



BANDAI NAMCO Group

ANNUAL REPORT
2016

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.

The BANDAI NAMCO Group develops entertainment-related products and services in a wide range of fields, including toys, network content, home video game software, arcade game machines, amusement facilities, and visual and music content. In accordance with our Mid-term Plan, which includes the vision of “NEXT STAGE—Empower, Gain Momentum, Accelerate Evolution,” we are aiming to be No. 1 with strong conviction. On that basis, we are committed to being “the Leading Innovator in Global Entertainment” and recording strong growth.

OUR 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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Forward-Looking Statements

The forward-looking statements in this annual report are based on the information available to management as of August 2016 and include various risks and uncertainties. Accordingly, actual results may differ materially from these projections for a variety of reasons. Major factors that could influence actual results include changes in the BANDAI NAMCO Group's operating environment, market trends, and exchange rate fluctuations.

Notes:

1. All figures in this annual report are rounded to the nearest unit.
2. FY2016.3 and the year under review represent the one-year period ended March 31, 2016.
3. Figures in this annual report are as of August 2016.

TODAY'S

BANDAI NAMCO Group

FY2016.3

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



BANDAI NAMCO Holdings

▶ GROUP ORGANIZATION

Net Sales

¥575.5 billion

Operating Income

¥49.6 billion

Return on Equity (ROE)

11.2%

Overseas Sales Proportion

22.4%

R&D Investments

¥54.6 billion

Net Income Per Share (Basic)

¥157.43

Shareholders' Equity Ratio

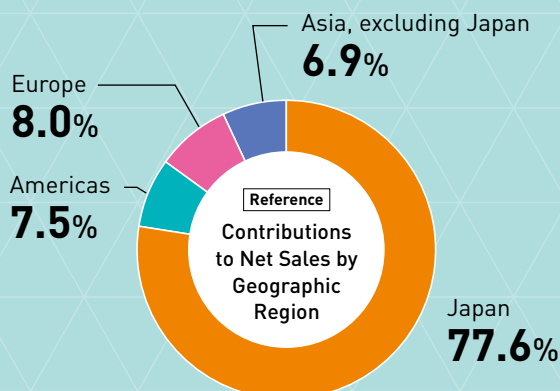
70.6%

Free Cash Flows

¥34.6 billion

Number of Employees

7,391



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

Strategic Business Units (SBUs)

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

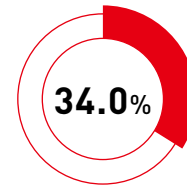
Toys and Hobby

Core Company: BANDAI CO., LTD.

Toys for boys 	Toys for girls 	Plastic models
Vending machine capsule toys, cards 	Confectionery, foods 	Apparel
		Sundries
		Stationery

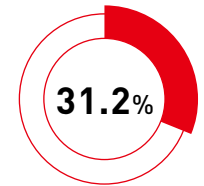
Net Sales
¥206.4 billion

Sales Ratio



Segment Income
¥16.6 billion

Segment Income Ratio



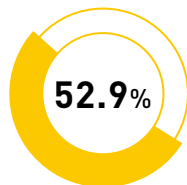
Network Entertainment

Core Company: BANDAI NAMCO Entertainment Inc.

Network content 	Home video game software
Arcade game machines 	Prizes
	Amusement facilities

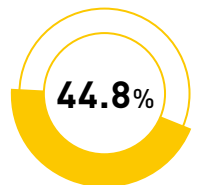
Net Sales
¥320.9 billion

Sales Ratio



Segment Income
¥23.9 billion

Segment Income Ratio



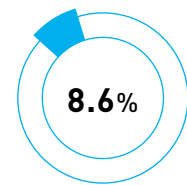
Visual and Music Production

Core Company: BANDAI VISUAL CO., LTD.

Motion pictures 	Music
Live events 	Goods related to live events
	Live viewing
	Distribution of video on demand (VOD) content

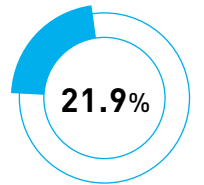
Net Sales
¥52.0 billion

Sales Ratio



Segment Income
¥11.7 billion

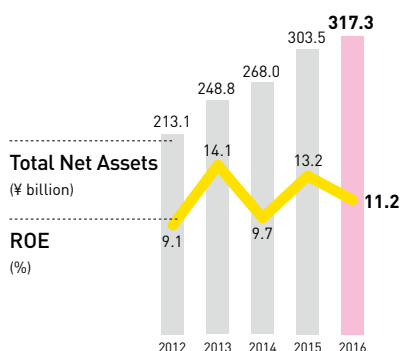
Segment Income Ratio



Affiliated Business Companies (Supporting the Group)

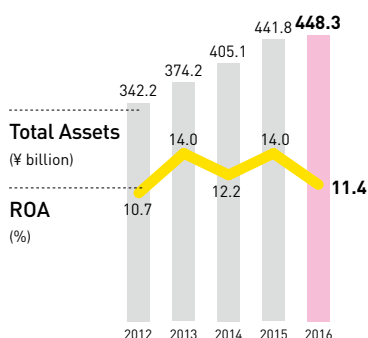
Return on Equity
(ROE)

11.2%



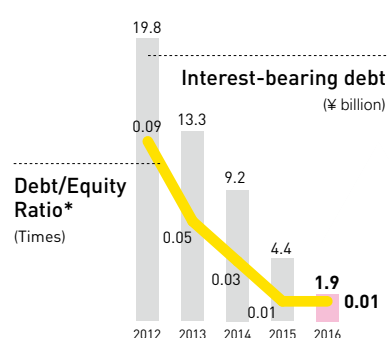
Return on Assets
(ROA)

11.4%



Debt/Equity Ratio*

0.01 times



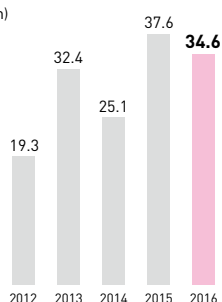
* Debt/equity ratio = Interest-bearing debt / Total shareholders' equity

Profit Attributable to Owners of Parent

¥34.6 billion

YOY **8.0%**

Profit Attributable to Owners of Parent
(¥ billion)

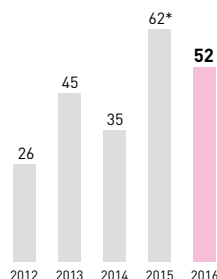


Cash Dividends per Share

¥52

YOY **¥10**

Cash Dividends per Share
(Yen)



* FY2015.3 includes a special dividend of ¥10

THE BANDAI NAMCO Group

1 YEAR

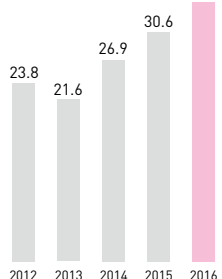
FY2016.3

Free Cash Flows

¥34.6 billion

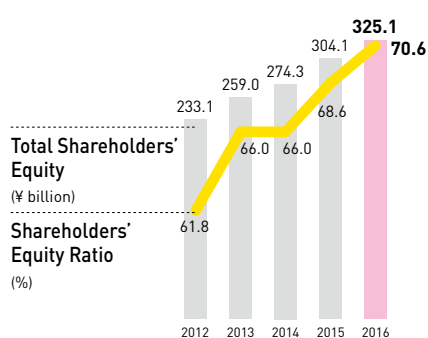
YOY **13.1%**

Free Cash Flows*
(¥ billion)



Shareholders' Equity Ratio

70.6%



Net Income per Share (Basic)

¥157.43

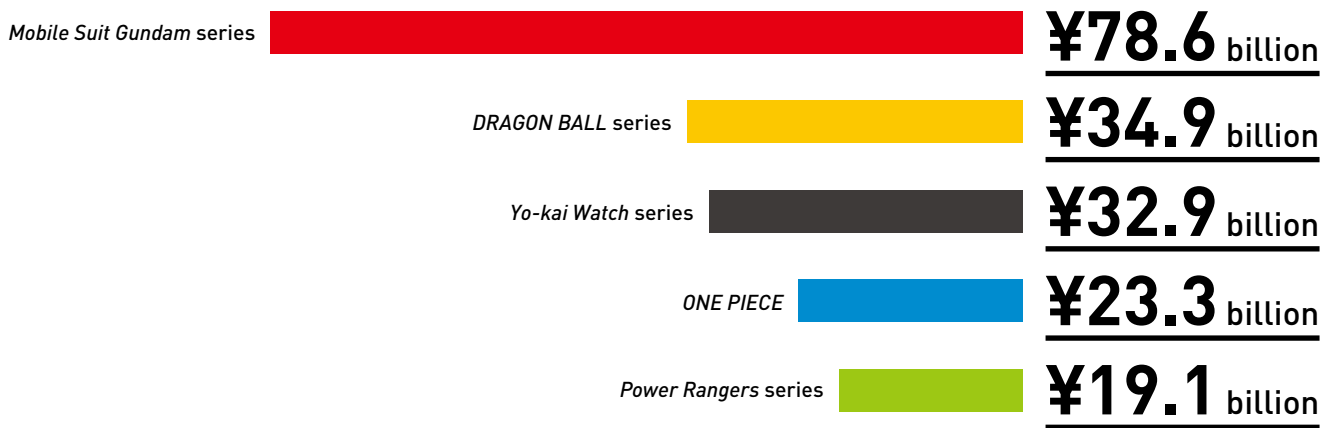
YOY **¥13.67**

Consolidated Dividend Payout Ratio

33.0%

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

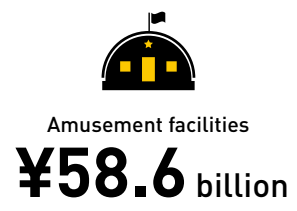
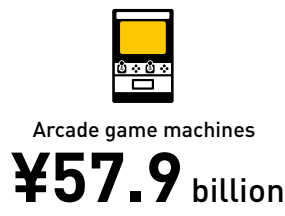
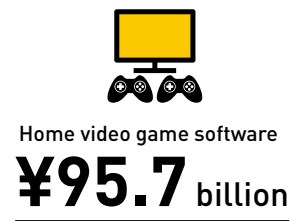
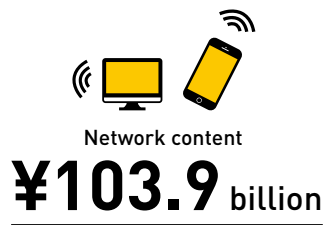
Sales of Major IPs* (Group total)



* IP: Characters and other intellectual property

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

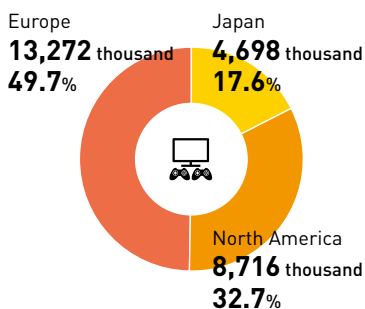
Network Entertainment Business:
Sales by Major Category



of Results

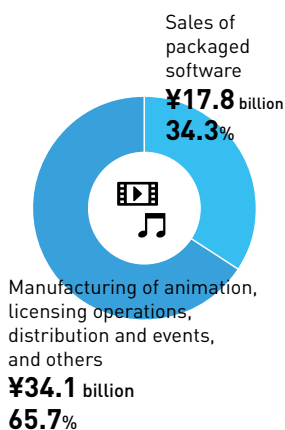
Home Video Game Software Sales
(Group total)

26,686 thousand



Net Sales of Visual and
Music Production SBU

¥52.0 billion



Visual and Music Production SBU:
Number of Copyrighted Products

(As of 2016.3)

NUMBER OF COPYRIGHTED PRODUCTS



BANDAI VISUAL CO., LTD.

768

Sunrise Inc.,
BANDAI NAMCO PICTURES INC.

293

NUMBER OF WORKS WITH MASTER LICENSE RECORDINGS



Lantis Co., Ltd.

Approx. **67,500**

Number of works published

Approx. **39,500**

COURSE AND VISION

Net Sales and Operating Income

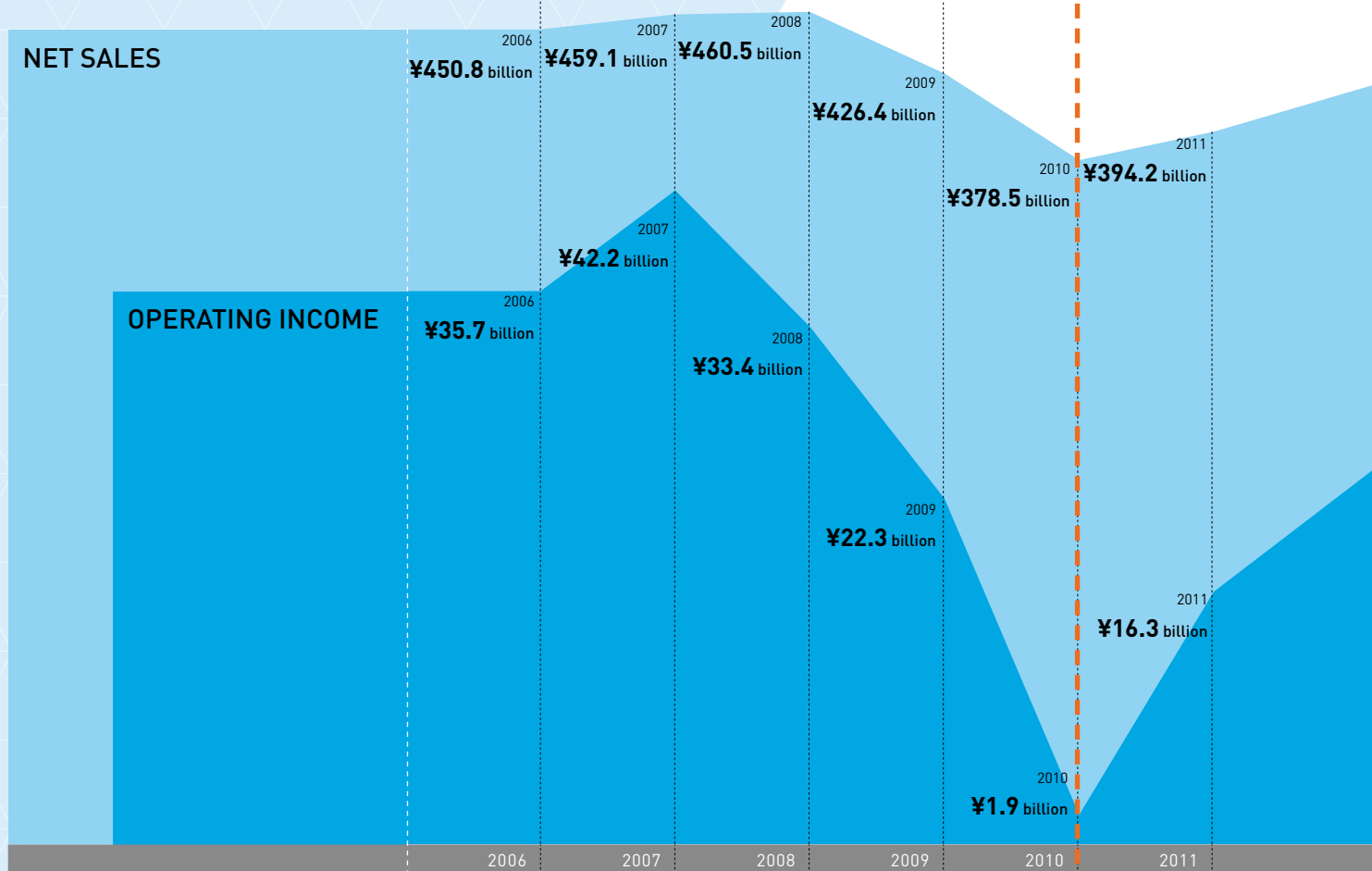
For the Fiscal Years Ended March 31

RESTART!

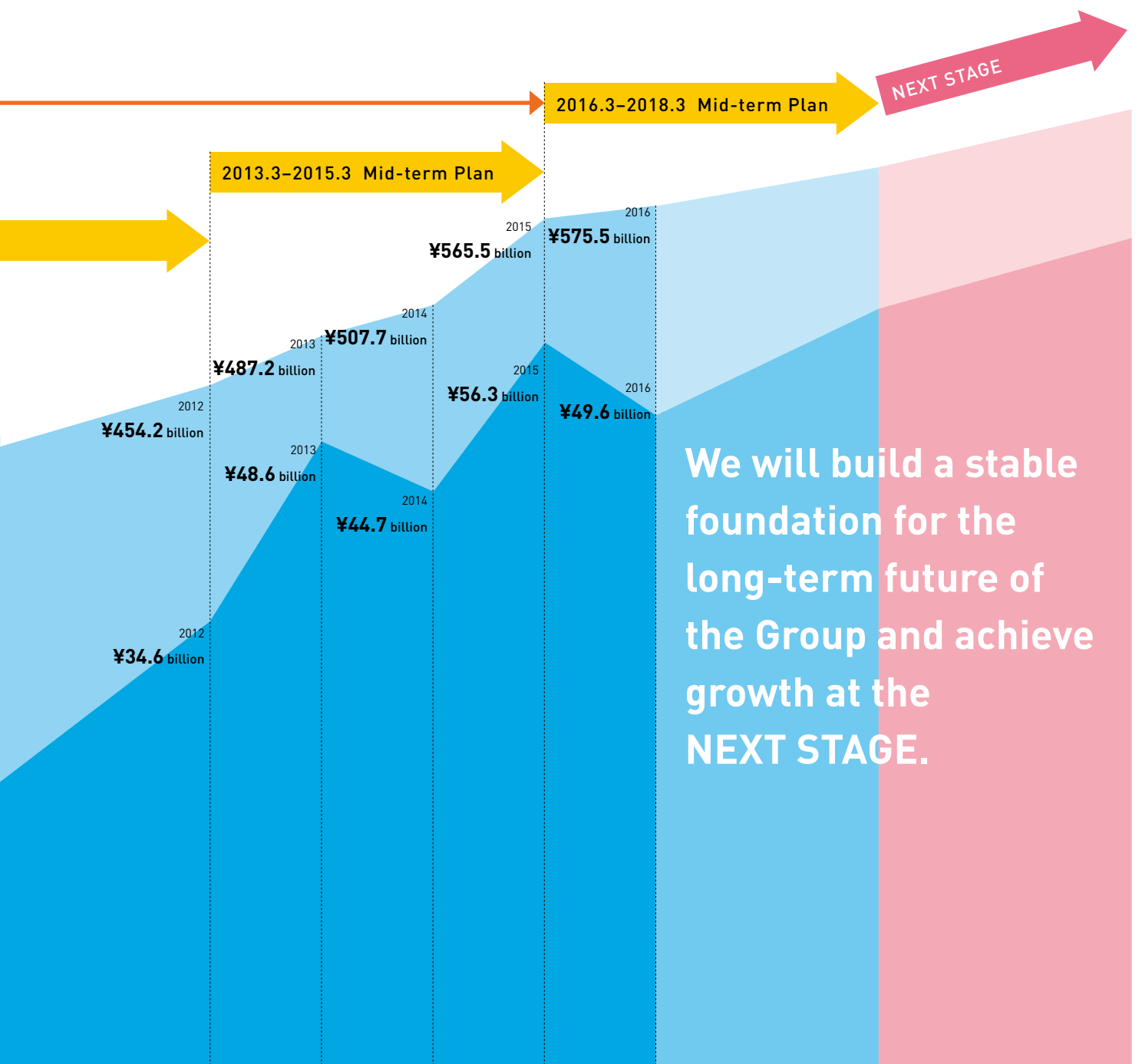
Implementing the Restart Plan

2010.3-2012.3 Mid-term Plan

2007.3-2009.3 Mid-term Plan



	2006	2007	2008	2009	2010	2011
Overseas Sales (sales after elimination of internal transactions) (Billions of yen)	85.01	102.88	113.74	106.86	92.34	81.82
Operating Income Margin (%)	7.9	9.2	7.3	5.2	0.5	4.1
Return on Equity (ROE) (%)	5.8	9.4	11.7	4.3	-12.4	0.8
Cash Dividends per Share (Yen)	12	28	24	24	24	24
Debt/Equity Ratio (Times)	0.14	0.05	0.06	0.08	0.06	0.02
Free Cash Flows (Billions of yen)	6.6	27.3	20.5	9.9	1.0	15.2



	2012	2013	2014	2015	2016	
	75.82	81.06	80.98	94.62	129.03	
	7.6	10.0	8.8	10.0	8.6	
	9.1	14.1	9.7	13.2	11.2	
	26	45	35	62*	52	
	0.09	0.05	0.03	0.01	0.01	
	23.8	21.6	26.9	30.6	34.6	

* FY2015.3 includes a special dividend of ¥10

BOARD OF DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

As of June 20, 2016

We will continue “NEXT STAGE — Gain Momentum,



SHUKUO
ISHIKAWA

MITSUAKI
TAGUCHI

SHUJI
OHTSU

YUJI
ASAKO

MASARU
KAWAGUCHI

Board of Directors

▼
Chairman and
Representative Director
Shukuo Ishikawa

▼
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.

to aim for the Empower, Accelerate Evolution.”



SATOSHI OSHITA

KAZUMI KAWASHIRO

YUZURU MATSUDA

SATOKO KUWABARA

MIKIHARU NOMA

BOARD OF DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS



Director (Part-time)

Satoshi Oshita

President and Representative Director of BANDAI NAMCO Entertainment Inc.



Director (Part-time)

Kazumi Kawashiro

President and Representative Director of BANDAI VISUAL CO., LTD.



Director (Outside)

Yuzuru Matsuda



Director (Outside)

Satoko Kuwabara



Director (Outside)

Mikiharu Noma

Audit & Supervisory Board Members

Audit & Supervisory Board Member (Full-time)

Kazuo Asami

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

Katsuhiko Kohtari

Audit & Supervisory Board Member (Outside)

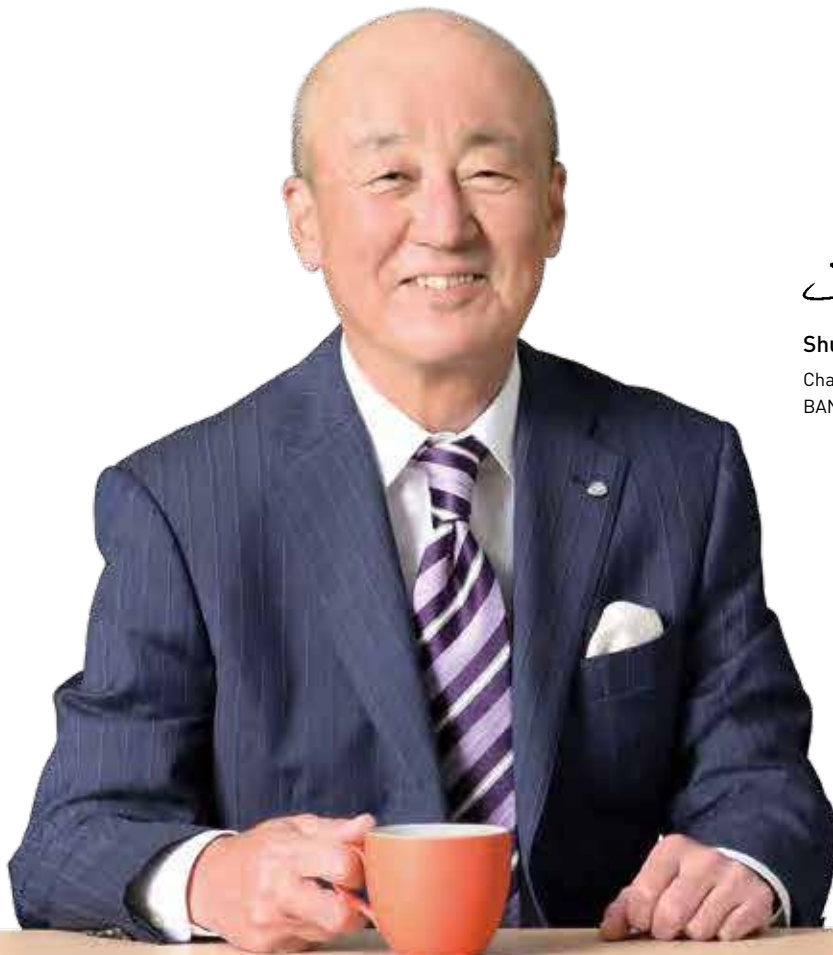
Osamu Sudoh

Audit & Supervisory Board Member (Outside)

Katsuhiko Kamijo

With pride and a sense of responsibility in our mission, we will continue to “Empower, Gain Momentum, and Accelerate Evolution” as we target the NEXT STAGE.

The BANDAI NAMCO Group is implementing a three-year Mid-term Plan under the system of two representative directors, which has been in effect since June 2015. As explained by President Taguchi, in FY2016.3, the first year of the plan, we recorded favorable progress, both numerically and strategically. I focus on management strategies over the medium to long term, while President Taguchi leads the implementation of the Mid-term Plan. Moving forward, we will maintain close contact as we work together to help BANDAI NAMCO to become an even stronger Group.



Shukuo Ishikawa
Chairman and Representative Director
BANDAI NAMCO Holdings Inc.

▼ POSITIONING OF THE MID-TERM PLAN

Targeting the realization of a path toward sustained growth and further increases in corporate value

In fall 2015, the BANDAI NAMCO Group reached the 10th year since its management integration. I became president in 2009, and we had our worst results immediately thereafter. In 2010, we implemented the Restart Plan, which called for sweeping reforms. In addition to increasing speed in decision-making and implementation and strengthening our financial position, the plan had a special focus on shifting to the IP axis strategy, which leverages IP as our business foundation, and subsequently the IP axis strategy became a major driving force behind the Group's growth.

Under the previous Mid-term Plan, which started from April 2012, our mid-term vision was "Empower, Gain Momentum, Accelerate Evolution." Centered on the IP axis strategy, we strengthened collaboration among businesses and implemented strategies aligned with the distinctive characteristics of each overseas region. In consideration of these results, under the current Mid-term Plan, which includes the mid-term vision "NEXT STAGE—Empower, Gain Momentum, Accelerate Evolution," our fundamental approach is to further reinforce our strengths. We are advancing the IP axis strategy from three aspects—business, region, and function—and we are accelerating challenges to become a group that will continue to record growth for the next 50 or 100 years.

Through these initiatives, we will bolster the Group's business foundation and continue to achieve sustained growth in an industry marked by rapid change in the operating environment. In this way, we will strive to record further growth in corporate value.

▼ GROUP VISION

Continuing to Empower, Gain Momentum, and Accelerate Evolution and Striving to Be a Group that is Accepted Around the World

The entertainment industry is undergoing dramatic transformation, and the BANDAI NAMCO Group must also continue to change. Before the management integration, BANDAI and

NAMCO had expanded their businesses while communicating with customers in accordance with their founding philosophies of continuing to take on challenges without fearing change. We still follow that philosophy today. We can achieve stable growth when individual employees continue to take on the challenges of new IP, products, and businesses, without being satisfied with the status quo.

The Group is the amalgamation of the individual capabilities of its employees, and for the Group to become stronger, it is essential that individual employees become stronger. When I became president, one of my goals was to see the BANDAI NAMCO Group strive to be "a group centered on human resource management, particularly on entertainment and imagination." Under the Restart Plan that I mentioned, we transferred authority to the front lines and transitioned to a system that facilitates rapid judgments under small organizational units. The IP axis approach has always included a message encouraging employees to "take on the challenge of change." By basing business on IP rather than business fields, we fostered collaboration across internal Group organizational units and facilitated open concepts without the limits of preconceived ideas. Moving forward, we will continue to focus on building an organization and corporate culture that supports the energetic efforts of employees and enables them to continue to take on new challenges in a free and open atmosphere.

This series of initiatives will also contribute to further increases in general name recognition in Japan and overseas. Consumers expect interesting products and services from the BANDAI NAMCO Group, and our brand power is increasing in markets around the world. This should lead to an enhanced presence for BANDAI NAMCO in business markets around the world and to higher corporate value over the medium to long term.

In the future, we will move forward with pride and a sense of responsibility in our mission as an entertainment group that provides "Dreams, Fun and Inspiration" to society through its business activities. I would like to ask for your continued support and understanding of the BANDAI NAMCO Group, which will continue to "Empower, Gain Momentum, and Accelerate Evolution" in the years ahead.

August 2016

We will reinforce our stable business foundation and open up a new stage by striving to create new customers and continually taking on challenges.

▼ EVALUATION OF RESULTS

Four consecutive years of record-high net sales, and high level of operating income, second only to the previous fiscal year

In accordance with the IP axis strategy, the Group's greatest strength, in FY2016.3 we achieved solid results due to the persistent efforts of everyone on the business front lines. Initially, we anticipated year-on-year declines in sales and profits, but in the end we achieved consolidated net sales of ¥575.5 billion and operating income of ¥49.6 billion. In this way, we were able to achieve a new record-high level of net sales for the fourth consecutive year. In addition, we were able to maintain a high level of operating income, with the results in FY2016.3 second only to the record-high level achieved in the previous fiscal year.

In the Toys and Hobby Business, established IP products, such as the *Mobile Suit Gundam* series and the *DRAGON BALL* series, were popular in Japan, as were products for older customers. Overseas, strong growth was recorded due to the popularity of *Gundam* plastic models, especially in Asia. In addition, we achieved a certain degree of results in Europe and the Americas, where we have migrated to a new system under which planning and development is consolidated in Japan.

In the Network Entertainment Business, network content sales surpassed ¥100.0 billion. Furthermore, home video game software for Europe and the Americas recorded favorable results and made a substantial contribution to performance. In addition, the Amusement Facility Business, which faced severe conditions in the previous fiscal year, achieved a return to profitability by concentrating its resources on key facilities and rolling out initiatives for new business formats. On the other hand, in the arcade game machines business we were slow to respond to changes in the market, and sales were sluggish. In response, we took steps to rigorously examine the product lineup and reform the organization. Currently the arcade business is working together with

the amusement facilities business and is starting to implement initiatives for the provision of value that leverages BANDAI NAMCO's distinctive strengths in the amusement business.

In the Visual and Music Production Business, favorable results were recorded by coordinated initiatives for *Love Live! School idol project*, including packaged visual and music content, a theatrical release, and live events. In addition, the *Mobile Suit Gundam* series also maintained stable popularity.

▼ MID-TERM PLAN (FY2016.3 TO FY2018.3)

First year of the Mid-term Plan — Favorable progress with all strategies, stronger business foundation

Under the three-year Mid-term Plan that was launched in April 2015, our mid-term vision is "NEXT STAGE—Empower, Gain Momentum, Accelerate Evolution." In accordance with this vision, our focus strategies call for accelerating evolution in the IP axis strategy and gaining momentum in global markets, with an emphasis on Asia. Through the advancement of these strategies, we will establish and reinforce a foundation for the steady, continued achievement of record-high levels of sales and profits—net sales of ¥500.0 billion and operating income of ¥50.0 billion. On that basis, we will strive to achieve a cycle of continually taking on new challenges. In the first year of the Mid-term Plan, we recorded progress that was basically in line with our initial expectations, in both strategies and results. We were able to steadily strengthen the Group's business foundation. Moving forward, we will further reinforce the foundation and aim for the next stage to achieve growth over the medium to long term.

In fiscal 2017.3, we are forecasting net sales of ¥580.0 billion and operating income of ¥50.0 billion. In fiscal 2018.3, the final year of the plan, our numerical targets are net sales of ¥600.0 billion and operating income of ¥60.0 billion.

Established the IP Strategy Division, Implementing the IP axis strategy over the medium to long term

Looking back at the first year of the Mid-term Plan, under the focus strategy of “Accelerate Evolution in the IP Axis Strategy,” we worked to grow new outlets for IP, including network content and live events, and we took steps to steadily expand our target markets, such as opening up the new market for adult women 20 years and older. We also made progress with the *Mobile Suit Gundam* series, an established IP. Through simultaneous initiatives involving

visual products, product sales, and events, we expanded *Mobile Suit Gundam*’s popularity in Japan and Asia. In addition, *Love Live! School idol project*, a new IP, recorded major growth due to initiatives that extend across businesses. In these ways, we worked to nurture IP. Furthermore, to strengthen our IP lineup in Europe and the Americas, we acquired world-wide commercialization rights for IP, and we made WiZ Co., Ltd., a planning company, a subsidiary. In these ways, we decided on a variety of investments to strengthen the IP axis strategy. Moving forward, we will continue to aggressively invest in strengthening the IP axis strategy.

Mitsuaki Taguchi

Mitsuaki Taguchi

President and Representative Director
BANDAI NAMCO Holdings Inc.



In working to “Gain Momentum in Global Markets,” the Toys and Hobby Business steadily expanded its IP lineup and regional scope in Asia. In addition, in Europe and the Americas, strong sales were recorded by in-house titles, such as *DRAGON BALL*, as well as by titles from other companies that are handled through our sales network. Consequently, overseas sales of home video game software increased. Moreover, the overseas development of network content got off to solid start, including the full-scale, worldwide roll out of game applications, centered on Asia. In particular, in Asia, where we are aiming to double sales from ¥30.0 billion to ¥60.0 billion during the period of the Mid-term Plan, we achieved sales of approximately ¥40.0 billion. As a result of

these initiatives, overseas sales in FY2016.3 recorded significant growth, rising 36.4% year on year, to ¥129.0 billion.

Moreover, to further strengthen the IP axis strategy, in April 2016 we established the IP Strategy Division as a new Company organizational unit. The work of the IP Strategy Division will include further increasing the value of established IP on a Groupwide basis and creating and nurturing new IP. At this point, we are doing a good job of executing the IP axis strategy, but if we just continue to do the same thing, our efforts will become stale. To ensure that the IP axis strategy remains strong in 5 years or 10 years, we will take steps to identify what needs to be done and implement a Groupwide, optimal approach.

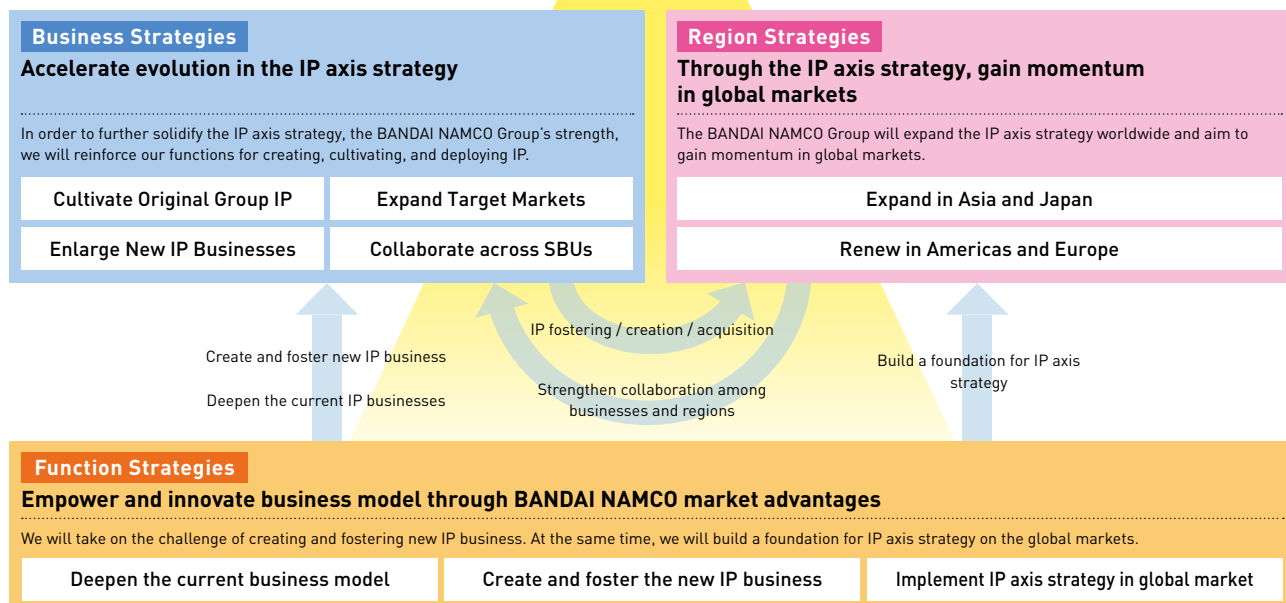
Mid-Term Vision



Focus Strategies

Under the Mid-term Plan, we promote three Focus Strategies.

NEXT STAGE



Numerical Targets

Numerical targets for the fiscal year ending March 31, 2018

Net sales: ¥600 billion

Operating income: ¥60 billion

ROE: More than 10%



▼ **SHAREHOLDER RETURN**

Targeting a consolidated dividend payout ratio of 30%, and implementing a base annual level of ¥24 plus performance-based dividend

The BANDAI NAMCO group follows a basic policy of providing a return to shareholders that targets a consolidated dividend payout ratio at a level of 30% based on stable annual dividend payments of ¥24 per share. A certain level of funding is necessary to continue to quickly implement initiatives in the rapidly changing entertainment industry. After appropriation of dividends from the consolidated periodical net income, we will consider allocating a portion of the remaining balance to the acquisition of our own shares, with comprehensive consideration of such factors as the level of cash held, performance trends, share price trends, and plans for investment projects.

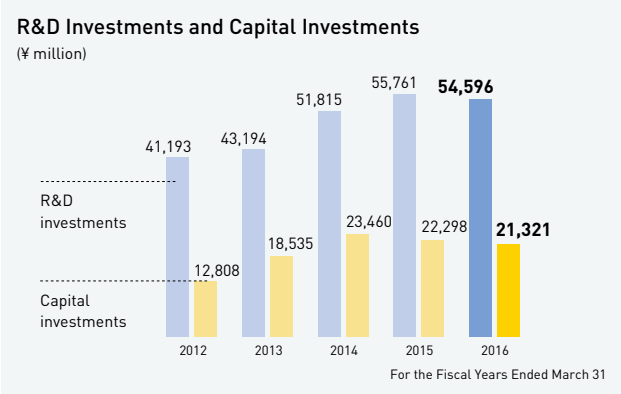
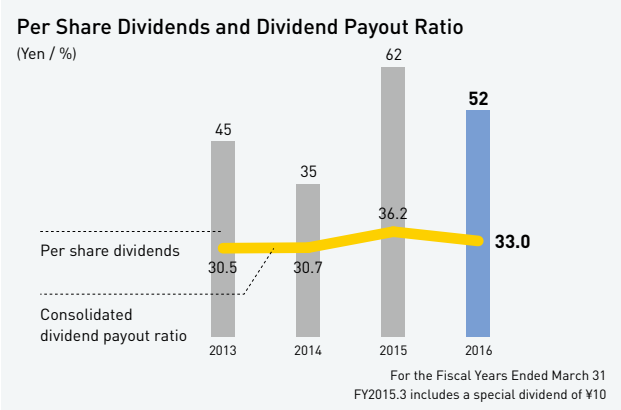
In FY2016.3, following consideration of our final results for the year, we decided to pay annual dividends of ¥52 per share, including the stable dividend portion plus a performance-based dividend of ¥28. As a result, our consolidated payout ratio for FY2016.3 was 33.0%. For FY2017.3, there will be no change to the policy described above.

▼ **IN CLOSING**

Achieving sustained growth by continuing to take on the challenge of creating new customers

A year has passed since I became president of BANDAI NAMCO Holdings, and during that period I have experienced the meaning of “sustainability” for an entertainment company.

In an industry marked by dramatic change, annual results are sometimes affected by the presence or absence of hit products. If we do not achieve stable results, we will not be able to implement strategic investment from a medium- to long-term perspective, and our results will then be even more susceptible to the influence of hit products. Accordingly, over the three-year period covered by the Mid-term Plan, we will focus our individual strengths and build a business foundation for the steady achievement of net sales of ¥500.0 billion and operating income of ¥50.0 billion, without regard to hit products. On that basis, we will aim for the next stage as a Group so that we can continue to grow and develop for the next 10 years or 50 years. The key to the success of those endeavors will be the IP axis strategy, which is the Group’s greatest strength. In recent years, the BANDAI NAMCO Group has achieved stable growth through an approach of focusing on IP as an asset and working together with IP fans to nurture multiple IP lineups and develop content outlets in a large number of businesses. Moving forward, we will work to maintain the vitality and sustainability of the IP axis strategy by fostering IP creation and nurturing, innovating, and taking on the challenge of new business models.



In addition, the most important issue for BANDAI NAMCO is the “creation of new customers.” Of course, it is important to implement initiatives that maintain our ties with existing customer’s IP and markets. Furthermore, we will not be satisfied with the status quo. Rather, we will always focus on our customers, identify their needs, and foster innovation in IP and markets, thereby taking on the challenge of creating new customers. This process will be indispensable for the sustained growth of the BANDAI NAMCO Group. To that end, I believe that we should be a Group that is open to collaboration with a wide range of partners in markets around the world rather than trying to do everything in-house.

IP, like music and sports, is a type of culture that can transcend national boundaries around the world and facilitate communication among people. Moving forward, we will strive to provide people around the world with products and services that leverage the appeal of IP from Asia. Accordingly, while continually maintaining a sense of crisis, we will continue to take on challenges and aim for growth and evolution. I would like to ask our shareholders and investors for their continued support and encouragement of the BANDAI NAMCO Group as we move forward to the next growth stage.

August 2016

Taking On Challenges to the NEXT STAGE

The BANDAI NAMCO Group is leveraging the worlds of IP to provide the ideal products and services at the ideal time under the IP axis strategy. The IP axis strategy is the BANDAI NAMCO Group's greatest strength and will remain the core of the Group's operations in the years ahead.

Under the current Mid-term Plan, we will continue to take on challenges to the NEXT STAGE by leveraging the IP axis strategy as the pivotal element of our business strategies.

This special feature section introduces messages from the leaders of each SBU and a variety of initiatives being implemented by key players who continue to take on challenges on the front lines.

The Group's Greatest Strength IP Axis Strategy

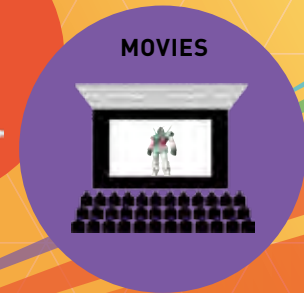
The IP axis strategy is the greatest strength of the BANDAI NAMCO Group, which has a diverse range of businesses and extensive know-how in the field of entertainment. The advancement of this strategy is made possible by the know-how that the BANDAI NAMCO Group has accumulated over many years.



CAPSULE TOYS



PLASTIC MODELS



MOVIES



TOYS



POWERFUL IP (CONTENT)

Technology
Human Resources
Planning and Development



Rapid Uptake and Expansion through Multifaceted Initiatives

The BANDAI NAMCO Group's wide range of business fields makes it possible for the Group to rapidly expand to multiple products and services, rather than focusing on just a single product. Through multifaceted initiatives, we can achieve uptake and expansion of the IP in a short period of time.

NEW IP

Generating Growth from New IP on a Foundation of Established IP

IP is the starting point of the IP axis strategy, and the BANDAI NAMCO Group can demonstrate its strengths by leveraging both established IP, which enjoys stable popularity, and new IP. Established IP, which makes a steady contribution, provides a robust foundation on which the Group can realize further growth by taking on the challenge of new IP.

MAXIMIZING THE VALUE OF POWERFUL IP



NEW DEVICES

LIVE ENTERTAINMENT



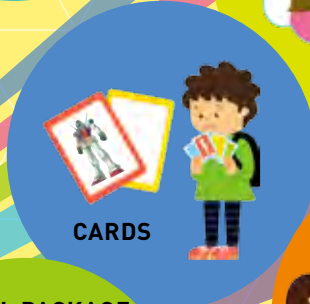
NETWORK CONTENT



VIDEO ON DEMAND (VOD) CONTENT



CARDS



APPAREL



VISUAL PACKAGE SOFTWARE



HOME VIDEO GAME SOFTWARE



ARCADE GAME MACHINES



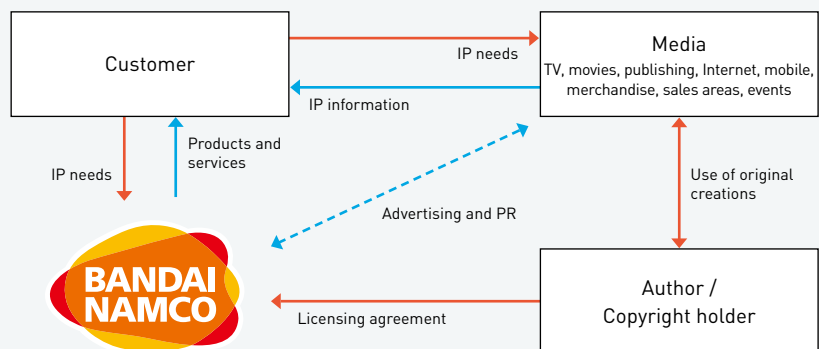
Note: This diagram shows one example of IP axis development.

Responding Quickly to Address Needs

In the entertainment industry, which is undergoing dramatic change, the BANDAI NAMCO Group collaborates with the media, and as a result the Group can respond quickly to customer needs with the ideal timing and the ideal platform for each IP.

One Example of Our Business Models

The BANDAI NAMCO Group has built strong relationships with a wide range of partners. Today, the Group is developing its business operations through cooperative initiatives based on those deep relationships of trust.



MAJOR IP IN GROUP PRODUCTS

IP plays the central role in BANDAI NAMCO's efforts to advance the IP axis strategy. This section introduces the major IP for which the Group is rolling out products and services.

SBU's Implementing IP Business Development Initiatives

- Toys and Hobby
- Network Entertainment
- Visual and Music Production

▶▶ Super Sentai (Power Rangers) Series



Super Sentai has been popular among boys for more than 40 years in Japan. It has also earned strong support overseas as *Power Rangers*. The BANDAI NAMCO Group provides a wide range of *Super Sentai (Power Rangers)* products and services, such as toys and games.



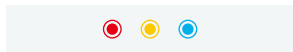
▶▶ KAMEN RIDER Series



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 games.



▶▶ 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 packaged visual products.



▶▶ Yo-kai Watch



Created from LEVEL-5 Inc. home video game software, *Yo-kai Watch* is popular among a wide range of age groups. The BANDAI NAMCO Group offers *Yo-kai Watch* products in Japan and Asia, centered on toys.



▶▶ DRAGON BALL



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



▶▶ ONE PIECE



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



▶▶ PRETTY CURE! Series



The *PRETTY CURE!* series has been popular among girls for more than 10 years. The BANDAI NAMCO Group provides a wide range of *PRETTY CURE!* products and services, such as toys and 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.



▶▶ 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, games, and network content. The popularity of *Mobile Suit Gundam* is currently increasing, not only in Japan but also in Asia and other regions.



▶▶ Tamagotchi Series



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



▶▶ THE IDOLM@STER



This IP was created from arcade game machines that produce idols. The BANDAI NAMCO Group provides a wide range of *THE IDOLM@STER* products and services, such as home video game software, network content, live events, figures, shops, and cafes.



▶▶ Love Live! School idol project Series



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



Toys and Hobby

Initiatives in the Toys and Hobby SBU



Masaru Kawaguchi

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

The mid-term vision of the Toys and Hobby SBU is Globalization, Asia No. 1, Europe and the Americas Challenge. In the first year of the mid-term plan, the Toys and Hobby SBU recorded declines in sales and profits in comparison with FY2015.3. Nonetheless, established IP products, such as the *Mobile Suit Gundam* series and *DRAGON BALL* series, made contributions to the SBU's results, and *Yo-kai Watch* products, a new IP, secured stable popularity. Overseas, the *Mobile Suit Gundam* series expanded its popularity in Asia, centered on plastic models, and consequently sales in Asia set a record high. In addition, in Europe and the Americas, we transitioned to a system under which planning and development are controlled in Japan, and as a result earnings improved.

In these ways, we successfully expanded our presence in Asia, which has been positioned as a focus region, but in terms of "Globalization," I believe that there are still many

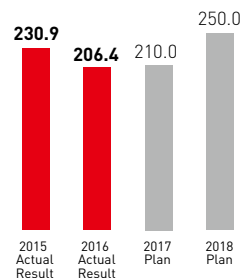
Mid-Term Vision

Globalization, Asia No. 1, Europe and the Americas Challenge

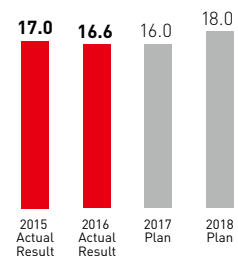
Focus Strategies

- ▶ Strengthen the IP-based business model
- ▶ No. 1 in all Asia and in each business in each country
- ▶ Europe and Americas Challenge
- ▶ Strengthen the global foundation

Net Sales (¥ billion)



Segment Income (¥ billion)



For the Fiscal Years Ended March 31

things that we need to do. We must continue to take on challenges as a Group that continually faces expectations from customers around the world. Becoming the No. 1 entertainment company in the world will not be easy. Nonetheless, I believe that we should aim for growth without giving up. To that end, we must achieve further strong expansion in global markets. Moving forward, we will leverage synergies among the three portfolio strategies—IP axis, business axis, and regional axis—and expand overall earnings in Japan and overseas. In addition, we will strengthen collaboration and cooperation within the Group, continue to take on the challenge of new initiatives around the world, and take an aggressive approach to our business.

Accelerating Initiatives for Adult Women

Expanding Our Customer Target Groups

To expand our customer target groups, we are significantly increasing product initiatives for adult women (women in their 20s and older), who comprise a segment of the market with which we have had little contact. As a result, we can now roll out products for female customers in a wide range of age groups, from preschool children and elementary school students to adults.

Naomi Tobita, Director of BANDAI, discussed the favorable roll out of products and services for adult women.

▶ CHALLENGERS

Taking On Challenges and Supporting the IP Axis Strategy



Naomi Tobita

Director
Lifestyle Business Strategy
BANDAI CO., LTD.



Leveraging Established IP to Accelerate Initiatives for Adult Women

The Toys and Hobby SBU is expanding the roll out of products for adult women in their 20s and older. We have commercialized a wide range of products, such as sundries, apparel, cosmetics, and accessories, with product motifs that feature a high level of design sensibility. These IP products remind adult women of their aspirations when they were young. We leveraged the 20th anniversary of the first TV broadcast of *Pretty Guardian Sailor Moon* to launch commemorative products. At that time, we focused on demand from adult women, who were a market segment that we had not focused on up to that point. Cosmetics and accessories that were made available through subscription sales in June 2013 on Premium BANDAI, BANDAI's official shopping site, became a major topic of conversation on the Internet and SNS. At that point, we accelerated initiatives for adult women, making it possible to implement product initiatives for a wide range of age groups.

In addition, in the planning and development of products for adult women, female employees in the same age group were principally responsible for these planning and development activities. Commercialization initiatives were based on the concept of "products that I personally would like to use and carry." In this way, we were able to launch products that were in line with consumer needs, and the employees in charge were able to work with high levels of motivation.

Deepening Collaboration Across the Group and Working Toward Further Growth

Targeting the growing market for products for adult women, the Toys and Hobby SBU is planning a variety of products and promotions that will foster devotion to IP among adult women. In this way, we are aiming for further growth in sales. In 2014, we opened an information site for adult women, and in June 2016, we opened a directly operated store in an underground shopping mall at Tokyo Station. This store sells selected, popular IP products in the categories of apparel and sundries, centered on cosmetics. We will use this store as a point of contact with customers to collect information. We also anticipate inbound demand from tourists visiting Japan who use Tokyo Station.

Moving forward, we will strengthen these initiatives on a Groupwide basis. In April 2016, we started the "Adult Women Customer Acquisition Project." Through this project, we will deepen Group-related collaboration through the sharing of information and the full utilization of our human resources. We will strive to further increase the accuracy of product and service development initiatives conducted by Group companies and to foster the creation of new IP for adult women.



Directly operated store targeting adult women

Dedicated to
Made in Japan

Global Roll Out of Mobile Suit Gundam Plastic Models



Plastic models in the *Mobile Suit Gundam* series have reached the 36th year since their launch, and as of the end of March 2016 we had shipped a cumulative total of 459.40 million units. Annual shipments in FY2016.3 totaled 14.40 million units, of which export shipments accounted for approximately 30%. Our presence in overseas markets is increasing.

BANDAI Executive Officer Takashi Fujiwara was asked to discuss future initiatives for *Mobile Suit Gundam* plastic models, which have made a significant contribution to growth in global markets.

Taking On Challenges and Supporting the IP Axis Strategy

CHALLENGERS

Nurturing Customers by Utilizing GUNDAM.INFO and Sponsoring Events

Over the past few years, we have experienced considerable success in rolling out *Mobile Suit Gundam* plastic models in Asia. The Toys and Hobby SBU considers Japan and Asia to be a single market because of the large number of points in common in regard to customer preferences. We are following a strategy of conducting Japan-originated business activities simultaneously in Asia. Under this strategy, Japan has overall responsibility from the development stage to the media strategy, while sales activities are implemented by bases in each region of Asia. In *Mobile Suit Gundam* business development initiatives in Asia, we offer free distribution of visual products at the same time as in Japan through the GUNDAM.INFO information site. In addition, to communicate the quality of *Mobile Suit Gundam* plastic models to customers, we sponsor many events at a wide range of locations that enable customers to actually see and touch *Mobile Suit Gundam* plastic models, and we are also rolling out products at the same time in Japan and Asia. Furthermore, *Mobile Suit Gundam* plastic models are recognized as products that offer Made in Japan high quality, and that recognition is also increasing the brand value. The increase in the popularity of *Mobile Suit Gundam* plastic models is due in part to our efforts to nurture the group of core users through the continued implementation of these initiatives over several years. The popularity then spread to the group of general users, which has expanded significantly.

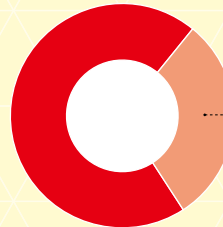
In the future, I think it will be necessary to take steps to solidify the base of core users and to develop new users. Moreover, the various countries and regions in Asia have their own cultures and business practices, and accordingly it will be necessary to provide detailed responses while focusing on the special characteristics of each market. We need to ensure that the popularity of *Mobile Suit Gundam* plastic models in Asia does not become a temporary trend. To that end, we will work to achieve dramatic growth in the future through initiatives to build a foundation.

Steadily Establishing a Foothold in Europe and the Americas

In North America, broadcasts of *Mobile Suit Gundam: Iron-Blooded Orphans* began in June 2016 on the Cartoon Network. Due to the broadcast on cable TV, in addition to online distribution, we expect to see further growth in IP recognition. Furthermore, in Europe, following Italy, we have also started to roll out *Mobile Suit Gundam* plastic models in France. Moving forward, we will strive to steadily expand the regions in which we offer these products while maintaining a focus on the characteristics of each region.

Total shipments of
Mobile Suit Gundam
Plastic Models (FY2016.3)

14.40 million



Of which, shipments to overseas markets

Approx. 30%

Cumulative total shipments of
Mobile Suit Gundam plastic models over
36 years (as of the end of March 2016)

459.40 million

Takashi Fujiwara

Executive Officer
General Manager of
the Hobby Products Department
BANDAI CO., LTD.



Network Entertainment

Initiatives in the Network Entertainment SBU



Satoshi Oshita

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

The Network Entertainment SBU aims to provide new forms of entertainment that transcend conventional games. In the first year of the Mid-term Plan, we recorded higher sales due to favorable results by home video game software in Europe and the Americas as well as by network content in Japan and overseas. On the other hand, sales of arcade game machines were weak, and overall, the SBU's profits declined. These results reflect the extent to which we were able to rapidly respond to changes stemming from the diversification of markets and customers.

Among the Group's businesses, the network entertainment business changes at an especially rapid pace. Accordingly, we must break away from the maintenance of the status quo and increase the speed at which we take on challenges with a sense of crisis. The speed of our future growth will be determined by our ability to accelerate these initiatives.

Mid-Term Vision

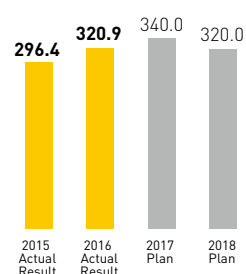
Evolution to Network Entertainment,

**Breakthrough to the Next Stage,
Network x Entertainment x Global**

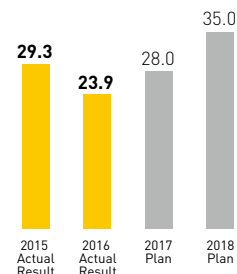
Focus Strategies

- ▶ Implement new business development in the real and digital fields
- ▶ Take steps to expand business in the network field
- ▶ Advance regional expansion (China)
- ▶ Reinforce local models for products and services originating in current markets (Europe and the Americas)
- ▶ Develop original classic IP and user-generated content
- ▶ Take on the challenge of creating new IP

Net Sales (¥ billion)



Segment Income (¥ billion)



For the Fiscal Years Ended March 31

Through growth, we will make further progress in our businesses and generate profits, making it possible to reinvest in initiatives to tackle new challenges. I would like the second year of the Mid-term Plan to be a time in which we create this type of favorable cycle. In addition, globally, we will strengthen business models that leverage the characteristics of each region; enhance our presence in Japan, Europe and the Americas, and Asia; and aim to be an SBU that records strong growth around the world in the years ahead.

In this regard, we will strive to be a group in which individuals grow and continue to take on challenges. If we simply maintain the status quo, we will have no future. I would like the Network Entertainment SBU to increase the speed at which it takes on challenges while always maintaining a sense of crisis.

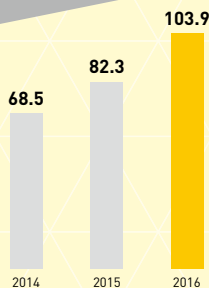
Strengthening and Expanding Operations in a Gigantic Market

Network Content Enhancing its Presence in the Chinese Market

Currently, the network content market in China has grown to a scale of approximately ¥2,500 billion. In this market, the world's largest, we are aiming to record full-scale growth in network content, such as smartphone game applications and PC online games. To that end, in January 2015 we established BANDAI NAMCO (SHANGHAI) CO., LTD.

Daisuke Yamada, the COO of BANDAI NAMCO (SHANGHAI), discussed initiatives in the Chinese market.

▶▶ CHALLENGE



For the Fiscal Years Ended March 31

The BANDAI NAMCO Group's Network Content Sales (¥ billion)



Opening Up the Chinese Market by Launching High-Quality Services

Japanese IP has long been popular in China, and we wanted to offer local customers high-quality services that leverage IP. On that basis, in 2015 we established the company and made a full-scale entry into the Chinese market. After obtaining the understanding of our local collaborative partners in regard to our basic policies, such as implementing development and operations initiatives that draw on the worldview of the IP, we launched our first title—*NARUTO Online*, a PC online game. Since then, we have rolled out services step by step and worked to expand our business.

To achieve full-scale expansion and reinforcement of business in China, there must be close cooperation between Japan and China. BANDAI NAMCO (SHANGHAI) was established to cooperate closely with local partner companies and to rapidly and efficiently address changes in local needs and trends as the hub between Japan and China. Currently, we offer approximately 10 titles of Japan-originated IP as smartphone game applications and PC online games. Recent titles include *NARUTO*, *ONE PIECE*, *DRAGON BALL*, and *Mobile Suit Gundam*. Of these, *NARUTO MOBILE*, which was launched in January 2016, reached the No. 1 sales ranking on the App Store in China; the *DRAGON BALL* app, which was launched in March 2016, reached No. 3, and the *SWORD ART ONLINE* app, which has been available since May, reached No. 6. Due to the establishment of a local company, we are now able to rapidly provide services that meet needs.

Aiming to Leverage Our Presence in the Chinese Market

Game preferences differ in Japan and China, but the attachment of users to IP in China is the same as in Japan, or perhaps even higher. Users have waited to be able to enjoy their favorite IP in the form of high-quality games, and there are growing expectations for the start of full-fledged services from the BANDAI NAMCO Group.

Our strengths are in planning and operation that incorporates the worldview of IP in the most appropriate format, as well as sales and network capabilities that enable us to be a part of strong collaborative relationships with local partners that are well-versed in the needs of the Chinese market.

BANDAI NAMCO (SHANGHAI)'s key phrase for 2016 is "overwhelming presence in the Chinese market." To that end, we will strive to transcend culture and language by leveraging our strengths and to provide services that foster customer satisfaction.

Daisuke Yamada

COO
BANDAI NAMCO (SHANGHAI)
CO., LTD.



NARUTO MOBILE (distributed by Tencent Games)



Home video game software
DRAGON BALL XENOVERSE

ERS

Taking On Challenges and Supporting the IP Axis Strategy

Major Hit in Europe and the Americas

Home Video Game Software's Growing Presence in Overseas Markets

Since its launch in February 2015, *DRAGON BALL XENOVERSE* home video game software had sold a cumulative total of more than 4.0 million units as of the end of July 2016, centered on Europe and the Americas. It made a major contribution to our results in FY2016.3. We have already decided to launch the next product, *DRAGON BALL XENOVERSE 2*, within 2016. In the future, this new product is expected to support the expansion of our home video game software business in overseas markets.

Masayuki Hirano, producer at BANDAI NAMCO Entertainment, discussed *DRAGON BALL XENOVERSE*, which is making a major contribution to growth in global markets.

Drawing Out the Appeal of *DRAGON BALL*, Centered on Markets in Europe and the Americas

Europe and the Americas, where the latest platforms have been adopted, are key target markets for *DRAGON BALL XENOVERSE*. On that basis, we took on new challenges. With a development concept of a "new *DRAGON BALL* experience," we are proposing new forms of entertainment in which the players themselves can compete together with the main characters.

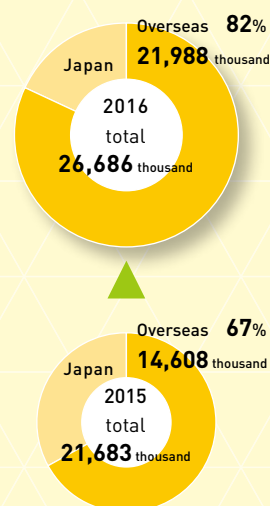
At the initial stages of development, to capture markets in Europe and the Americas, we worked on marketing activities through local bases. As a result of our efforts to thoroughly gather and analyze local feedback, we concluded that it would be necessary to develop a new type of starting concept. *DRAGON BALL* has fans around the world and has recorded considerable results as a long-term, established IP. Accordingly, to increase IP value, we thought that it would be necessary to propose to customers a new experience that transcends the existing concepts of game software while respecting the world view of *DRAGON BALL*. Accordingly, we proposed new experiences. That proposal was supported by customers around the world, centered on Europe and the Americas, and our success in building a major hit exceeded our expectations.

Maximizing Value by Drawing Out New Appeal from IP

DRAGON BALL XENOVERSE was able to draw out new appeal of the *DRAGON BALL* IP. Furthermore, we took on the challenge of a new starting point, and as a result it became possible to pursue innovation in established IP, and this supported the development of new approaches in the Group. In the future, without being limited by existing concepts, we will continue to promote our approach of taking on the challenge of new starting points on a Groupwide basis. This will represent a key objective of game development initiatives.

The strengths of the BANDAI NAMCO Group include the ability to roll out a large number of appealing IP as products and services that are well-received around the world, as well as an environment that encourages employees to take on challenges, with the front lines being given considerable discretion to take action. The Group has a strong commitment to taking on challenges, and on that basis I would like to see a large number of initiatives that draw out new appeal from a wide range of IP.

Unit Sales of Home Video Game Software: Overseas Ratio



For the Fiscal Years Ended March 31

Masayuki Hirano

DRAGON BALL XENOVERSE Producer
BANDAI NAMCO Entertainment Inc.



Visual and Music Production

Initiatives in the Visual and Music Production SBU



Kazumi Kawashiro

Director (Part-time)
President and Representative Director of
BANDAI VISUAL CO., LTD.

Since its establishment as a new segment in FY 2016. 3, the Visual and Music Production SBU has had the mission of “contributing to the happiness of people around the world through the production of visual and music IP.” In accordance with this mission, we have worked with three focus strategies—cultivate original Group IP assets, strengthen IP production capabilities, and pursue overall optimization.

In the first year of the Mid-term Plan, the theatrical version of *Love Live! School idol project* was a major hit. In addition, there were also synergies in such areas as visual and packaged music products and live events. *Love Live! School idol project* was the focus of considerable attention throughout the year and supported growth in sales and profits. In addition, as new challenges, we have launched sales of download visual products and a fan club business that uses applications, and we are gradually starting to see results from these initiatives.

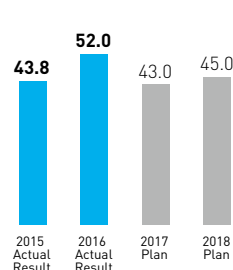
Mid-Term Vision

No. 1 Group in Animation, Visual, and Music Products

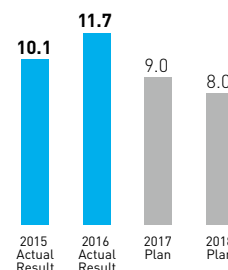
Focus Strategies

- ▶ Cultivate original Group IP assets
- ▶ Strengthen IP production capabilities
- ▶ Pursue overall optimization

Net Sales (¥ billion)



Segment Income (¥ billion)



For the Fiscal Years Ended March 31

In the second year of the Mid-term Plan, we will continue to take on the challenge of creating new IP. In addition, we will also promote the wide-ranging use of IP through multidimensional initiatives that integrate real and virtual entertainment. These initiatives will include live events, online distribution of visual products, and sales of goods. In this way, we will focus on expanding new businesses that do not rely on packaged products. Furthermore, in global activities, through a joint venture company in France that was established by Lantis Co., Ltd. and AMUSE INC., we will implement public performances and take other steps to approach overseas anime fans and IP fans.

Moving forward, the Visual and Music Production SBU will strive to achieve its mid-term vision of being the “No. 1 Group in Animation, Visual, and Music Products.” On that basis, we will continue to take on the challenge of expanding and advancing production-style businesses.

Continued Growth in IP Value for the *Mobile Suit Gundam* Series

Established IP that Generates the Highest Level of Sales in the Group

Mobile Suit Gundam is an established IP that has maintained strong popularity over the 37 years since the TV broadcast in 1979. Ogawa Masakazu is the producer of *Mobile Suit Gundam: Iron-Blooded Orphans*, the latest TV series, which will commence the second stage of broadcasts from fall 2016. Mr. Ogawa at Sunrise discussed the production of *Mobile Suit Gundam: Iron-Blooded Orphans*, collaboration with the Group, and other topics.



A New-Generation Product that Takes on the Challenge of Further Expanding the Base of Fans

The *Mobile Suit Gundam* series is supported by many fans. We worked to expand the target customers by providing new products and acquiring new groups of fans. That is one reason why this IP has continued to receive the support of many fans for 37 years. For *Iron-Blooded Orphans*, the latest product, we aimed to expand the customer range, and in our product development initiatives we targeted younger customers between the ages of 10 and 20. On the other hand, to maximize IP value, it is also important to address the expectations of existing fans. At Sunrise, we continue to simultaneously create products for existing fans, such as movies and OVA. While addressing the expectations of fans who have supported this IP throughout its history of 37 years, we have simultaneously continued to take on the challenge of acquiring new fans. I believe that this cycle is the mission of those of us working on *Mobile Suit Gundam*.

Expanding IP Value with Group Collaborative Initiatives for Visual Product Creation

My role as a producer is not limited to simply making visual products. In addition to the production of visual products development strategies, I am also involved in the establishment of business models, including packaged product sales as well as products and services such as plastic models and game software. The producer's role also includes ensuring success from the two perspectives of "creating visual products that are worth seeing" and "maximizing sales of products and services through Group collaboration." In particular, the *Mobile Suit Gundam* series is the Group's largest IP, and it is also the IP for which the Group's collaborative initiatives have been the most successful. For example, with plastic models, it is necessary to consider how to ensure that the frame that appears in visual products is faithfully reproduced in the plastic models. Through our work with previous visual products, we have established a cooperative relationship with BANDAI's Hobby Products Department. In this case, we shared information about the concept from the conceptual stage and deepened our cooperation through multiple meetings. We were able to achieve a high-quality model that reproduces the worldview of the visual product. Fans' enjoyment of the visual product's worldview has been enriched through the synergies between the related products and the visual product, which were achieved as a result of collaboration throughout the Group. In addition, these activities are not limited to Japan. We are also working steadily in Asia to expand the base of fans through simultaneous development of visual products and related products.

Moving forward, I will work to nurture people who take on the role of producer in both creating visual products and simultaneously collaborating in the roll out of products and services. In addition, I will strive to create and nurture IP by working with a wide range of visual products in addition to *Mobile Suit Gundam*.

Masakazu Ogawa

Producer
Mobile Suit Gundam: Iron-Blooded Orphans
Sunrise Inc.



▶ CHALLENGERS

Taking On Challenges and Supporting the IP Axis Strategy



Growing Presence in the Live Event Business

Establishing New Content Outlets

The *Love Live! School idol project* was launched in 2010 as a project linking magazines, music, visual products, and live events. For about five years, the Group has worked together with partner companies to nurture fans for this IP. Live events are one facet of the popularity of *Love Live! School idol project*, and these events are enjoying a growing presence as a new content outlet in the Group. Yohei Kisara, Chief Producer at Lantis, discussed these live events.

Live Events Growing Into New Content Outlet Under the IP Axis Strategy

I have front-line responsibility at Lantis, where I am in charge of the formulation of roll-out plans for music-related products, musical composition, and production of live events. The reason why we made live events one of the pillars of our business development initiatives for *Love Live! School idol project* is that this is an animation product centered on music. We believed that we could create extremely interesting synergies by combining two-dimensional animation with three-dimensional live events. At the live events, there is an actual cast that is responsible for the song performed in the animation by the idol group $\mu's$. With the animation video playing in the background, the performance of the cast reproduces the movements in the animation. In these ways, unprecedented, innovative initiatives foster enthusiasm among viewers, and we were able to create events that have become a major topic of conversation.

Initially, we held events at small-scale live event venues, but as popularity grew, we moved up to larger facilities, such as concert halls and stadiums. In addition to Japan, popularity has grown to overseas markets, and we have held live events and live viewings in countries and regions throughout Asia, including China, South Korea, and Taiwan. These initiatives have enjoyed considerable success and the IP has many fans throughout the region.

A major factor in the success of the live events has been the energetic incorporation of the opinions of fans, starting with the product concept of "a story in which everyone realizes their dreams." Furthermore, we have implemented multifaceted business development initiatives that fuse real and virtual entertainment. To date, male fans have played the central role in these initiatives, but *Love Live! School idol project* has also earned many female fans, and these fans have been a factor in the IP's high popularity.

Working to Create New IP Centered on Music

I had the opportunity to work on the *Love Live! School idol project* from the very beginning, and this has become an extremely valuable experience. The major success of these initiatives is due in part to the delegation of authority to the front lines and to continued axis-centered initiatives. Also, from IP creation to nurturing, the incorporation of Lantis' special strengths in the areas of music and live stage event production, and our experience in creating world views, have generated results that will lead to further success in the future. I believe that the ability of *Love Live! School idol project* to achieve this success in the world of animation is attributable to the close cooperation among Group companies in the areas of visual products, music, and live events, as well as to the fusion of our various strengths. Moving forward, we will share throughout the Group the knowledge and know-how acquired through this successful experience, and we will aggressively work to create new IP centered on music. In this way, we will strive to create more appealing products.



Yohei Kisara
Chief Producer
Lantis Co., Ltd.

Taking On Challenges and Supporting the IP Axis Strategy

▶ CHALLENGERS

Initiatives Fusing Visual and Music Products



Visual products



Music products

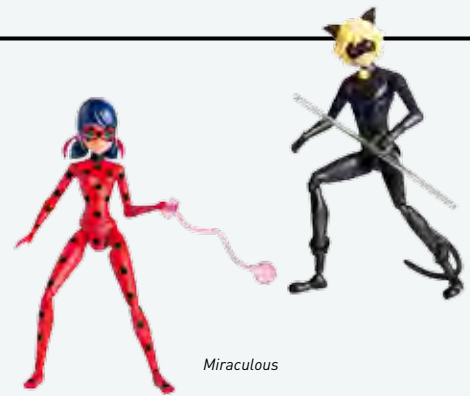


Live events

TOPICS

▶▶ Expanding the IP Lineup in the Toys and Hobby Business in Europe and the Americas

In the Toys and Hobby Business in Europe and the Americas, we are aiming to build a stable IP portfolio and strengthen our business foundation by working to follow up the *Power Rangers* series with an expanded IP lineup. From summer 2016, in conjunction with the opening of Disney-Pixar's *Finding Dory* film, we launched about 100 products in more than 100 countries around the world. We will develop this array of products into an established IP that maintains its popularity for many years. In addition, we also expanded our IP lineup with the introduction of products based on *Miraculous*, a new IP for girls.



Miraculous

▶▶ Taking On the Challenge of Integrating Leading-Edge Technologies and Entertainment

In the Network Entertainment Business, we are taking on the challenge of providing new entertainment by integrating leading-edge technologies with the Group's wide range of know-how. One example is the launch of *VR ZONE Project i Can*, which will open up new possibilities in entertainment with the use of virtual reality. We are taking steps to pursue the possibilities of virtual reality while verifying feedback from users. These steps include the limited-time opening of a research facility that enables people to experience a variety of virtual reality technologies.



VR ZONE Project i Can
Note: Operation limited to the period ending October 10, 2016.



▶▶ Providing Spaces that Leverage BANDAI NAMCO's Distinct Strengths

In the Amusement Facility Business, we are working to operate existing facilities efficiently. In addition, we are focusing on new formats that provide spaces that leverage BANDAI NAMCO's distinct strengths, such as *Nazo Tomo Cafe*, where customers can enjoy solving puzzles, and *ANI ON STATION*, a character lounge. In addition, we are moving ahead with the roll out of spaces and content that support the creation of new customers, such as *Indoor Seaside Kid's Beach* which uses the latest computer graphics and 3D audio effect technologies to reproduce the sea and sand.



Nazo Tomo Cafe



ANI ON STATION



Indoor Seaside Kid's Beach

▶▶ Moving Forward with Multidimensional Activities

We are implementing a range of multidimensional activities linking animations and live events and other initiatives, with IP as an axis. In addition to those targeting male customers, such as *Love Live! School idol project*, we are also moving forward with IP initiatives for women, a new market. These include the stage version of *Kuroko's Basketball* as well as *Dream Festival!*, which includes a variety of the Group's products and services. In the future, we will utilize the approach of drawing on live events and other multidimensional activities, including for animation and IP fans overseas.



Love Live! School idol project live events



Stage version of *Kuroko's Basketball, THE ENCOUNTER*



Dream Festival!

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 see the Company's website.
<http://www.bandainamco.co.jp/en/ir/pdf/governance/code.pdf>

▼ CORPORATE GOVERNANCE SYSTEM

Strengthen the Management Oversight Function

Number of Outside Directors

3/10



Number of Outside Audit & Supervisory Board Members

3/4



Number of Independent Directors or Independent Audit & Supervisory Board Members

6



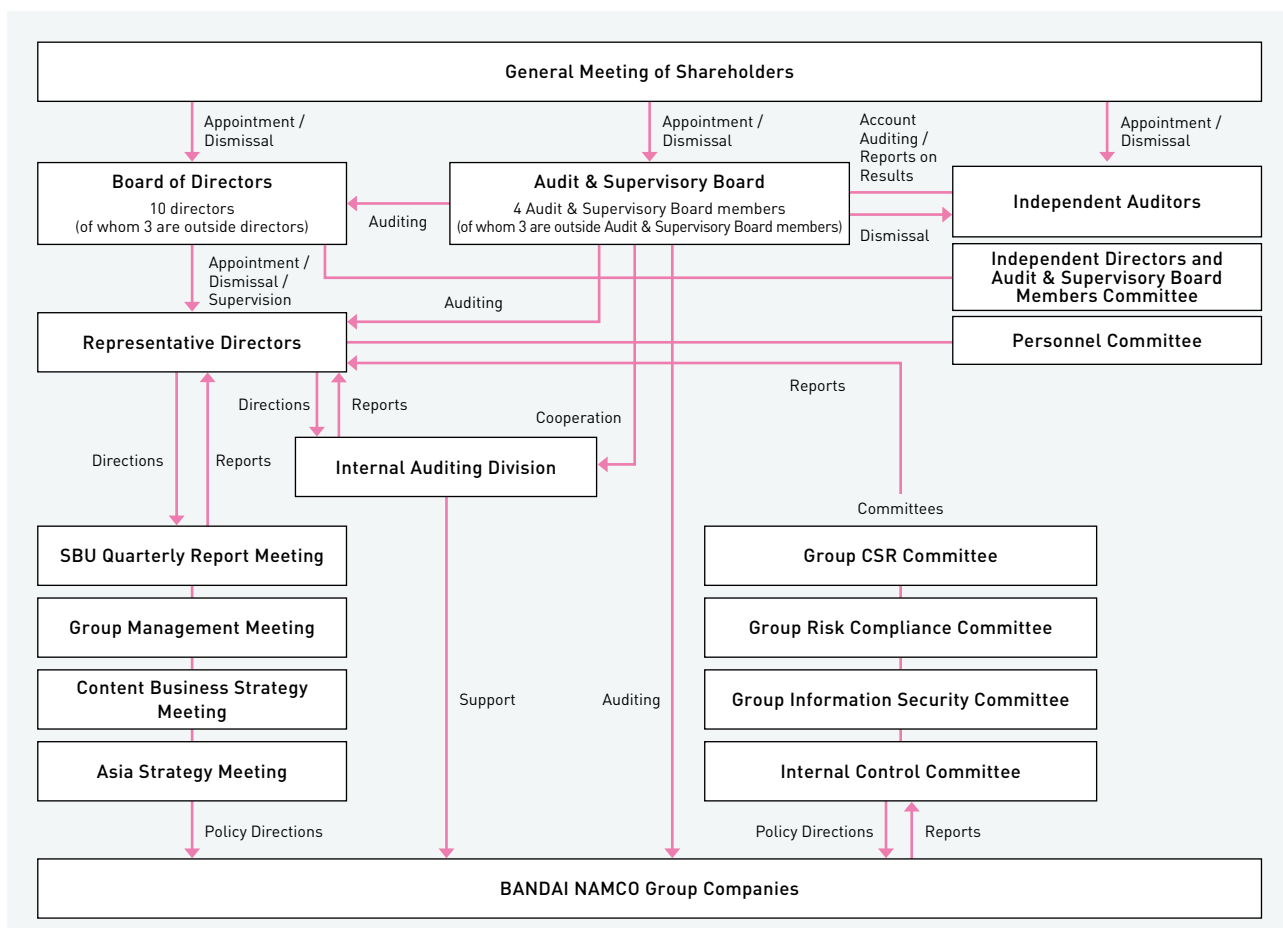
All outside directors and outside Audit & Supervisory Board members meet the "Standards for the Independence of Outside Directors and Outside Audit & Supervisory Board Members" established by the Company.

Clarify the Responsibilities of Directors

The 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.



▼ MESSAGES FROM OUTSIDE DIRECTORS



Yuzuru Matsuda
 Director (Outside)
 Lead Independent Officer

Meetings of the Board of Directors of BANDAI NAMCO Holdings feature high levels of transparency as well as free and open-minded discussions in a positive atmosphere. I have a high evaluation of these meetings. Since I became an outside director in June 2014, I have worked to utilize my experience to offer my frank opinions about Group management from an objective viewpoint. In addition, from FY 2016. 3, the Company has taken a proactive approach to responding to the Corporate Governance Code. In particular, the Company conducted an evaluation of the effectiveness of the Board of Directors. This evaluation, which was positioned as an extremely important initiative, utilized a third-party specialist organization, and the Independent Directors and Audit & Supervisory Board Members Committee performed analysis and verification. As a result of the evaluation, all of the officers have reinforced their awareness of the need to make further efforts to improve the Board of Directors.

The Company plans to periodically implement these evaluations of the Board of Directors. To increase the effectiveness of the Board of Directors, it will be necessary to enhance the functioning of the Independent Directors and Audit & Supervisory Board Members Committee. That will be my mission as the lead independent officer. Accordingly, moving forward I will strive to contribute to dynamic discussions and appropriate decision-making by working more proactively to acquire information about each business and to deepen my knowledge.



Satoko Kuwabara
 Director (Outside)
 Independent Officer

I believe that the role of outside officers is to make a contribution to ensuring the effectiveness of corporate governance in company management. To that end, outside officers utilize their knowledge and experience and, from a position that is independent from management, consider the interests of shareholders and other stakeholders, provide advice and suggestions, and fulfill the management oversight function. I think that dynamic discussions from diverse viewpoints at meetings of the Board of Directors also lead to increases in the Board's transparency.

As an attorney, I have had experience with a wide range of cases in the field of corporate legal affairs, including M&As and other transactions, governance-related issues, and disputes. In addition to domestic cases in Japan, I have also participated in international cases, such as transactions and disputes involving companies in Europe, North America, and Asia. Leveraging my knowledge and experience as an attorney in the field of corporate legal affairs, I will strive to contribute to the further development of the BANDAI NAMCO Group from the viewpoint of management decision-making that reflects consideration for strengthening compliance and for legal risks.



Mikiharu Noma
 Director (Outside)
 Independent Officer

The principal role of outside officers is to contribute to the achievement of sustained company growth and increases in corporate value over the medium to long term, based on their experience, which is different from that of insiders. In particular, it is important that the opinions of customers, employees, shareholders, communities, and other stakeholders are appropriately and rapidly reflected in meetings of the Board of Directors. For example, through the Personnel Committee and other means, the outside officers also have the important duty of working to establish a highly sustainable incentive system.

The BANDAI NAMCO Group does not take the approach of simply passively implementing the principles of the Corporate Governance Code. Rather, the Group takes an advanced approach in working to actively reform and strengthen governance, with the objective of expressing its determination to achieve its management strategies.

As a business school professor, I conduct teaching and research, and at the same time I am engaged in officer training, management training, and corporate reform at a variety of companies. In addition, as the chairperson of the Ministry of Economy, Trade and Industry (METI)'s Corporate Reporting Lab, I have participated in repeated deliberations regarding the state of dialogues between companies and investors. Leveraging this experience and knowledge, I will strive to contribute to sustained growth and increases in corporate value for the BANDAI NAMCO Group over the medium to long term.

▼ BOARD OF DIRECTORS

The Company is a pure holding company, and most of 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 Chairman and Representative Director, Shukuo Ishikawa.

▼ 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.

▼ INDEPENDENT DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS COMMITTEE

The Company has formed an Independent Directors and Audit & Supervisory Board Members Committee with the objective of evaluating from an objective standpoint whether the Board of Directors is functioning appropriately. The Independent Directors and Audit & Supervisory Board Members Committee is comprised of just three independent outside directors and three independent outside Audit & Supervisory Board members, and its secretariat function is also established within a third-party specialist organization. This arrangement allows to preserve more effective oversight function in the Board of Directors.

▼ EVALUATION OF THE EFFECTIVENESS OF THE BOARD OF DIRECTORS

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 will be conducted periodically. Specifically, after responses regarding the effectiveness of the Board of Directors are obtained from all directors and Audit & Supervisory Board members, the Independent Directors and Audit & Supervisory Board Members Committee will conduct analysis and verification based on the results and provide their opinions to the Board of Directors. Based on these opinions, the Board of Directors will share the results of the evaluation of present circumstances as well as issues, and will hold constructive discussions regarding future action plans. An overview of the results of the evaluation will be disclosed through information disclosure on the Company's website, etc.

▼ 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 Company also has a basic policy of electing 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.

Chairman and Representative Director

Shukuo Ishikawa

Number of the Company's Shares Owned: 49,300 Shares

Reasons for Appointment: Shukuo Ishikawa has worked as a representative director of the Company since 2009 and possesses extensive experience, achievements, and knowledge as a business manager. He was proposed as a candidate for director as the Company considers him capable of promoting Group management and strengthening corporate governance.

President and Representative Director

Mitsuaki Taguchi

Number of the Company's Shares Owned: 58,500 Shares

Reasons for Appointment: Mitsuaki Taguchi has exhibited leadership skills based on his extensive experience and broad knowledge gained through roles at BANDAI CO., LTD., which is the core company of the Group's Toys and Hobby Business and where he was responsible for media policy and new business policy. He supervised the business appropriately after his appointment as President and Representative Director of the Company. He was proposed as a candidate for director as the Company considers him capable of achieving the Mid-term Plan and ensuring that the Group continues to grow.

Directors

Shuji Ohtsu

Division General Manager of the Group Administrative Headquarters

Number of the Company's Shares Owned: 25,100 Shares

Reasons for Appointment: Shuji 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.

Satoshi Oshita

Director in charge of Network Entertainment SBU

Number of the Company's Shares Owned: 43,400 Shares

Reasons for Appointment: Satoshi 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.

Yuji Asako

Division General Manager of the Corporate Planning Division

Number of the Company's Shares Owned: 25,000 Shares

Reasons for Appointment: Yuji 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.

Kazumi Kawashiro

Director in charge of Visual and Music Production SBU

Number of the Company's Shares Owned: 13,700 Shares

Reasons for Appointment: Kazumi 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 VISUAL CO., LTD, 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.

Masaru Kawaguchi

Director in charge of Toys and Hobby SBU

Number of the Company's Shares Owned: 30,600 Shares

Reasons for Appointment: Masaru 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.

* Number of shares held is as of the end of March 2016.

▼ 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
Board of Directors	Monthly and otherwise as needed	Decisions / reports on matters stipulated by law, items to be resolved in accordance with authority standards, reports on the status of operational execution, reports regarding CSR, crisis management, and compliance	Directors, Audit & Supervisory Board members, other designated employees
SBU Quarterly Report Meeting	Quarterly	Consolidated numerical reports, SBU reports, other items to be reported	Directors, Audit & Supervisory Board members, other designated employees
Group Management Meeting	6 times a year	Deliberations regarding issues extending across SBUs, other Group management issues, strategic deliberations	Directors (excluding outside directors), other designated employees
Content Business Strategy Meeting	Quarterly	Sharing of information about SBU initiatives related to the Group's important IP	Directors with related responsibilities, directors from major subsidiaries with related responsibilities, other designated employees
Asia Strategy Meeting	Quarterly	Deliberations regarding issues in executing business strategies, risk management and medium- to long-term Group regional strategies in Asia	Directors with related responsibilities, directors from major subsidiaries with related responsibilities, other designated employees
Group CSR Committee	Semiannually	Deliberations and information sharing regarding the Group's important CSR strategies, consideration of resolutions, items to be reported, and deliberations at meetings of the Board of Directors, overall supervision of Group CSR subcommittees, overall supervision of progress of important items for each SBU and affiliated business company	Directors (excluding outside directors), other designated employees
Waigaya Meeting	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 10 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 37, 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 SBU Quarterly 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.

Outside Directors

Yuzuru Matsuda

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

Reasons for Appointment: Given his 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

Reasons for Appointment: Although she has not been involved in corporate management, the Company anticipates, given her many years of experience as an attorney-at-law, 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 International Corporate Strategy (ICS)
Hitotsubashi University

Reasons for Appointment: Although he has not been involved in corporate management, 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

Katsuhiko Kohtari

(Full-time)

Reasons for Appointment: Katsuhiko Kohtari was appointed due to the Company's expectation, based on his career over many years as a certified public accountant, that he would utilize in the Company's auditing systems his extensive knowledge and experience in areas related to finance and accounting.

Osamu Sudoh

Partner in Sudoh & Partners Law Offices
Outside Audit & Supervisory Board Member of PRONEXUS INC.
Outside Audit & Supervisory Board Member of Keikyu Corporation
Outside Audit & Supervisory Board Member of MITSUI-SOKO HOLDINGS Co., Ltd.

Reasons for Appointment: Osamu Sudoh was appointed due to the Company's expectation, based on his career over many years as an attorney-at-law, that he would utilize his extensive knowledge and experience in legal matters to strengthen the Company's legal systems.

Katsuhiko Kamijo

Professor at Faculty of Law of Teikyo University
Outside Audit & Supervisory Board Member of HASEKO Corporation

Reasons for Appointment: Katsuhiko Kamijo was appointed due to the Company's expectation, based on his thorough knowledge of tax affairs, gained over many years, and his certification as a licensed tax accountant, that he would utilize in the Company's auditing systems his extensive knowledge and experience in taxation.

▼ 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 three core companies of the Group's SBUs: BANDAI CO., LTD., BANDAI NAMCO Entertainment Inc., and BANDAI VISUAL 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 stock compensation-type stock options.

Each director contributes a fixed proportion of the base remuneration to the shareholding association for directors and officers to purchase the Company's shares and continues to hold such shares during his or her term of office.

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, and the ratio of share-type remuneration shall be a little over 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 the 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. (Millions of yen)	Total amount of compensation, etc., by type (Millions of yen)		Number of eligible officers (People)
		Basic compensation	Bonus	
Directors (excluding outside directors)	423	243	179	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	24	24	—	1
Outside officers	88	88	—	6

▼ COMPLIANCE AND RISK MANAGEMENT

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

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

In 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.

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.

▼ 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 study and develop a system of takeover defenses 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 construct a system that enables the Company to judge from the perspective of improving corporate value first. The Company will continue to study takeover defenses by utilizing stock subscription rights, etc., with a close eye on legal and social trends.

▼ 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 opened the Groupwide "CSR Initiatives" section on the Company 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. In addition, we prepare the BANDAI NAMCO Group's CSR Report, which is distributed in printed form and is also available on the Company website.

Formulation of policies related to the provision of information to stakeholders

We have formulated an IR policy that is available on our 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 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 SBU core companies and throughout the Group.

Results of Major IR Activities in FY2016.3

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.

Results presentations for investors and analysts	2 (196 people)
Results telephone conferences for investors and analysts	2 (138 people)
Overseas IR	3
Separate meetings for investors and analysts	295 people
Presentations for individual investors in Japan	5 locations (630 people)



In presentations for investors and analysts, explanations are provided directly by presidents of major Group companies who work as 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 strategic business units (SBUs) categorized by business segment, and appoint a Director and lead company in charge of each SBU 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 SBU, 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 SBU Quarterly 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 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 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 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!” Themes that require special initiatives have been identified as the “BANDAI NAMCO Group’s Important CSR Themes.”



楽しみながら、楽しい未来へ。

▼ CSR ACTION CONCEPT

At BANDAI NAMCO, CSR activities are “Fun For the Future!”

Our work is to provide inspiration to customers by realizing individual ideas of “Dreams, Fun and Inspiration.” In turn, those “Dreams, Fun and Inspiration” provide healing and encouragement as they spread around the world. We believe that “Dreams, Fun and Inspiration” can change the world, and even change the future.

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

We believe that entertainment can contribute to society by fostering inspiration and creating a future of “Dreams, Fun and Inspiration.”

CSR TOPICS

▶▶ Manufacture of safe, reliable products



Dropping products to test quality

In all our business fields, we follow all legal and industry quality and safety standards. We have also established our own more rigorous in-house standards, and we pay careful attention to safety.

▶▶ Product raw materials and packaging and wrapping initiatives



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

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

▶▶ Universal design initiatives



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

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

▶▶ Initiatives in the field of eco-amusement featuring environmentally friendly design



Certified product “Tsuru Spirits (6ST)”

Eco-Label

We have formulated environmentally friendly design guidelines for arcade game machines sold in Japan. Products that clear specific standards established under the guidelines are certified as “Eco-Amusement” products. In addition, certified products display the “Eco-Label.”

▶▶ Social contribution activities



Workshops in disaster-stricken areas

In cooperation with Save the Children Japan, the BANDAI NAMCO Group is implementing workshop activities and support activities for children in areas affected by the Great East Japan Earthquake. In addition, we continue to implement support activities in conjunction with shareholders who have chosen to contribute their shareholder benefits.

▶▶ Initiatives to motivate and support human resources



BANDAI NAMCO Awards

In regard to enhancing the utilization of human resources, the BANDAI NAMCO Group is promoting measures to advance dynamic corporate activities. For example, the Group has established an award system to recognize various initiatives that excel in such areas as market success, creativity, and uniqueness. Other programs include aggressive personnel exchange initiatives and development training for future management candidates.

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

	2011	2012	2013	2014	2015	2016
For the Year:						
Net sales	¥394,179	¥454,211	¥487,241	¥507,679	¥565,486	¥575,505
Gross profit	139,415	167,503	183,079	190,829	213,112	202,601
Selling, general and administrative expenses	123,077	132,896	134,436	146,156	156,791	152,960
Operating income	16,338	34,607	48,643	44,673	56,321	49,641
Recurring income*1	16,399	34,960	49,973	47,457	59,384	50,775
Profit attributable to owners of parent*2	1,848	19,304	32,383	25,055	37,589	34,584
Comprehensive income	(4,600)	21,551	41,505	32,633	43,357	27,377
Capital expenditures	13,439	23,758	23,836	28,979	27,761	26,987
Depreciation and amortization	18,001	18,142	20,416	21,726	23,712	21,626
Cash flows from operating activities	22,562	39,112	36,411	41,291	50,103	58,050
At Year-End:						
Total assets	¥308,269	¥342,172	¥374,203	¥405,093	¥441,764	¥448,336
Total current assets	210,934	240,920	264,804	284,398	317,516	322,177
Total current liabilities	86,105	107,946	108,391	120,135	123,136	114,334
Total net assets	213,693	213,126	248,770	267,951	303,513	317,304
Per Share Data (Yen):						
Net income per share (basic)	¥ 7.71	¥85.62	¥147.40	¥114.05	¥171.10	¥157.43
Cash dividends	24.00	26.00	45.00	35.00	62.00	52.00
Main Financial Indicators:						
Return on equity (ROE)*3 (%)	0.8	9.1	14.1	9.7	13.2	11.2
Return on assets (ROA)*4 (%)	5.2	10.7	14.0	12.2	14.0	11.4
Selling, general and administrative expenses to net sales (%)	31.2	29.3	27.6	28.8	27.7	26.6
Operating income margin (%)	4.1	7.6	10.0	8.8	10.0	8.6
Profit attributable to owners of parent margin (%)	0.5	4.3	6.6	4.9	6.6	6.0
Shareholders' equity ratio (%)	68.8	61.8	66.0	66.0	68.6	70.6
Debt/equity ratio (times)	0.02	0.09	0.05	0.03	0.01	0.01

Notes:

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

*2 As the Company has applied new standards including the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), "Net income" is now listed as "Profit attributable to owners of parent" from the period under review.

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

*4 ROA = Recurring income / Average total assets

SHIPPUDEN: *Ultimate Ninja Storm 4*, and new titles of local third-parties were strong. Moreover, in network content such as social games, game applications for smartphones, and PC online games, key titles already existing in Japan retained stable popularity, and the new title *The iDOLM@STER Cinderella Girls: Starlight Stage* performed favorably and contributed to performance. The Group also started provision of services overseas, including the Asian region. In addition, in amusement facilities, the Group started implementing a range of measures, including targeting resources on key facilities and strengthening stores in new business formats, resulting in improved profitability. However, sales from arcade game machines struggled due to the effects of uncertainty in the market.

As a result, net sales in the Network Entertainment Business were ¥320,941 million (year-on-year increase of 8.3%), and segment income was ¥23,932 million (year-on-year decrease of 18.3%).

Visual and Music Production Business

In the Visual and Music Production Business, *LoveLive! School idol project*, which is IP for which visual content was developed in conjunction with music content and live events, became popular through the year due to synergies with a theatrical release, products and services, and live events. Moreover, visual package software of the *Mobile Suit Gundam* series sold favorably and contributed to performance.

As a result, net sales in the Visual and Music Production Business were ¥51,968 million (year-on-year increase of 18.7%), and segment income was ¥11,665 million (year-on-year increase of 15.8%).

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 are making efforts to manage such operations related to group support in an efficient manner.

As a result, net sales in the Other Businesses were ¥27,456 million (year-on-year increase of 1.7%), and segment income was ¥1,123 million (year-on-year decrease of 23.2%).

Financial Position

As of March 31, 2016, total assets stood at ¥448,336 million, an increase of ¥6,572 million from the end of the previous fiscal year. The main factor was an increase of ¥21,216 million in cash and time deposits while there was a decrease of ¥15,346 million in trade receivables.

Total liabilities amounted to ¥131,032 million, a decrease of ¥7,219 million from the end of the previous fiscal year. This decrease was principally attributable to accrued income taxes of ¥4,316 million, which are included in other current liabilities; to accrued employee bonuses of ¥2,779 million, which are included in other current liabilities; and to accrued expenses of ¥4,838 million, which are included in other current liabilities, despite an increase of ¥5,389 million in trade payables.

Total net assets stood at ¥317,304 million, an increase of ¥13,791 million from the end of the previous fiscal year. The main factor was an increase of ¥20,955 million in retained earnings due to the recording of profit attributable to owners of parent of ¥34,584 million, despite ¥4,247 million in foreign currency translation adjustments due to foreign exchange fluctuations and cash dividends paid of ¥13,629 million.

As a result, the shareholders' equity ratio increased to 70.6%, from 68.6% at the end of the previous fiscal year. The current ratio*¹ was 281.8%, compared with 257.9% at the end of the previous fiscal year; the quick ratio*² was 216.3%, compared with 196.1%; and the interest coverage ratio*³ was 1,116.3 times, compared with 634.2 times.

Notes:

*1 Current ratio: Total current assets / Total current liabilities

*2 Quick ratio: (Cash and time deposits + Trade receivables) / Total current liabilities

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

Cash Flows

As of the end of the fiscal year, cash and cash equivalents ("net cash") had increased by ¥15,778 million from the end of the previous fiscal year, to ¥169,543 million. Below is an analysis of cash flows by activities.

Cash Flows from Operating Activities

The amount of net cash provided by operating activities totaled ¥58,050 million (year-on-year increase of 15.9%). Net cash used mainly included income taxes paid of ¥18,902 million (compared with ¥19,532 million in the previous fiscal year). However, overall, there was a net increase in net cash due to profit (loss) before income taxes of ¥48,489 million (compared with ¥56,484 million in the previous fiscal year) and adjustment for depreciation and amortization of ¥21,626 million (compared with ¥23,712 million in the previous fiscal year).

Cash Flows from Investing Activities

The amount of net cash used in investing activities totaled ¥23,426 million (year-on-year increase of 20.0%). The main item of net cash used was purchases of property, plant and equipment and intangible assets totaling ¥19,207 million (compared with ¥16,771 million in the previous fiscal year).

Cash Flows from Financing Activities

The amount of net cash used in financing activities totaled ¥16,123 million (year-on-year increase of 28.1%). The main factors for net cash used were cash dividends paid of ¥13,629 million (compared with ¥7,691 million in the previous fiscal year) and repayment of long-term borrowings of ¥2,262 million (compared with ¥4,878 million in the previous fiscal year).

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

The Company positions the return of profits to stockholders as one of its highest management priorities. The fundamental policy is to maintain a stable dividend and increase corporate value while becoming an even more competitive Group, and preserving a sound financial position. The Company is maintaining the consolidated dividend payout ratio at a level of 30%, based on stable annual dividend payments of ¥24 per share. The Company added a performance-based dividend of ¥28 per share to the stable annual dividend of ¥24 per share, resulting in an annual dividend of ¥52 per share for this fiscal year. For the fiscal year ending March 31, 2017, the Company plans to pay the stable dividend portion of ¥24 per share, and this will be considered by the Company in light of the consolidated operating results and other factors.

In addition, after appropriation of dividends from profit attributable to owners of parent for the period, the Company has resolved to attribute a portion of the remaining balance to the acquisition of its own shares, with comprehensive consideration of aspects such as the level of cash held, operating performance, share price trend, and plan for large-scale investments.

Targets and Management Performance Indicators

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

Outlook for the Fiscal Year Ending March 31, 2017

Looking ahead, although there are some 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 uncertainty in the overall society and the overall economy, as well as economic trends in North America and Europe. Such factors are also expected to have an impact on the entertainment industry, in which the Group is extensively involved, resulting in ongoing uncertainty in this business environment.

Facing these circumstances, the Group started a new Mid-term Plan with the vision of "NEXT STAGE—Empower, Gain Momentum, Accelerate Evolution" in April 2015. In the Mid-term Plan, the Group will further strengthen the IP Axis Strategy to expand the value of its IPs through taking advantage of the worldview and unique characteristics of its IPs and providing the best products and services at the best possible times. In addition, aiming towards growing in the global market, the Group will further strengthen business development in Asia as an area with high growth potential.

For its main strategies in the Mid-term Plan, the Group will implement business strategies to "Accelerate Evolution in the IP Axis Strategy," region strategies to "Gain Momentum in Global Markets," and functional strategies to "Empower and Innovate Business Model." In its business strategies to "Accelerate Evolution in the IP Axis Strategy," the Group will not only cultivate original Group IP by such means as creating and obtaining IP but also expand new IP business such as live events, expand its target markets, and strengthen collaboration among its businesses. In its region strategies to "Gain Momentum in Global Markets," the Group will not only maintain its pursuit of becoming No. 1 in each of its markets in Japan but also proactively expand its business in Asia, where there is a promising outlook for future growth. In the Americas and Europe, the Group will implement initiatives aimed at maintaining its business foundations and expanding its businesses. Furthermore, in its function strategies to "Empower and Innovate Business Model," the Group will create and cultivate new IP business for the next generation and push ahead with creating foundations for the implementation of its IP Axis Strategy in global markets.

In order to carry out these initiatives, in April 2015 the Group changed its organizational structure into one centered on three SBUs—the Toys and Hobby SBU, the Network Entertainment SBU, and the Visual and Music Production SBU. The Group will push ahead with each of its strategies with a focus on the three SBUs: the Toys and Hobby SBU, which will aim to strengthen the IP Axis Strategy and gain momentum in global markets; the Network Entertainment SBU, which will aim to

deploy a new business that goes beyond the framework of the existing game business and fuses networks and entertainment; and the Visual and Music Production SBU, which will create IP and strengthen the Group's business deployment as it looks toward new outlets.

In the fiscal year ended March 31, 2016, the first year of the new Mid-term Plan, the Group made progress with Business Strategies to "Accelerate Evolution in the IP Axis Strategy." Specifically, it created and developed new IP, extended its target markets to include adults and other groups, and expanded new businesses such as live events. In Region Strategies to "Gain Momentum in Global Markets," the Group expanded the Toys and Hobby Business in Asia, increased the popularity of home video game software in North America and Europe, and started the full-fledged development of network content for each overseas regional market. In Functional Strategies to "Empower and Innovate Business Model," the Group developed and provided products and services that integrate real and virtual elements. Going forward, the Group will continue to implement a range of measures to respond rapidly and flexibly to the fast-changing entertainment market based on constant monitoring of conditions in the Group and the operating environment, and develop solid business foundations in order to generate stable earnings in this industry that is characterized by rapid changes in operating climate and user preferences. The objective is to move to the next stage as an entertainment corporate group.

In addition, the Group will push ahead with the various strategies in the Mid-term Plan, and aims to achieve the following numerical targets for the fiscal year ending March 31, 2018: net sales of ¥600,000 million, operating income of ¥60,000 million, and ROE of more from 10%.

In light of the above considerations, the consolidated projections of the fiscal year ending March 31, 2017 are as follows: net sales of ¥580,000 million (year-on-year increase of 0.8%), operating income of ¥50,000 million (year-on-year increase of 0.7%), and profit attributable to owners of parent of ¥35,000 million (year-on-year increase of 1.2%).

Consolidated Plan for the Fiscal Year Ending March 31, 2017

Segments	Millions of yen	
	Net sales	Segment income
Toys and Hobby	¥210,000	¥16,000
Network Entertainment	340,000	28,000
Visual and Music Production	43,000	9,000
Other	28,000	1,000
Adjustments	(41,000)	(4,000)
Consolidated	¥580,000	¥50,000

Forward-Looking Statements

Forecasts for the next fiscal year and other future projections in this annual report are based on information available to the Group at the time they were made and are therefore subject to various risks and uncertainties. Actual results therefore may differ materially from projections 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, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (note 3)
	2015	2016	2016
Assets			
Current assets:			
Cash and time deposits (notes 4, 12 and 23)	¥ 153,542	¥ 174,758	\$ 1,550,923
Trade receivables (notes 6 and 12)	87,876	72,530	643,681
Allowance for doubtful receivables	(455)	(607)	(5,387)
Inventories (note 7)	42,911	46,242	410,383
Deferred tax assets (note 13)	8,954	8,523	75,639
Other current assets (notes 4, 5, 12 and 23)	24,688	20,731	183,982
Total current assets	317,516	322,177	2,859,221
Investments and other assets:			
Investment securities (notes 5 and 12)	32,856	34,519	306,345
Net defined benefit asset (note 11)	144	71	630
Deferred tax assets (note 13)	11,652	12,545	111,333
Other investments and assets (notes 8 and 23)	17,082	16,888	149,877
Allowance for doubtful receivables	(1,023)	(1,016)	(9,017)
Total investments and other assets	60,711	63,007	559,168
Property, plant and equipment:			
Buildings and structures (note 8)	29,468	32,820	291,267
Amusement facilities and machines (note 8)	57,070	57,258	508,147
Land	11,957	11,026	97,852
Other property, plant and equipment (note 8)	110,724	111,368	988,357
Total	209,219	212,472	1,885,623
Less accumulated depreciation	(155,958)	(158,769)	(1,409,026)
Net property, plant and equipment	53,261	53,703	476,597
Intangible assets:			
Total intangible assets (note 8)	10,276	9,449	83,857
Total assets	¥ 441,764	¥ 448,336	\$ 3,978,843

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (note 3)
	2015	2016	2016
Liabilities and net assets			
Current liabilities:			
Trade payables (notes 10 and 12)	¥ 57,257	¥ 62,646	\$ 555,964
Other current liabilities (notes 9 and 13)	65,879	51,688	458,715
Total current liabilities	123,136	114,334	1,014,679
Long-term liabilities:			
Net defined benefit liability (note 11)	7,999	9,920	88,037
Deferred tax liabilities (note 13)	1,360	978	8,679
Other long-term liabilities (note 9)	5,756	5,800	51,474
Total long-term liabilities	15,115	16,698	148,190
Total liabilities	138,251	131,032	1,162,869
Net assets:			
Shareholders' equity:			
Common stock (note 19)			
Authorized: 1,000,000,000 shares			
Issued: 222,000,000 shares	10,000	10,000	88,747
Additional paid-in capital	52,247	52,247	463,676
Retained earnings (note 17)	244,276	265,231	2,353,843
Treasury stock, at cost; 2,316,797 shares in 2015 and 2,321,565 shares in 2016 (note 19)	(2,404)	(2,411)	(21,397)
Subtotal	304,119	325,067	2,884,869
Accumulated other comprehensive income:			
Unrealized gains or losses on other securities, net of tax (notes 5 and 15)	6,757	6,907	61,298
Deferred gains or losses on hedges, net of tax (note 15)	1,300	(706)	(6,266)
Revaluation reserve for land, net of tax (notes 15 and 18)	(5,695)	(5,671)	(50,328)
Foreign currency translation adjustments (note 15)	(1,542)	(5,789)	(51,376)
Remeasurements of defined benefit plans, net of tax (notes 11 and 15)	(2,045)	(3,145)	(27,911)
Subtotal	(1,225)	(8,404)	(74,583)
Subscription rights to shares (note 20)	44	100	887
Non-controlling interests	575	541	4,801
Total net assets	303,513	317,304	2,815,974
Total liabilities and net assets	¥441,764	¥448,336	\$3,978,843

CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

BANDAI NAMCO Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2015 and 2016

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (note 3)
	2015	2016	2016
Net sales	¥565,486	¥575,505	\$5,107,428
Cost of sales	352,374	372,904	3,309,407
Gross profit	213,112	202,601	1,798,021
Selling, general and administrative expenses (note 14)	156,791	152,960	1,357,473
Operating income	56,321	49,641	440,548
Other income (loss):			
Interest and dividend income	641	568	5,041
Interest expense	(74)	(50)	(444)
Gain (loss) on sales of investment securities, net	500	1	9
Loss on valuation of investment securities	(137)	(1)	(9)
Gain (loss) on sales and disposal of fixed assets, net	(142)	805	7,144
Loss on impairment of fixed assets (note 8)	(2,868)	(2,553)	(22,657)
Other	2,243	78	693
	163	(1,152)	(10,223)
Profit (loss) before income taxes	56,484	48,489	430,325
Income taxes (note 13)	18,656	13,933	123,651
Profit	37,828	34,556	306,674
Profit (loss) attributable to non-controlling interests	239	(28)	(248)
Profit attributable to owners of parent	¥ 37,589	¥ 34,584	\$ 306,922

	Yen		U.S. dollars (note 3)
	2015	2016	2016
Data per common share (note 16):			
Net assets at March 31	¥1,378.77	¥1,441.49	\$12.79
Net income:			
Basic	171.10	157.43	1.40
Diluted	171.08	157.39	1.40
Cash dividends applicable to period (note 17)	62.00	52.00	0.46

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (note 3)
	2015	2016	2016
Profit	¥37,828	¥34,556	\$306,674
Other comprehensive income (note 15):			
Unrealized gains or losses on other securities, net of tax (note 5)	458	171	1,518
Deferred gains or losses on hedges, net of tax	1,093	(1,982)	(17,590)
Revaluation reserve for land, net of tax (note 18)	48	24	213
Foreign currency translation adjustments	3,599	(4,222)	(37,469)
Remeasurements of defined benefit plans, net of tax (note 11)	237	(1,100)	(9,762)
Share of other comprehensive income of associates accounted for using equity method	94	(70)	(622)
Total other comprehensive income	5,529	(7,179)	(63,712)
Comprehensive income	¥43,357	¥27,377	\$242,962
Comprehensive income attributable to:			
Owners of parent	¥43,114	¥27,405	\$243,210
Non-controlling interests	243	(28)	(248)

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, 2015 and 2016

Year ended March 31, 2015

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						Subscription rights to shares (note 20)	Non-controlling interests	Total net assets at end of year
	Common stock (note 19)	Additional paid-in capital	Retained earnings (note 17)	Treasury stock (note 19)	Total shareholders' equity	Unrealized gains or losses on other 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 (notes 15 and 18)	Foreign currency translation adjustments (note 15)	Remeasurements of defined benefit plans, net of tax (notes 11 and 15)	Total accumulated other comprehensive income			
Balance at beginning of year	¥10,000	¥52,246	¥214,415	¥(2,391)	¥274,270	¥6,226	¥ 195	¥(5,743)	¥(5,145)	¥(2,282)	¥(6,749)	¥44	¥386	¥267,951
Cumulative effects of changes in accounting policies			(37)		(37)									(37)
Restated balance	10,000	52,246	214,378	(2,391)	274,233	6,226	195	(5,743)	(5,145)	(2,282)	(6,749)	44	386	267,914
Cash dividends			(7,691)		(7,691)									(7,691)
Profit attributable to owners of parent			37,589		37,589									37,589
Purchase of treasury stock				(14)	(14)									(14)
Disposal of treasury stock		1		1	2									2
Change in treasury shares of parent arising from transactions with non-controlling shareholders														
Changes in treasury stock accompanying changes to holdings in companies to which the equity method is applied				0	0									0
Net changes of items other than shareholders' equity						531	1,105	48	3,603	237	5,524	—	189	5,713
Balance at end of year	¥10,000	¥52,247	¥244,276	¥(2,404)	¥304,119	¥6,757	¥1,300	¥(5,695)	¥(1,542)	¥(2,045)	¥(1,225)	¥44	¥575	¥303,513

Year ended March 31, 2016

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						Subscription rights to shares (note 20)	Non-controlling interests	Total net assets at end of year
	Common stock (note 19)	Additional paid-in capital	Retained earnings (note 17)	Treasury stock (note 19)	Total shareholders' equity	Unrealized gains or losses on other 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 (notes 15 and 18)	Foreign currency translation adjustments (note 15)	Remeasurements of defined benefit plans, net of tax (notes 11 and 15)	Total accumulated other comprehensive income			
Balance at beginning of year	¥10,000	¥52,247	¥244,276	¥(2,404)	¥304,119	¥6,757	¥ 1,300	¥(5,695)	¥(1,542)	¥(2,045)	¥(1,225)	¥ 44	¥575	¥303,513
Cumulative effects of changes in accounting policies														
Restated balance	10,000	52,247	244,276	(2,404)	304,119	6,757	1,300	(5,695)	(1,542)	(2,045)	(1,225)	44	575	303,513
Cash dividends			(13,629)		(13,629)									(13,629)
Profit attributable to owners of parent			34,584		34,584									34,584
Purchase of treasury stock				(5)	(5)									(5)
Disposal of treasury stock		0		0	0									0
Change in treasury shares of parent arising from transactions with non-controlling shareholders		0			0									0
Changes in treasury stock accompanying changes to holdings in companies to which the equity method is applied				(2)	(2)									(2)
Net changes of items other than shareholders' equity						150	(2,006)	24	(4,247)	(1,100)	(7,179)	56	(34)	(7,157)
Balance at end 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

Year ended March 31, 2016

Thousands of U.S. dollars (note 3)

	Shareholders' equity					Accumulated other comprehensive income						Subscription rights to shares (note 20)	Non-controlling interests	Total net assets at end of year
	Common stock (note 19)	Additional paid-in capital	Retained earnings (note 17)	Treasury stock (note 19)	Total shareholders' equity	Unrealized gains or losses on other 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 (notes 15 and 18)	Foreign currency translation adjustments (note 15)	Remeasurements of defined benefit plans, net of tax (notes 11 and 15)	Total accumulated other comprehensive income			
Balance at beginning of year	\$88,747	\$463,676	\$2,167,874	\$ (21,335)	\$2,698,962	\$59,966	\$11,537	\$ (50,541)	\$ (13,684)	\$ (18,149)	\$ (10,871)	\$390	\$5,103	\$2,693,584
Cumulative effects of changes in accounting policies														
Restated balance	88,747	463,676	2,167,874	(21,335)	2,698,962	59,966	11,537	(50,541)	(13,684)	(18,149)	(10,871)	390	5,103	2,693,584
Cash dividends			(120,953)		(120,953)									(120,953)
Profit attributable to owners of parent			306,922		306,922									306,922
Purchase of treasury stock				(44)	(44)									(44)
Disposal of treasury stock		0		0	0									0
Change in treasury shares of parent arising from transactions with non-controlling shareholders		0			0									0
Changes in treasury stock accompanying changes to holdings in companies to which the equity method is applied				(18)	(18)									(18)
Net changes of items other than shareholders' equity						1,332	(17,803)	213	(37,692)	(9,762)	(63,712)	497	(302)	(63,517)
Balance at end of year	\$88,747	\$463,676	\$2,353,843	\$ (21,397)	\$2,884,869	\$61,298	\$ (6,266)	\$ (50,328)	\$ (51,376)	\$ (27,911)	\$ (74,583)	\$887	\$4,801	\$2,815,974

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

BANDAI NAMCO Holdings Inc. and Consolidated Subsidiaries
Years Ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (note 3)
	2015	2016	2016
Cash flows from operating activities:			
Profit (loss) before income taxes	¥ 56,484	¥ 48,489	\$ 430,325
Depreciation and amortization	23,712	21,626	191,924
Loss on impairment of fixed assets	2,868	2,553	22,657
Loss (gain) on sales and disposal of fixed assets, net	142	(805)	(7,144)
Loss on disposal of amusement facilities and machines	576	468	4,153
Loss (gain) on sales of investment securities, net	(500)	(1)	(9)
Loss on valuation of investment securities	137	1	9
Decrease (increase) in trade receivables	(9,681)	14,526	128,914
Decrease (increase) in inventories	237	(4,578)	(40,628)
Acquisition of amusement facilities and machines	(5,233)	(3,533)	(31,354)
Increase (decrease) in trade payables	4,290	6,737	59,789
Other	(3,958)	(9,042)	(80,247)
Subtotal	69,074	76,441	678,389
Interest and dividends received	640	563	4,996
Interest paid	(79)	(52)	(461)
Income taxes paid	(19,532)	(18,902)	(167,749)
Net cash provided by operating activities	50,103	58,050	515,175
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	(722)	(4,284)	(38,019)
Purchases of property, plant and equipment	(11,792)	(13,608)	(120,767)
Sales of property, plant and equipment	84	2,224	19,737
Purchases of intangible assets	(4,979)	(5,599)	(49,689)
Purchases of investment securities	(332)	(105)	(932)
Sales of investment securities	633	34	302
Purchases of investments in subsidiaries and associates	(2,370)	(234)	(2,077)
Payments of loans receivable	(796)	(539)	(4,783)
Collection of loans receivable	238	273	2,423
Payments of guarantee money deposited	(829)	(2,080)	(18,459)
Collection of guarantee money deposited	1,618	701	6,221
Other	(268)	(209)	(1,855)
Net cash used in investing activities	(19,515)	(23,426)	(207,898)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	74	(357)	(3,169)
Proceeds from long-term borrowings	—	200	1,775
Repayment of long-term borrowings	(4,878)	(2,262)	(20,075)
Payments of lease obligations	(83)	(65)	(577)
Decrease (increase) in treasury stock, net	(12)	(4)	(35)
Cash dividends paid	(7,691)	(13,629)	(120,953)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(6)	(53)
Cash dividends paid to non-controlling interests	(1)	(0)	(0)
Net cash used in financing activities	(12,591)	(16,123)	(143,087)
Effect of exchange rate changes on cash and cash equivalents	1,101	(2,723)	(24,166)
Net increase (decrease) in cash and cash equivalents	19,098	15,778	140,024
Cash and cash equivalents at beginning of year	134,667	153,765	1,364,617
Cash and cash equivalents at end of year (note 4)	¥153,765	¥169,543	\$1,504,641

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, 2016.

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 market value of undelivered elements specified by the vendor, recording of any revenue attributable to video game software is deferred until all the elements are delivered.

Accounting for Video Game Software Production Expenses:

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

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

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

(e) Marketable Securities and Investment Securities

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

(f) Allowance for Doubtful Receivables

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

bankruptcy or under reorganization, the amount of the allowance is based on individually estimated unrecoverable amounts.

(g) Inventories

Domestic Consolidated Subsidiaries:

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

Foreign Consolidated Subsidiaries:

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

Both domestic and foreign consolidated subsidiaries state game software work in process by the specific-cost method. The value stated 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 market value. For derivative instruments that meet the criteria for hedge accounting, recognition of unrealized gains or losses is deferred. In cases where forward foreign exchange contracts meet certain hedging criteria, the hedged receivables and payables are translated at the corresponding forward foreign exchange contract rate (the "Allocation Method").

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

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

(m) Provision for Directors' Bonuses

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

(n) 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. 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 accrue 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.

(o) Provision for Sales Returns

To prepare for future losses on returned goods, the Company and its consolidated subsidiaries record provision for sales returns using projected amounts of losses on returned goods based on historic rates of goods returned.

(p) 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.

(q) Data per Common Share

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

(r) Changes in Accounting Policy

(Application of Accounting Standard for Business Combinations)

Effective from this consolidated fiscal year, the Company has applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013). Accordingly, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as additional paid-in capital, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of this consolidated fiscal year, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the consolidated financial statements for the consolidated fiscal year to which the date of business combination belongs. In addition, the presentation method for "net income" and other related items was changed, and the presentation of "minority interests" was changed to "non-controlling interests." To reflect these changes, the Company has reclassified its consolidated fiscal year.

Application of the Accounting Standard for Business Combinations is in line with the transitional measures provided for in paragraph 58-2 (4) of the Accounting Standard for Business Combinations, paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. The Company is applying the said standard prospectively from the beginning of this consolidated fiscal year.

In the consolidated statements of cash flows for this consolidated fiscal year, cash flows related to the acquisition or sale of shares in subsidiaries not resulting in change in scope of consolidation have been included under "Cash flows from financing activities," and cash flows related to costs arising from acquisition of shares in subsidiaries resulting in change in scope of consolidation or costs associated with acquisition or sale of shares in subsidiaries not resulting in change in scope of consolidation have been included under "Cash flows from operating activities."

The effect of this change on the consolidated financial statements and the per-share data for this consolidated fiscal year is immaterial.

(s) Accounting Standards Issued But Not Yet Adopted

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016)

The "Implementation Guidance on Recoverability of Deferred Tax Assets" ("the Guidance") groups companies into five categories for assessing the recoverability of deferred tax assets, principally those provided in the Japanese Institute of Certified Public Accountants Auditing Committee Report No. 66 "Audit Treatment for Judgment of Recoverability of Deferred Assets". The Guidance applies the framework for estimation of the amount of deferred tax assets according to these five categories, making some necessary revisions to category conditions and the amount of deferred tax assets to be recorded thereby providing guidelines for the application of the "Accounting Standards for Tax-Effect Accounting" (Business Accounting Council) for the recoverability of deferred tax assets. These revisions will be applied from beginning of the consolidated fiscal year ending March 31, 2017. The effect on the consolidated financial statements from adoption of the Guidance is currently under assessment.

(t) Changes in Presentation

Consolidated Balance Sheets

As of March 31, 2015, "accrued expenses" and "accrued income taxes" were presented separately under "current liabilities," but due to a decline in significance as of March 31, 2016 these are included in "other current liabilities" under "current liabilities." To reflect this change in presentation, the consolidated financial statements as of March 31, 2015 have been reclassified.

As a result, in the consolidated financial statements as of March 31, 2015 "accrued expenses" of ¥41,492 million, "accrued income taxes" of ¥7,064 million, and "other current liabilities" of ¥17,323 million that were presented in "current liabilities" have been reclassified as "other current liabilities" of ¥65,879 million.

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, 2016 have been translated into U.S. dollars at the rate of ¥112.68=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2016.

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, 2015 and 2016 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
	2015	2016	2016
Cash and time deposits	¥153,542	¥174,758	\$1,550,923
Marketable securities included in other current assets under current assets	2,164	704	6,248
Time deposits with maturities in excess of three months	(1,941)	(5,919)	(52,530)
Cash and cash equivalents	¥153,765	¥169,543	\$1,504,641

5 Marketable Securities and Investment Securities

Marketable securities and investment securities as of March 31, 2015 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Other securities with market value	¥18,745	¥17,423	\$154,624
Other securities without market value	2,420	2,511	22,284
Investments in non-consolidated subsidiaries and affiliated companies	13,443	14,687	130,343
Contributions to investment partnerships	411	602	5,343
Total of marketable securities and investment securities	¥35,019	¥35,223	\$312,594

The original cost, carrying amount (market value), and gross unrealized holding gain (loss) for other securities with market value as of March 31, 2015 and 2016 are summarized as follows:

	Millions of yen			
	2015			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (market value)
Other securities with market value:				
Equity securities	¥7,659	¥8,923	¥(1)	¥16,581
Other	2,164	—	—	2,164
Total	¥9,823	¥8,923	¥(1)	¥18,745

	Millions of yen			
	2016			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (market value)
Other securities with market value:				
Equity securities	¥7,653	¥9,066	¥(0)	¥16,719
Other	704	—	—	704
Total	¥8,357	¥9,066	¥(0)	¥17,423

Thousands of U.S. dollars

	2016			
	Original cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (market value)
Other securities with market value:				
Equity securities	\$67,918	\$80,458	\$(0)	\$148,376
Other	6,248	—	—	6,248
Total	\$74,166	\$80,458	\$(0)	\$154,624

The following is a summary of the carrying amount of other securities without market value as of March 31, 2015 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
	Carrying amount	Carrying amount	Carrying amount
Other securities without market value:			
Unlisted securities	¥2,420	¥2,511	\$22,284
Total	¥2,420	¥2,511	\$22,284

Proceeds and gross realized gains and losses from the sales of other securities in the fiscal years ended March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Equity securities	¥582	¥ 7	\$ 62
Other	51	28	248
Proceeds from the sales of other securities	¥633	¥35	\$310
Gross realized gains from the sales of other securities	511	1	9
Gross realized losses from the sales of other securities	11	—	—

6 Trade Receivables

Trade receivables as of March 31, 2015 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Notes receivable	¥ 5,190	¥ 6,143	\$ 54,517
Accounts receivable—trade	82,672	66,383	589,129
Lease receivables and investment assets	14	4	35
Total	¥87,876	¥72,530	\$643,681

7 Inventories

Inventories as of March 31, 2015 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Finished goods and merchandise	¥14,563	¥16,744	\$148,598
Work in process	23,183	25,605	227,236
Raw materials and supplies	5,165	3,893	34,549
Total	¥42,911	¥46,242	\$410,383

8 Loss on Impairment of Fixed Assets

Evaluation of fixed asset impairment is performed by grouping assets according to management accounting classifications based on strategic business units, excluding significant idle assets, assets scheduled for disposal, and leased assets. In the amusement facility 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, 2015 and 2016 are as follows:

To reflect a change in the classifications of strategic business units instituted in the fiscal year ended March 31, 2016, figures for the fiscal year ended March 31, 2015 have been restated to reflect the new strategic business unit classifications.

Strategic business unit	Location	Items	Classification	Millions of yen		Thousands of U.S. dollars
				2015	2016	2016
Toys and Hobby	Osaka City, Osaka (note 1)	Business assets	Intangible assets	¥ 1	¥ —	\$ —
	Chiba City, Chiba and others (note 4)	Assets scheduled for disposal	Buildings and structures	85	—	—
			Other property, plant and equipment	13	—	—
Network Entertainment	Toshima-ku, Tokyo and others (note 1)	Amusement facilities	Amusement facilities and machines	1,027	—	—
			Intangible assets	0	—	—
			Other investments and assets	28	—	—
	Shinagawa-ku, Tokyo (note 2) Chiba City, Chiba and others (note 3)	Business assets	Other property, plant and equipment	181	—	—
			Amusement facilities	37	—	—
	Fujimi City, Saitama (note 4) Shinagawa-ku, Tokyo and others (note 4)	Amusement facilities	Other investments and assets	0	—	—
			Assets scheduled for disposal	1,160	—	—
Visual and Music Production	Shinagawa-ku, Tokyo (note 4)	Assets scheduled for disposal	Buildings and structures	7	—	—
			Other property, plant and equipment	5	—	—
Corporate (Common)	Shinagawa-ku, Tokyo (note 4)	Operational facilities	Buildings and structures	126	—	—
			Other property, plant and equipment	103	—	—
Toys and Hobby	Shenzhen, China and others (note 1)	Business assets	Other property, plant and equipment	—	332	2,946
	Seoul, Korea (note 1)	Business assets	Intangible assets	—	1,524	13,525
	Chiyoda-ku, Tokyo (note 3)	Assets scheduled for disposal	Buildings and structures	—	2	18
Network Entertainment	Koto-ku, Tokyo and others (note 1)	Amusement facilities	Amusement facilities and machines	—	227	2,015
			Other property, plant and equipment	—	5	44
			Intangible assets	—	5	44
	Minato-ku, Tokyo (note 2)	Business assets	Other investments and assets	—	3	27
			Other property, plant and equipment	—	277	2,458
	Shinjuku-ku, Tokyo and others (note 3)	Amusement facilities	Amusement facilities and machines	—	4	35
			Amusement facilities and machines	—	25	222
	Shinagawa-ku, Tokyo and others (note 4)	Assets scheduled for disposal	Other investments and assets	—	2	18
			Buildings and structures	—	26	231
	Other property, plant and equipment	—	85	754		
Others	Yokosuka City, Kanagawa and others (note 1)	Business assets	Buildings and structures	—	1	9
			Other property, plant and equipment	—	5	44
	Ibaraki City, Osaka (note 3)	Assets scheduled for disposal	Buildings and structures	—	2	18
			Other property, plant and equipment	—	1	9
	Shinagawa-ku, Tokyo (note 4)	Assets scheduled for disposal	Buildings and structures	—	14	124
Corporate (Common)	Suita City, Osaka (note 3)	Operational facilities	Other property, plant and equipment	—	1	9
	Shinagawa-ku, Tokyo and others (note 4)	Operational facilities	Other property, plant and equipment	—	9	80
			Intangible assets	—	3	27
Total				¥2,868	¥2,553	\$22,657

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 to have no market value.

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 to have no market value.

4. Impairment loss was recorded on these fixed assets for which no future use is anticipated. In addition, these assets were determined to have no market value.

9 Borrowings and Lease Obligations

Borrowings and lease obligations as of March 31, 2015 and 2016 are summarized as follows:

	2015		2016		Thousands of U.S. dollars
	Carrying amount	Weighted average interest rate (%)	Carrying amount	Weighted average interest rate (%)	2016
Short-term borrowings	¥ 762	0.93	¥ 402	0.38	\$ 3,568
Long-term borrowings due within one year	2,245	0.66	1,296	0.62	11,502
Lease obligations due within one year	47	10.73	38	11.32	337
Long-term borrowings (Less current portion)	1,268	0.64	154	0.49	1,367
Lease obligations (Less current portion)	48	6.19	40	6.12	355
Total	¥4,370	—	¥1,930	—	\$17,129

Note: The terms of the Company's major borrowings include restrictive financial covenants. In regard to the details of these financial covenants, see Note "17 Retained Earnings and Dividends."

The aggregate annual maturities of long-term borrowings and lease obligations outstanding as of March 31, 2016 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥1,334	\$11,839
2018	111	985
2019	80	710
2020	3	27
2021	0	0
Total	¥1,528	\$13,561

10 Trade Payables

Trade payables as of March 31, 2015 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Notes payable	¥13,921	¥14,416	\$127,938
Accounts payable-trade	43,336	48,230	428,026
Total	¥57,257	¥62,646	\$555,964

11 Retirement and Severance Benefits

1. Defined benefit plans

(a) For the fiscal years ended March 31, 2015 and 2016, 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
	2015	2016	2016
Beginning balance of retirement benefit obligations	¥17,730	¥17,934	\$159,159
Cumulative effects of changes in accounting policies	47	—	—
Restated balance	17,777	17,934	159,159
Service cost	1,136	1,162	10,312
Interest cost	181	169	1,500
Actuarial gains or losses incurred	(244)	1,490	13,223
Retirement benefits paid	(926)	(528)	(4,686)
Prior service costs incurred	10	—	—
Ending balance of retirement benefit obligations	¥17,934	¥20,227	\$179,508

(b) For the fiscal years ended March 31, 2015 and 2016, 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
	2015	2016	2016
Beginning balance of plan assets	¥10,582	¥11,024	\$ 97,835
Expected rate of return on assets	241	238	2,112
Actuarial gains or losses incurred	(70)	(399)	(3,541)
Contributions to plan from employer	1,105	1,119	9,931
Retirement benefits paid	(834)	(496)	(4,402)
Ending balance of plan assets	¥11,024	¥11,486	\$101,935

(c) For the fiscal years ended March 31, 2015 and 2016, 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
	2015	2016	2016
Beginning balance of net defined benefit liability and net defined benefit asset	¥ 868	¥ 946	\$ 8,395
Retirement benefit expenses	285	454	4,029
Retirement benefits paid	(61)	(75)	(666)
Contributions to plan from employer	(152)	(199)	(1,766)
Other	5	(18)	(158)
Ending balance of net defined benefit liability and net defined benefit asset	¥ 945	¥1,108	\$ 9,834

(d) As of March 31, 2015 and 2016, 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
	2015	2016	2016
Retirement benefit obligations of funded plans	¥ 19,274	¥ 21,882	\$ 194,196
Plan assets	(12,567)	(13,276)	(117,820)
	6,707	8,606	76,376
Retirement benefit obligations of non-funded plans	1,148	1,243	11,031
Net amount of liabilities and assets recorded on consolidated balance sheets	7,855	9,849	87,407
Net defined benefit liability	7,999	9,920	88,037
Net defined benefit asset	(144)	(71)	(630)
Net amount of liabilities and assets recorded on consolidated balance sheets	¥ 7,855	¥ 9,849	\$ 87,407

(e) For the fiscal years ended March 31, 2015 and 2016, the breakdown of retirement benefit expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service cost	¥1,136	¥1,162	\$10,312
Interest cost	181	169	1,500
Expected rate of return on assets	(241)	(238)	(2,112)
Amortization of actuarial gains or losses	338	414	3,674
Amortization of prior service costs	(22)	(29)	(257)
Retirement benefit expenses calculated using the simplified method	285	454	4,029
Retirement benefit expenses related to defined benefit plans	1,677	1,932	17,146
Other (note)	418	686	6,088
Total retirement benefit expenses	¥2,095	¥2,618	\$23,234

Note: In the fiscal year ended March 31, 2015, the following extra retirement payments were recorded: ¥369 million in "Selling, general and administrative expenses" and ¥49 million in "Other income (loss)." In the fiscal year ended March 31, 2016, the following extra retirement payments were recorded: ¥398 million (\$3,532 thousand) in "Selling, general and administrative expenses" and ¥288 million (\$2,556 thousand) in "Other income (loss)."

(f) For the fiscal years ended March 31, 2015 and 2016, 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
	2015	2016	2016
Prior service costs	¥ (32)	¥ (29)	\$ (257)
Actuarial gains or losses	512	(1,474)	(13,081)
Total	¥480	¥(1,503)	\$(13,338)

(g) As of March 31, 2015 and 2016, 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
	2015	2016	2016
Unrecognized prior service costs	¥ (86)	¥ (115)	\$ (1,021)
Unrecognized actuarial gains or losses	(2,900)	(4,375)	(38,826)
Total	¥(2,986)	¥(4,490)	\$(39,847)

(h) As of March 31, 2015 and 2016, the major categories of plan assets as a percentage of total plan assets are as follows:

	2015	2016
Bonds	33%	29%
Equities	24	22
Life insurance general account	34	33
Other	9	16
Total	100%	100%

(i) For the fiscal years ended March 31, 2015 and 2016, the principal actuarial assumptions are as follows:

	2015	2016
Discount rate	0.50%~1.30%	0.10%~0.80%
Long-term expected rate of return on assets	2.26%~2.50%	2.14%~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	2.61%~5.12%	2.61%~5.12%

2. Defined contribution plans

For the fiscal years ended March 31, 2015 and 2016, 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
	2015	2016	2016
Required contributions to defined contribution plans	¥484	¥525	\$4,659

3. Multi-employer plans

For the fiscal years ended March 31, 2015 and 2016, 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
	2015	2016	2016
Required contributions to multi-employer plans	¥5	¥3	\$27

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, 2015 and 2016, designated large customers were counterparties for 13.0% and 13.6% 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, and 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 market value of financial instruments

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

The contract amounts of derivative transactions in Note "22 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. Market value of financial instruments

The carrying amounts of financial instruments as stated in the consolidated balance sheets, their market values as of March 31, 2015 and 2016, and the differences between carrying amounts and market values are as stated below. This table does not include assets for which it was judged extremely difficult to assess the market value (Note 2 below).

	Millions of yen						Thousands of U.S. dollars		
	2015			2016			2016		
	Carrying amount	Market value	Difference	Carrying amount	Market value	Difference	Carrying amount	Market value	Difference
(1) Cash and time deposits	¥153,542	¥153,542	¥ —	¥174,758	¥174,758	¥ —	\$1,550,923	\$1,550,923	\$ —
(2) Trade receivables	87,876	87,876	—	72,530	72,530	—	643,681	643,681	—
(3) Marketable securities and investment securities	27,941	35,074	7,133	28,162	32,481	4,319	249,929	288,258	38,329
Total assets	¥269,359	¥276,492	¥7,133	¥275,450	¥279,769	¥4,319	\$2,444,533	\$2,482,862	\$38,329
Trade payables	57,257	57,257	—	62,646	62,646	—	555,964	555,964	—
Total liabilities	¥ 57,257	¥ 57,257	¥ —	¥ 62,646	¥ 62,646	¥ —	\$ 555,964	\$ 555,964	\$ —
Derivative financial instruments*	¥ 2,075	¥ 2,075	¥ —	¥ (1,588)	¥ (1,588)	¥ —	\$ (14,093)	\$ (14,093)	\$ —

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

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

Assets

(1) Cash and time deposits

Since these are readily convertible into cash, their market 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 market 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 market 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 Money Management Fund is readily convertible into cash, their market value is almost identical with the book value; and these are 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

Trade payables

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

Derivative financial instruments

Please refer to Note "22 Foreign Exchange Risk Management and Interest Rate Risk Management."

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

	Millions of yen		Thousands of U.S. dollars	
	2015	2016	2015	2016
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Unlisted stocks	¥2,420	¥2,511	\$22,284	
Stocks of affiliated companies (unlisted stocks)	4,246	3,949	35,046	
Contributions to investment partnerships	411	602	5,343	

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

3. Maturity analysis of financial assets

	Millions of yen								Thousands of U.S. dollars			
	2015				2016				2016			
	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	¥151,537	¥ 102	¥—	¥—	¥172,893	¥ —	¥—	¥—	\$1,534,372	\$ —	\$—	\$—
Trade receivables	86,449	1,427	—	—	71,219	1,311	—	—	632,046	11,635	—	—
Total	¥237,986	¥1,529	¥—	¥—	¥244,112	¥1,311	¥—	¥—	\$2,166,418	\$11,635	\$—	\$—

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 35.6% for the fiscal year ended March 31, 2015 and 33.1% for the fiscal year ended March 31, 2016.

Income tax expenses reflected in the accompanying consolidated statements of income for the fiscal years ended March 31, 2015 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Income taxes—current	¥18,813	¥13,747	\$122,000
Income taxes—deferred	(157)	186	1,651
Total	¥18,656	¥13,933	\$123,651

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, 2015 and 2016 is as follows:

	2015	2016
Normal tax rate	35.6%	33.1%
Entertainment expenses not deductible for tax purposes	0.5	0.6
Corporate inhabitant tax on per capita basis	0.4	0.5
Directors' bonuses	0.7	0.9
Effect of changes in tax rates on net deferred tax assets	2.7	1.7
Amortization of goodwill	0.1	0.1
Change in valuation allowance for deferred tax assets	(0.1)	(2.0)
Differences of tax rates of foreign consolidated subsidiaries	(0.2)	(0.9)
Differences due to correction of transfer pricing	(1.5)	—
Tax credit for research and development expenses	(5.0)	(5.3)
Other	(0.2)	0.0
Effective tax rate	33.0%	28.7%

Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets:			
Losses carried forward	¥ 17,787	¥ 16,563	\$ 146,992
Excess depreciation of fixed assets	9,481	9,630	85,463
Accrued employee bonuses	4,023	2,746	24,370
Inventory valuation losses	2,571	2,821	25,035
Net defined benefit liability	2,533	2,990	26,535
Loss on valuation of advance payments	1,753	1,348	11,963
Loss on impairment of fixed assets	1,215	879	7,801
Accrued enterprise taxes and others	988	584	5,183
Research and development expenses	380	354	3,142
Allowance for doubtful receivables	76	260	2,307
Revaluation reserve for land	2,157	2,043	18,131
Other	6,733	7,508	66,631
Total gross deferred tax assets	49,697	47,726	423,553
Valuation allowance	(26,937)	(24,098)	(213,862)
Total deferred tax assets	22,760	23,628	209,691
Deferred tax liabilities:			
Reserve for advanced depreciation of fixed assets	(77)	(69)	(612)
Retained earnings of foreign consolidated subsidiaries	(439)	(387)	(3,435)
Unrealized gains or losses on other securities	(2,246)	(2,257)	(20,030)
Revaluation reserve for land	(469)	(444)	(3,940)
Other	(299)	(393)	(3,488)
Total deferred tax liabilities	(3,530)	(3,550)	(31,505)
Net deferred tax assets	¥ 19,230	¥ 20,078	\$ 178,186

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

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Current assets–Deferred tax assets	¥ 8,954	¥ 8,523	\$ 75,639
Investments and other assets–Deferred tax assets	11,652	12,545	111,333
Current liabilities–Other (deferred tax liabilities)	(16)	(12)	(107)
Long-term liabilities–Deferred tax liabilities	(1,360)	(978)	(8,679)
Total	¥19,230	¥20,078	\$178,186

The Bill for Partial Amendment of the Income Tax Act (Law No. 15 of 2016) and the Bill for Partial Amendment of the Local Tax Act (Law No. 13 of 2016) were approved by Japan's National Diet on March 29, 2016. These bills stipulated that corporate tax rates will be reduced for fiscal years starting on or after April 1, 2016. As a result, the normal tax rate used in the calculation of deferred tax assets and deferred tax liabilities was changed from the previous 32.3% to 30.9% for temporary differences that are expected to be recovered or settled in the fiscal years beginning on April 1, 2016 and 2017, and 30.6% for temporary differences that are expected to be recovered or settled in fiscal years beginning on or after April 1, 2018.

As a result of these changes in tax rates, deferred tax assets (net of deferred tax liabilities) decreased by ¥740 million (\$6,567 thousand), remeasurements of defined benefit plans decreased by ¥62 million (\$550 thousand), and deferred gains or losses on hedges decreased by ¥1 million (\$9 thousand), while income taxes–deferred increased by

¥799 million (\$7,091 thousand) and unrealized gains or losses on other securities increased by ¥122 million (\$1,083 thousand).

In addition, deferred tax assets related to revaluation declined by ¥24 million (\$213 thousand), and the revaluation reserve for land increased by the same amount.

The tax loss carryforward deduction system has been revised, and under the revised system for the fiscal years starting on or after April 1, 2016, the deductible amount of the loss carryforward will be limited to 60% of income before the carryforward deduction; for fiscal years starting on or after April 1, 2017, the deductible amount of the loss carryforward will be limited to 55% of income before the carryforward deduction; and for fiscal years starting on or after April 1, 2018, the deductible amount of the loss carryforward will be limited to 50% of income before the carryforward deduction. The impact of these revisions on the amounts of deferred tax assets and income taxes–deferred is expected to be minimal.

14 Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Advertising expenses	¥ 41,311	¥ 37,734	\$ 334,878
Directors' remuneration and employees' wages	39,200	39,620	351,615
Employees' retirement and severance benefits	1,984	2,268	20,128
Provision for directors' bonuses	1,242	1,403	12,451
Research and development expenses	18,759	18,195	161,475
Provision of allowance for doubtful accounts	(111)	17	151
Other	54,406	53,723	476,775
Total	¥156,791	¥152,960	\$1,357,473

15 Other Comprehensive Income

The components of "Other comprehensive income" for the fiscal years ended March 31, 2015 and 2016 are as follows:

	Millions of yen				
	Amounts arising	Reclassification adjustments	Before tax effect	Tax effect	Net of tax effect
Unrealized gains or losses on other securities, net of tax	¥1,668	¥ (489)	¥1,179	¥ (721)	¥ 458
Deferred gains or losses on hedges, net of tax	3,564	(2,127)	1,437	(344)	1,093
Revaluation reserve for land, net of tax	—	—	—	48	48
Foreign currency translation adjustments	3,622	(23)	3,599	—	3,599
Remeasurements of defined benefit plans, net of tax	165	315	480	(243)	237
Share of other comprehensive income of associates accounted for using equity method	91	3	94	—	94
Total	¥9,110	¥(2,321)	¥6,789	¥(1,260)	¥5,529

	Millions of yen					Thousands of U.S. dollars				
	Amounts arising	Reclassification adjustments	Before tax effect	Tax effect	Net of tax effect	Amounts arising	Reclassification adjustments	Before tax effect	Tax effect	Net of tax effect
Unrealized gains or losses on other securities, net of tax	¥ 229	¥ 0	¥ 229	¥ (58)	¥ 171	\$ 2,032	\$ 0	\$ 2,032	\$ (514)	\$ 1,518
Deferred gains or losses on hedges, net of tax	(2,249)	(376)	(2,625)	643	(1,982)	(19,959)	(3,337)	(23,296)	5,706	(17,590)
Revaluation reserve for land, net of tax	—	—	—	24	24	—	—	—	213	213
Foreign currency translation adjustments	(4,248)	26	(4,222)	—	(4,222)	(37,700)	231	(37,469)	—	(37,469)
Remeasurements of defined benefit plans, net of tax	(1,888)	385	(1,503)	403	(1,100)	(16,755)	3,417	(13,338)	3,576	(9,762)
Share of other comprehensive income of associates accounted for using equity method	(35)	(35)	(70)	—	(70)	(311)	(311)	(622)	—	(622)
Total	¥(8,191)	¥ 0	¥(8,191)	¥1,012	¥(7,179)	\$(72,693)	\$ 0	\$(72,693)	\$8,981	\$(63,712)

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

The reconciliation of the differences between basic and diluted net income per common share for the fiscal years ended March 31, 2015 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Profit attributable to owners of parent	¥37,589	¥34,584	\$306,922
Profit attributable to owners of parent available to common stockholders	37,589	34,584	306,922
Profit attributable to owners of parent for diluted EPS calculation	37,589	34,584	306,922

	Thousands of shares	
	2015	2016
Average number of common shares outstanding	219,686	219,679
Effect of dilutive securities:		
Stock options	36	57
Average number of common shares for diluted EPS calculation	219,722	219,736

Net income per common share:	Yen		U.S. dollars
	2015	2016	2016
Basic	¥171.10	¥157.43	\$1.40
Diluted	171.08	157.39	1.40

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 (\$14,599 thousand) at March 31, 2015 and 2016, 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, 2016 were cash dividends of ¥8,792 million (\$78,026 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, 2016 was ¥2,638 million (\$23,411 thousand).

Dividend limitation

- On August 5, 2011, the Company raised funds from financial institutions as long-term loans payable. These loans payable have the following restrictive financial covenants:
 - The Company shall maintain the amount of net assets in the consolidated balance sheet as of the closing dates of the interim and end of each fiscal year (the "Interim or End of Fiscal Year") at 75% or above of whichever is greater: (i) the amount of net assets in the consolidated balance sheet as of the closing date of the immediately preceding Interim or End of Fiscal Year, or (ii) the amount of the net assets in the consolidated balance sheet as of March 31, 2011.
 - With respect to the recurring income and loss* in the consolidated statement of income for each fiscal year, the Company shall not record recurring loss for two consecutive fiscal years.
- On March 23, 2016, the Company concluded global credit facility agreements with financial institutions. These agreements have the following restrictive financial covenants:
 - 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.
 - With respect to the recurring income 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 income and loss is a Japanese accounting term denoting income 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 market value of land is determined based on official notice prices that are calculated by the method assessed and published by the Commissioner of the National Tax Agency. The Commissioner assesses and publishes the method to calculate land value that forms the

foundation for calculating taxable value for land value tax prescribed in Article 16 of 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 ¥1,018 million (\$9,034 thousand) were recognized based on the difference between the land carrying amount, which was revalued as of March 31, 2002, and the market value of the land as of March 31, 2016.

19 Common Stock and Treasury Stock

The changes in the number of common stock and treasury stock for the fiscal years ended March 31, 2015 and 2016 are as follows:

Common stock (number of shares)	Share	
	2015	2016
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

Treasury stock (number of shares)	Share	
	2015	2016
Number of shares at beginning of year	2,312,098	2,316,797
Purchases and other	4,699	4,768
Number of shares at end of year	2,316,797	2,321,565

20 Stock Option Plan

Stock option plan as of March 31, 2016 is summarized as follows:

Resolution date of the meeting of the Company's Board of Directors	May 21, 2013
Position (number of beneficiaries)	Directors of the Company (5) Directors of subsidiaries (6)
Class (number of shares) (note)	Common stock (36,100)
Amount to be paid upon exercise of stock acquisition rights	¥1 per share
Grant date	June 5, 2013
Vesting conditions for stock acquisition rights	None
Required service	Not specified
Exercise period for the stock acquisition rights	From June 5, 2013 to June 4, 2033
Fair value of each stock option (yen)	¥1,219.63

Note: With respect to the method used to estimate the number of stock options vested, the number of stock options granted is used as the number of stock options vested because there are no vesting conditions.

Resolution date of the meeting of the Company's Board of Directors	May 21, 2015
Position (number of beneficiaries)	Directors of the Company (5) Directors of subsidiaries (7)
Class (number of shares) (note 1)	Common stock (27,100)
Amount to be paid upon exercise of stock acquisition rights	¥1 per share
Grant date	June 5, 2015
Vesting conditions for stock acquisition rights	None
Required service	Not specified
Exercise period for the stock acquisition rights	From June 5, 2015 to June 4, 2035
Fair value of each stock option (yen) (note 2)	¥2,049.78

Notes: 1. With respect to the method used to estimate the number of stock options vested, the number of stock options granted is used as the number of stock options vested because there are no vesting conditions.

2. The method used to estimate the market price per unit for stock options granted in the current fiscal year was as follows:

(1) Valuation method applied: Black-Scholes method	
(2) Principal assumptions and method of estimation	
Volatility of stock price (note 1)	27.20%
Estimated remaining outstanding period (note 2)	10 years
Estimated dividend (note 3)	2.16%
Risk-free interest rate (note 4)	0.486%

Notes: 1. Volatility of stock price is calculated based on the actual stock prices over the period from September 29, 2005 to June 4, 2015.

2. The available data is not sufficient and accordingly, estimates are based on the assumption that exercise takes place at the midpoint of the exercise period.

3. Estimated dividend is based on actual dividends over the period from September 29, 2005 to June 4, 2015.

4. Risk-free interest rate is based on the yield of Japanese government bonds with a period corresponding to the estimated remaining outstanding period.

21 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, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Within one year	¥1,533	¥1,696	\$15,052
Over one year	4,582	6,932	61,519
Total	¥6,115	¥8,628	\$76,571

22 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, market values, and gains or losses from valuation of forward foreign exchange contracts outstanding as of March 31, 2015 and 2016 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

	2015			2016			2016		
	Contract amount	Estimated market value	Unrealized gain (loss)	Contract amount	Estimated market value	Unrealized gain (loss)	Contract amount	Estimated market value	Unrealized gain (loss)
Forward foreign exchange contracts									
Sold:									
Yen	¥2,043	¥247	¥247	¥ 8,113	¥(611)	¥(611)	\$ 72,000	\$(5,422)	\$(5,422)
U.S. dollars	629	(7)	(7)	1,180	55	55	10,472	488	488
Euro	290	6	6	395	14	14	3,506	124	124
Purchased:									
U.S. dollars	1,081	122	122	1,037	(7)	(7)	9,203	(62)	(62)
H.K. dollars	72	3	3	86	2	2	763	18	18
Chinese yuan	—	—	—	79	(1)	(1)	701	(9)	(9)
Currency option contracts									
Sold/Purchased:									
U.S. dollars	—	—	—	2,072	(112)	(112)	18,388	(994)	(994)
H.K. dollars	—	—	—	115	(7)	(7)	1,021	(62)	(62)
Total	¥4,115	¥371	¥371	¥13,077	¥(667)	¥(667)	\$116,054	\$(5,919)	\$(5,919)

Notes: 1. Method of calculating market value

Calculated based on prices provided by counterparty financial institutions.

2. For certain of the above forward foreign exchange contracts, hedge accounting is applied 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

Hedge accounting method	Hedging method	Hedged items	Millions of yen				Thousands of U.S. dollars	
			2015		2016		2016	
			Contract amount	Estimated market value	Contract amount	Estimated market value	Contract amount	Estimated market value
		Forward foreign exchange contracts						
		Sold:						
	Yen	Other current assets	¥19,528	¥ 745	¥ —	¥ —	\$ —	\$ —
	U.S. dollars	Accounts receivable-trade	1,204	4	508	3	4,508	27
	Euro	Accounts receivable-trade	90	2	—	—	—	—
		Purchased:						
	U.S. dollars	Accounts payable-trade	10,463	866	16,398	(833)	145,527	(7,393)
	Chinese yuan	Other current liabilities	1,298	27	—	—	—	—
	Yen	Accounts payable-trade	116	9	24	(0)	213	(0)
	H.K. dollars	Accounts payable-trade	267	30	316	(13)	2,804	(115)
		Currency option contracts						
		Sold put option:						
	U.S. dollars	Accounts payable-trade	1,410	25	1,398	(81)	12,407	(719)
		Purchased call option:						
	U.S. dollars	Accounts payable-trade	1,410	(5)	1,398	3	12,407	27
		Forward foreign exchange contracts						
		Purchased:						
	U.S. dollars	Accounts payable-trade	442	(note 3)	453	(note 3)	4,020	(note 3)
		Total	¥36,228	¥1,703	¥20,495	¥(921)	\$181,886	\$(8,173)

Notes: 1. Method of calculating market value

Calculated based on prices provided by counterparty financial institutions.

2. Currency option contracts are zero cost options, and option premiums are not paid or received.

3. 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 market values of those contracts are included in the market values of the accounts payable-trade.

23 Commitments and Contingent Liabilities

1. Pledged assets

As of March 31, 2015 and 2016, the detail of pledged assets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and time deposits	¥102	¥96	\$852

As of March 31, 2016, there were no obligations corresponding to pledged assets.

In addition to the above, the assets deposited as a security deposit for issuance under the Payment Services Act are ¥200 million in "Other current assets" and ¥433 million (\$3,843 thousand) in "Other investments and assets" at March 31, 2015 and 2016, respectively.

2. Commitments

Commitments as of March 31, 2015 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Guarantees for loans payable from financial institutions to companies other than consolidated subsidiaries	¥214	¥210	\$1,864

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Guarantee of obligation resulting from rental contracts of unconsolidated subsidiary	¥79	¥60	\$532

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 video game software 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 Group reviewed its organizational structure with the aim of implementing a range of initiatives defined as main strategies in its Mid-term Plan, which was started in April 2015. In line with this review, effective from this consolidated fiscal year the Group changed the classification of its reportable segments from the previous classifications of the "Toys and Hobby Business," the "Content Business," and the "Amusement Facility Business" to the "Toys and Hobby Business," the "Network Entertainment Business," and the "Visual and Music Production Business."

Segment information of the previous fiscal year is prepared and disclosed based on the reportable segment classifications after the organizational change.

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

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

	Millions of yen							2015
	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	¥222,295	¥292,558	¥40,759	¥555,612	¥ 9,874	¥565,486	¥ —	¥565,486
Inter-segment sales and transfers	8,624	3,884	3,015	15,523	17,133	32,656	(32,656)	—
Total	¥230,919	¥296,442	¥43,774	¥571,135	¥27,007	¥598,142	¥(32,656)	¥565,486
Segment income	17,040	29,291	10,077	56,408	1,462	57,870	(1,549)	56,321
Segment assets	119,894	169,634	31,434	320,962	26,297	347,259	94,505	441,764
Other items:								
Depreciation and amortization	¥ 14,941	¥ 7,440	¥ 632	¥ 23,013	¥ 369	¥ 23,382	¥ 330	¥ 23,712
Amortization of goodwill	83	14	62	159	—	159	—	159
Loss on impairment of fixed assets	99	2,528	12	2,639	—	2,639	229	2,868
Investments in associates accounted for using equity method	613	32	—	645	11,086	11,731	—	11,731
Increase in property, plant and equipment and intangible assets	12,042	11,312	914	24,268	934	25,202	2,559	27,761

Millions of yen									
2016									
	Reportable Segment					Other (note 1)	Total	Adjustments (note 2)	Consolidated total (note 3)
	Toys and Hobby	Network Entertainment	Visual and Music Production	Subtotal					
Net sales:									
To external customers	¥199,410	¥317,995	¥48,268	¥565,673	¥ 9,832	¥575,505	¥ —	¥575,505	
Inter-segment sales and transfers	7,015	2,946	3,700	13,661	17,624	31,285	(31,285)	—	
Total	¥206,425	¥320,941	¥51,968	¥579,334	¥27,456	¥606,790	¥(31,285)	¥575,505	
Segment income	16,639	23,932	11,665	52,236	1,123	53,359	(3,718)	49,641	
Segment assets	99,462	166,245	38,687	304,394	27,040	331,434	116,902	448,336	
Other items:									
Depreciation and amortization	¥ 11,782	¥ 7,965	¥ 593	¥ 20,340	¥ 439	¥ 20,779	¥ 847	¥ 21,626	
Amortization of goodwill	83	17	68	168	—	168	—	168	
Loss on impairment of fixed assets	1,857	659	—	2,516	24	2,540	13	2,553	
Investments in associates accounted for using equity method	756	—	—	756	12,051	12,807	—	12,807	
Increase in property, plant and equipment and intangible assets	11,142	11,614	653	23,409	497	23,906	3,081	26,987	

Thousands of U.S. dollars									
2016									
	Reportable Segment					Other (note 1)	Total	Adjustments (note 2)	Consolidated total (note 3)
	Toys and Hobby	Network Entertainment	Visual and Music Production	Subtotal					
Net sales:									
To external customers	\$1,769,702	\$2,822,106	\$428,364	\$5,020,172	\$ 87,256	\$5,107,428	\$ —	\$5,107,428	
Inter-segment sales and transfers	62,256	26,145	32,836	121,237	156,408	277,645	(277,645)	—	
Total	\$1,831,958	\$2,848,251	\$461,200	\$5,141,409	\$243,664	\$5,385,073	\$(277,645)	\$5,107,428	
Segment income	147,666	212,389	103,523	463,578	9,967	473,545	(32,997)	440,548	
Segment assets	882,694	1,475,373	343,335	2,701,402	239,972	2,941,374	1,037,469	3,978,843	
Other items:									
Depreciation and amortization	\$ 104,561	\$ 70,687	\$ 5,263	\$ 180,511	\$ 3,896	\$ 184,407	\$ 7,517	\$ 191,924	
Amortization of goodwill	737	151	603	1,491	—	1,491	—	1,491	
Loss on impairment of fixed assets	16,481	5,848	—	22,329	213	22,542	115	22,657	
Investments in associates accounted for using equity method	6,709	—	—	6,709	106,949	113,658	—	113,658	
Increase in property, plant and equipment and intangible assets	98,882	103,071	5,795	207,748	4,410	212,158	27,343	239,501	

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

2. Details of "Adjustments" are as follows:

- (1) The adjustment to segment income of -¥1,549 million for the fiscal year ended March 31, 2015 includes elimination of inter-segment transactions of ¥678 million and corporate expenses not allocated to reportable segments of -¥2,227 million. The adjustment to segment income of -¥3,718 million (-\$32,997 thousand) for the fiscal year ended March 31, 2016 includes elimination of inter-segment transactions of ¥292 million (\$2,591 thousand) and corporate expenses not allocated to reportable segments of -¥4,010 million (-\$35,588 thousand). Principal corporate expenses are expenses related to administrative divisions not belonging to reportable segments.
- (2) The adjustment to segment assets of ¥94,505 million as of March 31, 2015 includes elimination of inter-segment transactions of -¥20,722 million and corporate assets not allocated to reportable segments of ¥115,227 million. The adjustment to segment assets of ¥116,902 million (\$1,037,469 thousand) as of March 31, 2016 includes elimination of inter-segment transactions of -¥17,654 million (-\$156,674 thousand) and corporate assets not allocated to reportable segments of ¥134,556 million (\$1,194,143 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 ¥330 million for the fiscal year ended March 31, 2015 includes elimination of inter-segment transactions of -¥793 million and depreciation and amortization expense not allocated to reportable segments of ¥1,123 million. The adjustment to depreciation and amortization expense of ¥847 million (\$7,517 thousand) for the fiscal year ended March 31, 2016 includes elimination of inter-segment transactions of -¥320 million (-\$2,840 thousand) and depreciation and amortization expense not allocated to reportable segments of ¥1,167 million (\$10,357 thousand).
- (4) The adjustment to loss on impairment of fixed assets of ¥229 million and ¥13 million (\$115 thousand) for the fiscal year's ended March 31, 2015 and 2016, respectively, are related to corporate assets not allocated to reportable segments.
- (5) The adjustment to increase in property, plant and equipment and intangible assets of ¥2,599 million and ¥3,081 million (\$27,343 thousand) as of March 31, 2015 and 2016, respectively, are related to corporate assets not allocated to reportable segments.

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

Additional segment information as of and for the fiscal years ended March 31, 2015 and 2016 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
						2015
	Japan	Americas	Europe	Asia, excluding Japan	Total	
Net sales	¥459,777	¥38,632	¥32,432	¥34,645	¥565,486	
Property, plant and equipment	39,155	3,453	4,646	6,007	53,261	

						Millions of yen
						2016
	Japan	Americas	Europe	Asia, excluding Japan	Total	
Net sales	¥430,369	¥51,642	¥47,286	¥46,208	¥575,505	
Property, plant and equipment	41,200	2,878	4,305	5,320	53,703	

						Thousands of U.S. dollars
						2016
	Japan	Americas	Europe	Asia, excluding Japan	Total	
Net sales	\$3,819,390	\$458,307	\$419,649	\$410,082	\$5,107,428	
Property, plant and equipment	365,637	25,541	38,206	47,213	476,597	

3. Information by major customer

Fiscal year ended March 31, 2015	Name	Net sales (Millions of yen)	Related segment
	Happinet Corporation	¥77,445	Toys and Hobby Business, Network Entertainment Business, Visual and Music Production Business

Fiscal year ended March 31, 2016	Name	Net sales (Millions of yen)	Net sales (Thousands of U.S. dollars)	Related segment
	Happinet Corporation	¥62,096	\$551,083	Toys and Hobby Business, Network Entertainment Business, Visual and Music Production Business

4. By reportable segment, information regarding the amount of amortization of goodwill and negative goodwill for the fiscal years ended March 31, 2015 and 2016, and the unamortized balance of goodwill and negative goodwill as of March 31, 2015 and 2016, is as follows:

							Millions of yen
							2015
	Toys and Hobby	Network Entertainment	Visual and Music Production	Other	Corporate and eliminations	Total	
Amortization of goodwill	¥ 83	¥14	¥ 62	¥—	¥—	¥159	
Unamortized balance of goodwill	330	71	187	—	—	588	
Amortization of negative goodwill	—	—	0	—	—	0	
Unamortized balance of negative goodwill	—	—	—	—	—	—	

Millions of yen

	2016					
	Toys and Hobby	Network Entertainment	Visual and Music Production	Other	Corporate and eliminations	Total
Amortization of goodwill	¥ 83	¥17	¥ 68	¥—	¥—	¥168
Unamortized balance of goodwill	247	55	152	—	—	454
Amortization of negative goodwill	—	—	—	—	—	—
Unamortized balance of negative goodwill	—	—	—	—	—	—

Thousands of U.S. dollars

	2016					
	Toys and Hobby	Network Entertainment	Visual and Music Production	Other	Corporate and eliminations	Total
Amortization of goodwill	\$ 737	\$151	\$ 603	\$—	\$—	\$1,491
Unamortized balance of goodwill	2,192	488	1,349	—	—	4,029
Amortization of negative goodwill	—	—	—	—	—	—
Unamortized balance of negative goodwill	—	—	—	—	—	—

25 Related-Party Disclosures

Transactions with Related Parties

Fiscal year ended March 31, 2015

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, 2015
Affiliated company	Happinet Corporation	Taito-ku, Tokyo	¥2,751 million	Wholesaler of toys, video games, and amusement products	Holding directly 26.1% indirectly 0.3%	Sales agency	Sales of products, and others (note 2)	¥77,445 million	Accounts receivable-trade	¥11,404 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, 2016

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, 2016
Affiliated company	Happinet Corporation	Taito-ku, Tokyo	¥2,751 million (\$24,414 thousand)	Wholesaler of toys, video games, and amusement products	Holding directly 26.0% indirectly 0.3%	Sales agency	Sales of products, and others (note 2)	¥62,096 million (\$551,083 thousand)	Accounts receivable-trade	¥9,878 million (\$87,664 thousand)

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

2. Transaction terms and policy for determining transaction terms

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

26 Business Combinations

(Transactions conducted by commonly controlled entities)

1. Name and nature of combined business, date of business combination, legal form of business combination, and outline of transaction

(1) Name and nature of combined business

Asian Toys and Hobby Business of BANDAI NAMCO ASIA CO., LTD. (currently BANDAI NAMCO Holdings ASIA CO., LTD. ("BNHA"))

(2) Date of business combination

March 29, 2016

(3) Legal form of business combination

Business transfer with BNHA as the transferring company and a newly established company BANDAI NAMCO ASIA CO., LTD., as the receiving company

(4) Outline of transaction

Previously, subsidiary BNHA managed operations in Asia as a hybrid operating-holding company with the functions of both a holding company and a Toys and Hobby business company. This transaction was conducted to clearly separate the holding company and operating company functions in order to promote enhanced intra-Group coordination and expand operations in Asia.

2. Accounting standards applied

The transaction is treated as a transaction under common control 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 the Guidance on Accounting Standard for Business Combinations and Business Divestitures (ASBJ Guidance No. 10, September 13, 2013).

27 Significant Subsequent Events

(Acquisition of Shares Through Tender Offers)

The Company adopted a resolution at a Board of Directors' meeting on March 9, 2016 to acquire common shares in WiZ Co., Ltd. ("Target Company" and "Target Company's Shares") through a tender offer under the Financial Instruments and Exchange Act (Act No. 25 of 1948, including subsequent amendments).

The First Tender Offer, which commenced on March 10, 2016, was completed on April 7, 2016 and the Second Tender Offer, which commenced on April 15, 2016, was completed on May 24, 2016.

1. Outline of the business combination

(1) Name and business of the target company

Name	WiZ Co., Ltd.
Business	Planning, developing, producing, and selling of toys, sundries, and animation films

(2) Main reasons for the business combination

The Target Company is listed on the Tokyo Stock Exchange JASDAQ Standard section. The Company decided to make the Target Company a wholly owned subsidiary through a tender offer to strengthen planning and development capabilities for toys.

While the Company has grown through business operations centered on key IPs, which is a core strength of the Group, it believes having the Target Company in the Group should enable the strengthening of its source of growth, the planning and development function for IPs and products, with the Target Company's strengths and know-how in digital toys planning and development integrated into the Group. More specifically, the Company believes that deepening the collaboration between BANDAI CO., LTD., which has capabilities in boys' and girls' basic (classic) toys planning and design, and the Target Company, which has capabilities in digital toys planning and development, should improve the planning capability of the overall Group including the Target Company and enable the planning, development, and operations of new products leveraging the strengths of both companies with their planning capabilities as a pillar.

In addition, the Company recognizes the Target Company as an important business partner of the Group in jointly holding and operating the rights of original IPs such as *Tamagotchi*, *Primopuel*, and *Digital Monsters*. The Target Company believes that the alliance with the Group will allow it to establish a stable revenue base by strengthening the licensing-out function for these original IPs.

To realize the synergies described above, the Company has decided it is imperative to establish management structures to allow decisions to be made promptly and flexibly based on medium- and long-term strategic judgments, including the restructuring of the Target Company's business management, through the acquisition of all of the Target Company's Shares. It has also been determined that the Target Company should become a wholly owned subsidiary of the Company and both companies should be integrated as a group to conduct business operations, which will eventually serve to enhance the corporate value of the Target Company.

(3) Date of business combination

Share acquisition date	
Commencement date of settlement for First Tender Offer	April 14, 2016
Commencement date of settlement for Second Tender Offer	May 31, 2016
Deemed acquisition date	May 31, 2016

(4) Legal format for the business combination

Acquisition of shares in consideration for cash

(5) Company name after combination

No change

(6) Percentages of voting rights acquired

1) Percentage of voting rights owned immediately before combination	0.00%
2) Percentage of voting rights acquired through First Tender Offer	55.02%
3) Percentage of voting rights acquired through Second Tender Offer	32.35%
4) Percentage of voting rights after the Tender Offer	87.38%

(7) Main basis on which acquiring company was chosen

In order for the Company to acquire the shares in consideration for cash

2. Matters relating to calculation of acquisition price

(1) Purchase price of acquired company and breakdown by type of consideration

Acquisition price	Cash and time deposits	¥804 million
Acquisition cost		804

(2) Details and amount of main acquisition-related costs

Remuneration, commissions, and other fees to advisors and other parties (estimated amounts) ¥98 million

3. Matters relating to acquisition cost allocation

(1) Amounts and breakdowns for assets received, and debts assumed, on date of business combination

Current assets	¥745 million
Property, plant and equipment	15
Total assets	760
Current liabilities	450
Long-term liabilities	38
Total liabilities	488

(2) Goodwill amounts incurred, reason for being incurred, amortization method and period

1) Goodwill amounts incurred
¥566 million
Because the allocation of the acquisition cost has not been completed, the amount of goodwill has been provisionally calculated.

2) Reason for being incurred
Since the acquisition cost exceeds the net amount of assets acquired and liabilities assumed, the excess amount has been recognized as goodwill.

3) Amortization method and period

Amortized over five years by the straight-line method

INDEPENDENT AUDITORS' 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, 2016 and 2015, 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BANDAI NAMCO Holdings Inc. and its consolidated subsidiaries as at March 31, 2016 and 2015, 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, 2016 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, 2016
Tokyo, Japan

OVERVIEW OF MAIN GROUP COMPANIES

As of June 30, 2016

BANDAI NAMCO Holdings Inc.	Planning and execution of medium- and long-term management strategies; provision of support for business strategy implementation by Group companies (Tokyo Stock Exchange, First Section)
BANDAI NAMCO Holdings USA Inc.	Advancing regional strategies in the U.S., providing support for the implementation of strategies by operating companies in the U.S.
BANDAI NAMCO Holdings UK Ltd.	Advancing regional strategies in Europe, providing support for the implementation of strategies by operating companies in Europe
BANDAI NAMCO Holdings ASIA CO., LTD.	Advancing regional strategies in Asia, providing support for the implementation of strategies by operating companies in Asia

Toys and Hobby Strategic Business Unit

BANDAI CO., LTD.	Planning, manufacturing, and marketing of toys, plastic models, confectionery, and foods, capsule toys, cards, apparel, sundries, and products
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 stationery, sundries, and other products
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 of toys for young children, etc. (JASDAQ)
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 company for toy-related products in the U.S.
BANDAI S.A.S.	Holding company in Europe, sales of toys and other products
BANDAI U.K. LTD.	Sales of toy-related products
BANDAI ESPAÑA S.A.	Sales of toy-related products
BANDAI NAMCO ASIA CO., LTD.	Manufacturing, sales, importing, and exporting of toy-related products; responsibility for production and sales in the Toys and Hobby Business in Asia-Pacific (excluding Japan)
BANDAI NAMCO KOREA CO., LTD.	Planning and sales of toy-related products; planning, development, and services of online games
BANDAI NAMCO (THAILAND) CO., LTD.	Manufacturing of toy-related products
BANDAI (SHENZHEN) CO., LTD.	Quality assurance and quality control operations; factory inspections of trading partners
BANDAI NAMCO PHILIPPINES INC.	Manufacturing of toy-related products

Network Entertainment Strategic Business Unit

BANDAI NAMCO Entertainment Inc.	Planning, development, and distribution of network content; planning, development, and sales of home video game software and arcade game machines
BANDAI NAMCO Studios Inc.	Planning and development of network content, home video game software, and arcade game machines, etc.
D3 PUBLISHER INC.	Planning, development, and sales of home video game software; planning, development, and distribution of network content
B.B.STUDIO Co., Ltd.	Planning and development of home video game software
VIBE Inc.	Provision of content and products using various interactive and media options, advertising, and promotion
BANDAI NAMCO OnLine Inc.	Planning, development, and operation of online games, other software, and services

Banpresto Co., Ltd.	Planning, development, and sales of amusement prizes, etc.
Banpresto Sales Co., Ltd.	Sales of amusement prizes, etc.
NAMCO LIMITED	Planning and operation of amusement facilities
Pleasure Cast Co., Ltd.	Planning and operation of amusement facilities
Hanayashiki Co., Ltd.	Planning and operation of Asakusa Hanayashiki amusement park
BANDAI NAMCO Entertainment America Inc.	Planning, development, and sales of home video game software; planning, development and distribution of network content
BANDAI NAMCO Entertainment Europe S.A.S.	Planning, development, and sales of home video game software; planning, development, and distribution of network content, holding company, shared services company
BANDAI NAMCO Amusement America Inc.	Sales of arcade game machines
BANDAI NAMCO Amusement Europe Ltd.	Sales of arcade game machines
BANDAI NAMCO (SHANGHAI) CO., LTD.	Planning, operation, and production of network content
D3 Publisher of America, Inc.	Planning, development, and distribution of network content
BANPRESTO (H.K.) LTD.	Manufacturing and production management of prizes, etc.
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 Strategic Business Unit

BANDAI VISUAL CO., LTD.	Planning, production, and sales of visual content and visual package software
Lantis Co., Ltd.	Planning, production, sales, and management, etc., of music masters and musical works
Sunrise Inc.	Planning and production of animation, management, and administration of copyrights
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
BANDAI NAMCO Pictures INC.	Planning and production of animation; management and administration of copyrights and other rights
BANDAI NAMCO Rights Marketing Inc.	On-demand delivery of content, such as animation
BANDAI NAMCO Live Creative Inc.	Planning and production of events and live performances; production of visual products related to events and live performances; planning and production of goods, ticket sales, etc.
Grand-Slam Ltd.	Production of live performances and events
Highway Star Inc.	Management of affiliated artists, production of music and operation of fan clubs; audio engineering operations

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.	Entrusted with operations related to general affairs, personnel, accounting, and information systems
Artpresto Co., Ltd.	Planning, design, and printing, website production, event planning, and administration
Happinet Corporation*	Distribution of toys, visual and music software, video games, and amusement products (Tokyo Stock Exchange, First Section)
Sotsu Co., Ltd.*	Planning and production of animation for TV programs and copyright business, etc. (JASDAQ)
Italian Tomato Ltd.*	Management of restaurants; franchise operations; production, sales, and provision of production guidance for pastries
Anime Consortium Japan Inc.*	Distribution of animation, media business, and copyright business

* Companies accounted for by the equity method

