Directors, (excluding those serving concurrently as President and Representative Director of BANDAI CO., LTD., BANDAI NAMCO Entertainment Inc., and BANDAI NAMCO Arts Inc., and Outside Directors) and Company Advisors who had been Company Directors up to the conclusion of the Thirteenth Ordinary General Meetings of Shareholders held on June 18, 2018
2. Directors of BANDAI CO., LTD., BANDAI NAMCO Entertainment Inc., and BANDAI NAMCO Arts Inc.

#### 2. Objective of and reasons for the disposal

As performance-based remuneration related to this consolidated fiscal year, monetary compensation claims from the Company and subsidiaries are granted to the directors, etc. of the Company and subsidiaries (hereinafter "eligible directors"). Eligible directors pay in the monetary compensation claims as property contributed in kind to receive delivery of the Company's common stock.

# INDEPENDENT AUDITOR'S REPORT



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

We have audited the accompanying consolidated financial statements of BANDAI NAMCO Holdings Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and the notes to consolidated financial statements.

## **Management's Responsibility for the Consolidated Financial Statements**

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

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BANDAI NAMCO Holdings Inc. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

August 10, 2018  
Tokyo, Japan



# CORPORATE DATA

As of March 31, 2018

<b>Corporate Name:</b>	BANDAI NAMCO Holdings Inc.								
<b>Head Office:</b>	BANDAI NAMCO Mirai Kenkyusho 5-37-8, Shiba, Minato-ku, Tokyo 108-0014, Japan URL: www.bandainamco.co.jp/								
<b>Capital:</b>	¥10 billion								
<b>Stock Exchange Listing:</b>	Tokyo Stock Exchange, First Section (Code number: 7832)								
<b>Main Business:</b>	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								
<b>Stock Information:</b>	<table> <tr> <td>Number of shares authorized:</td><td>1,000,000,000 shares</td></tr> <tr> <td>Number of shares issued:</td><td>222,000,000 shares</td></tr> <tr> <td>Number of shareholders:</td><td>36,449</td></tr> <tr> <td>Number of shares per trading unit:</td><td>100 shares</td></tr> </table>	Number of shares authorized:	1,000,000,000 shares	Number of shares issued:	222,000,000 shares	Number of shareholders:	36,449	Number of shares per trading unit:	100 shares
Number of shares authorized:	1,000,000,000 shares								
Number of shares issued:	222,000,000 shares								
Number of shareholders:	36,449								
Number of shares per trading unit:	100 shares								

Shareholders:	Name	Number of shares (Thousand)	% of total
	The Master Trust Bank of Japan, Ltd. (Trust account)	12,179	5.54
	Japan Trustee Services Bank, Ltd. (Trust account)	12,126	5.51
	Kyoko Nakamura	6,203	2.82
	XIL, LTD.	6,000	2.73
	The Nomura Trust and Banking Co., Ltd. (Retirement and severance benefits trust; The Bank of Tokyo-Mitsubishi UFJ account)	4,586	2.09
	MAL Ltd.	4,400	2.00
	Japan Trustee Services Bank, Ltd. (Trust account 5)	3,951	1.80
	Nintendo Co., Ltd.	3,845	1.75
	STATE STREET BANK WEST CLIENT-TREATY 505234	3,800	1.73
	GOVERNMENT OF NORWAY	3,451	1.57

Note: The shareholding ratio is calculated after reduction of the number of treasury stocks.

Ownership Breakdown:	Number of shares (Trading units)	% of total
Public entities	—	—
Financial institutions	643,193	29.00
Brokerage	36,601	1.65
Other corporate entities	262,866	11.85
Foreign corporate entities and others	985,347	44.43
Individuals, etc.	268,659	12.12
Treasury stocks	21,116	0.95

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注: [PlayStation] および [PS4] は、株式会社ソニー・インタラクティブエンタテインメントの登録商標または商標です。

# OVERVIEW OF MAIN GROUP COMPANIES

As of August 31, 2018

BANDAI NAMCO Holdings Inc.	Planning and execution of the BANDAI NAMCO Group's medium- and long-term management strategies; provision of support for business strategy implementation by Group companies; management of business activities (Tokyo Stock Exchange, First Section)
BANDAI NAMCO Holdings USA Inc.	Regional headquarters in the Americas, providing support for the implementation of strategies by operating companies, etc.
BANDAI NAMCO Holdings France S.A.S.	Regional holding company in Europe, providing support for the implementation of strategies by operating companies in Europe
BANDAI NAMCO Holdings UK LTD.	Regional headquarters in Europe, providing support for the implementation of strategies by operating companies in Europe
BANDAI NAMCO Holdings ASIA CO., LTD.	Regional headquarters in Asia, providing support for the implementation of strategies by operating companies in Asia
BANDAI NAMCO Holdings CHINA CO., LTD.	Regional headquarters in China, providing support for the implementation of strategies by operating companies, etc.

## Toys and Hobby Unit

BANDAI CO., LTD.	Planning, development, manufacturing, and marketing of toys, plastic models, capsule toys, cards, confectionery and foods, apparel, sundries, and other products
BANDAI SPIRITS CO., LTD.	Planning, development, manufacturing, and sales of toys and plastic models for the mature fan base as well as prizes for convenience stores, etc.
BANPRESTO CO., LTD.	Planning, development, and sales of prizes, etc., for amusement facilities
BANPRESTO SALES CO., LTD.	Sales of prizes, etc., for amusement facilities
MegaHouse Corporation	Planning, development, production, and sales of toys, candy toys, figures, communications equipment, peripheral equipment, etc.
CCP Co., Ltd.	Planning, development, production, and sales of RC toys, toys, consumer electronics, and sundries
Sun-Star Stationery Co., Ltd.	Planning, development, production, and sales of character stationery, fancy stationery, schoolchildren's stationery, creative stationery, premium stationery, and other sundries
Plex Co., Ltd.	Planning, design, development, and sales of character-based products
WiZ Co., Ltd.	Planning, design, development, and manufacturing of toys and character-based products
Seeds Co., Ltd.	Planning, development, and manufacturing of toys, pachinko and pachislot machines, medical equipment, electronic-related equipment, etc.; contract operations for various types of inspecting and testing (ISO17025-accredited testing organization)
People Co., Ltd.*	Planning, development, and sales through outsourced contract production for toys, playground equipment, bicycles, and furniture
TSUBURAYA PRODUCTION CO., LTD.*	Planning, production, and distribution of visual products, etc.
BANDAI AMERICA INC.	Oversight responsibilities for Toys and Hobby Business in the U.S. and Europe; sales of toy-related products in the U.S.
BANDAI S.A.S.	Sales of toy-related products in France
BANDAI UK LTD.	Sales of toy-related products in the U.K.
BANDAI ESPAÑA S.A.	Sales of toy-related products in Spain
BANDAI NAMCO ASIA CO., LTD.	Manufacturing, sales, importing, and exporting of toys, etc., in Asia; responsible for manufacturing and sales in the toy business in Asia (excluding Japan)
BANDAI NAMCO KOREA CO., LTD.	Planning and sales of toy-related products in South Korea
BANDAI NAMCO (THAILAND) CO., LTD.	Production of <i>Super Sentai</i> series robot toys as well as molds
BANDAI (SHENZHEN) CO., LTD.	Quality assurance and quality control operations; contracting for production management, plant audits, etc., for cooperating manufacturers; planning and sales of toy-related products in China
BANDAI NAMCO PHILIPPINES INC.	Manufacturing of toys (principally capsule toys, figures, and lower-priced toys)
BANPRESTO (H.K.) LTD.	Manufacturing and production management of prizes for amusement facilities, convenience stores

## Network Entertainment Unit

BANDAI NAMCO Entertainment Inc.	Planning, development, and distribution of network content; planning, development, and sales of home video games; planning of live events; sales of goods, etc.
BANDAI NAMCO Studios Inc.	Planning and development of network content, home video games, and amusement machines, etc.
BANDAI NAMCO Online Inc.	Planning, development, and operation of Internet-based online games, other software, and services
D3PUBLISHER INC.	Planning, development, and sales of home video games; planning, development, and distribution of network content
B.B.STUDIO Co., Ltd.	Planning and development of home video games, network content, and amusement machines
VIBE Inc.	Provision of content and products using various interactive media options, advertising, and promotion

BANDAI NAMCO Rights Marketing Inc.	Development, operation, and sales of online video distribution platform services; development, operation, and sales of various communications services and related tools
BXD Inc.	Development and operation of online games and distribution platforms utilizing technologies centered on HTML5
BANDAI NAMCO Entertainment America Inc.	Planning, development, and sales of home video games; planning, development, and distribution of network content
BANDAI NAMCO Entertainment Europe S.A.S.	Planning, development, and sales of home video games; planning, development, and distribution of network content; holding company; shared services company
BANDAI NAMCO Entertainment SHANGHAI CO., LTD.	Planning, operation, and production of network content
BANDAI NAMCO Studios Singapore Pte. Ltd.	Planning and development of home video games, amusement machines, etc.
D3Publisher of America, Inc.	Planning, development, and distribution of network content

## Real Entertainment Unit

BANDAI NAMCO Amusement Inc.	Planning, development, operation, and sales of facilities, machines, and services related to real entertainment
Pleasure Cast Co., Ltd.	Planning and operation of amusement facilities
Hanayashiki Co., Ltd.	Planning and operation of <i>Asakusa Hanayashiki</i> amusement park
BANDAI NAMCO Technica Inc.	After-sales service operations related to amusement machines; stocking and sales of pre-owned amusement machines and products from other companies
BANDAI NAMCO Amusement America Inc.	Sales of amusement machines
BANDAI NAMCO Amusement Europe Ltd.	Sales of amusement machines
NAMCO USA INC.	Planning and operation of amusement facilities
NAMCO UK LTD.	Planning and operation of amusement facilities
NAMCO ENTERPRISES ASIA LTD.	Planning and operation of amusement facilities

## Visual and Music Production Unit

BANDAI NAMCO Arts Inc.	Comprehensive production-related activities for IP, including planning and development of visual and music content; planning, development, and sales of package software and goods; and planning of live events
Actas Inc.	Planning and production of animation
Highway Star Inc.	Management of affiliated artists, production of music, and operation of fan clubs; audio engineering operations
BANDAI NAMCO Live Creative Inc.	Planning and production of live performances and events; production of visual products related to live performances and events; planning, production, and sales of goods, ticket sales, etc.

## IP Creation Unit

SUNRISE INC.	Planning and production of animation; management and administration of copyrights
BANDAI NAMCO Pictures Inc.	Planning and production of animation; management and administration of copyrights and other rights
SUNRISE MUSIC Publishing Co., Ltd.	Production of music and planning and use of music and masters related to animation of SUNRISE and BANDAI NAMCO Pictures

## Affiliated Business Companies

BANDAI LOGIPAL INC.	International distribution, customs brokerage, amusement-related business, product inspection, product manufacturing support, etc.
LOGIPAL EXPRESS INC.	Truck freight, industrial waste collection and transportation, logistics management, warehouse operations, vehicle maintenance, etc.
BANDAI NAMCO Business Arc Inc.	Work related to the BANDAI NAMCO Group's general affairs, personnel, finance and accounting, information systems, operational support, and visual product production
ARTPRESTO CO., LTD.	Planning, design, and printing (packages, catalogs, posters, cards); website production, event planning, and administration
HAPPINET CORPORATION*	Distribution of toys, visual and music products, video games, and amusement products (Tokyo Stock Exchange, First Section)
SOTSU CO., LTD.*	Planning, production, and copyright business for TV animation programs, production and agency operations in the sports entertainment area (JASDAQ)
Italian Tomato Ltd.*	Management of restaurants; franchise operations; production, sales, and provision of production guidance for pastries

\* Companies accounted for by the equity method

