Annual Report 2015
Financial Section
For the Year ended March 31, 2015

TOMY Company, Ltd.

Listing:	First Section of the Tokyo Stock Exchange
Securities identification code:	7867
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Disclaimers

The data used within this report is compiled from the corporate prospectus and earnings announcements.

Future forecasts and estimations regarding management and financial information in connection with TOMY Company, Ltd., that are stated in this Annual Report have been made at our own discretion on the basis of information that we were able to obtain at the time of preparing this document. Please be aware that these forecasts and estimations contain risks and uncertainties, and that actual results may differ as a result of economic circumstances or other changes.

This English version is a translation of the original Japanese document and is only for reference purposes. In the case where any differences occur between the English version and the original Japanese version, the Japanese version will prevail.

I. Six-Year Financial Summary

TOMY Company, Ltd. and its consolidated subsidiaries
Years ended March 31, 2015, 2014, 2013, 2012, 2011 and 2010

	Millions of yen						Thousands of U.S. dollars*1
	2015	2014	**2013**	**2012**	**2011**	**2010**	**2015**
Net sales	**¥149,938**	¥154,804	¥178,745	¥187,265	¥159,490	¥178,713	**$1,247,717**
Net sales *2	**149,938**	148,325	—	—	—	—	**1,247,717**
Gross profit	**52,704**	53,142	55,160	61,137	52,668	54,994	**438,581**
Total selling, general and administrative expenses	**50,237**	49,807	52,613	50,951	42,341	44,538	**418,055**
Operating income	**2,466**	3,335	2,547	10,186	10,327	10,456	**20,526**
Ordinary income	**2,014**	3,300	2,622	9,823	10,143	10,382	**16,764**
Income before income (loss) taxes and minority interests	**206**	2,607	(4,846)	7,976	7,837	8,673	**1,716**
Net income (loss)	**(1,817)**	232	(7,173)	3,679	8,929	8,978	**(15,122)**
EBITDA *3	**11,194**	11,526	10,086	16,854	14,601	14,512	**93,157**
R&D Expenses	**2,598**	2,498	2,978	2,722	2,205	2,457	**21,620**
Depreciation and amortization	**8,728**	8,191	7,539	6,667	4,274	4,055	**72,630**
Net cash provided by operating activities	**6,827**	12,429	6,701	16,046	8,486	16,857	**56,815**
Net cash provided by (used in) investing activities	**(2,428)**	(1,015)	(3,414)	(38,048)	1,169	(3,033)	**(20,210)**
Net cash provided by (used in) financing activities	**(10,022)**	1,735	(8,494)	29,718	(6,767)	(8,538)	**(83,399)**
(As of March 31)							
Total assets	**159,638**	156,467	152,732	156,654	94,597	95,880	**1,328,437**
Net assets	**49,650**	50,907	49,692	51,805	48,744	42,062	**413,167**
Interest-bearing debt	**75,337**	72,889	66,293	68,815	21,270	25,270	**626,928**
Per Share Data (Yen)							
Net income (loss)	**(19.91)**	2.47	(76.21)	39.09	94.85	96.60	**(0.17)**
Dividend	**10.00**	10.00	10.00	14.00	14.00	12.00	**0.08**
Net assets	**567.91**	526.49	506.41	525.46	501.54	432.90	**4.73**

*1 U.S. dollar amounts have been translated at the rate of ¥120.17=US$1, the approximate current exchange rate at March 31, 2015.
*2 Net sales excluding the impact of share transfers of TOYS UNION Co., Ltd. and TATSUNOKO PRODUCTION Co., Ltd.
*3 EBITDA=Operating income+Depreciation and amortization

(Six-Year Financial Summary – Continue)

	2015	2014	2013	2012	2011	2010
Major Financial Indices						
Operating margin (%)	**1.6**	**2.2**	1.4	5.4	6.5	5.9
Gross profit margin (%)	**35.2**	**34.3**	30.9	32.6	33.0	30.8
Overseas sales ratio (%)	**42.8**	**41.3**	30.7	36.2	19.7	17.4
Return on equity (ROE) (%) *4	**(3.7)**	**0.5**	—	7.6	20.3	25.5
Return on assets (ROA) (%) *5	**1.3**	**2.1**	1.7	7.8	10.7	11.1
Equity ratio (%)	**30.2**	**31.7**	31.2	31.6	49.9	42.5
Debt-to-equity ratio (%) *6	**47.2**	**143.2**	133.4	132.8	43.6	60.1
Dividend on equity (DOE) (%)	**1.7**	**1.9**	1.9	2.7	2.8	2.8
Dividend payout ratio) (%)	**52.2**	**404.4**	—	35.8	14.8	12.4
Stock Data						
Stock price at the fiscal year-end (Yen)	**714**	**478**	478	605	630	728
Market capitalization (Millions of yen)	**60,587**	**44,994**	44,996	56,952	59,306	68,534
PER (Times)	—	**193.3**	—	15.5	6.6	7.5
PBR (Times)	**1.3**	**0.9**	0.9	1.2	1.3	1.7
Number of shares outstanding (Thousand shares) *7	**84,856**	**94,130**	94,134	94,136	94,138	94,140
Company Data						
Number of subsidiaries	**38**	**40**	45	49	29	34
Number of employees (Consolidated)	**2,086**	**2,056**	2,171	2,294	2,535	2,572
Number of employees (Non-consolidated)	**490**	**486**	516	642	667	649
Average age of employees (Non-consolidated)	**40.4**	**39.3**	38.7	40	39.8	39.3

*4 Return on equity=Net income÷(Net assets–Subscription rights to shares–Minority interests)
*5 Return on assets=Ordinary income÷Total assets
*6 Debt to equity ratio=Interest-bearing debt÷Net assets
*7 Treasury stock has been excluded from these figures.

II. Financial Review

1. Operating Results

Highlights of the Fiscal Year Ended March 31, 2015

Net sales excluding the impact of share transfers of TOYS UNION Co., Ltd. and TATSUNOKO PRODUCTION Co., Ltd. rose year on year for the fourth consecutive quarter.

As one of the key measures to implement "Structural revolution of business," one of the goals in the New Medium Term Management Plan, the Company implemented a head office organizational reform and a merger of three domestic functional subsidiaries, and additionally announced a transfer of part of the business and certain functions at TOMY MARKETING COMPANY, LTD. (strengthening of sales functions), T-ENTAMEDIA Company, Ltd. (mainly change of business domain to companies engaged in new point of sales development and store operation, etc.) to swiftly realize the strategies of domestic group companies.

Because a business alliance with TPG yielded certain results, the capital and business alliance with TPG was dissolved, and the Company carried out a purchase of treasury shares and a purchase and cancellation of bonds with stock acquisition rights.

In the Japanese market, amid weaker consumer sentiment, the competitive environment for toys for elementary-school-age boys is changing significantly. Amid this environment, there were strong sales of PRIPARA (for which the number of registered members during the eight months since the start of business operations exceeded company expectations by rising above 1,200,000 persons), FROZEN (sales of 200,000 dresses), WIXOSS (which attracted popularity due to its coordination with a late-evening animated series and achieved sales six times greater than company expectations) and TRANSFORMERS (for which a movie released in the summer of 2014 was a worldwide hit). In this way, the Company created hit products that corresponded to changes in the competitive environment.

In North America JOHN DEERE agricultural machinery toys continued to attract a high level of popularity, and sales of POKEMON-related products, feeding products such as baby bottles and cups were strong, resulting in further progress in the establishment of a stable business foundation. In Europe, on the other hand, major customers lowered their product inventory levels and price competition with rival companies intensified, affecting the Company's product shipments.

Operating income decreased due partly to a decline in gross profit reflecting higher cost of sales compared with the previous fiscal year from the effect of a significant yen depreciation in foreign currency exchange, along with strategic increases in advertising expenses and research and development expenses, etc.

Extraordinary losses were recorded in the first three months, primarily reflecting civil procedure settlement costs due to unsolicited faxes sent as advertisements at a subsidiary of the Company and loss from fraud associated with improper accounting practices at a different subsidiary of the Company.

Summary of Consolidated Earnings

(Millions of yen)

	2014	2015	Change	Change (%)
Net sales	¥154,804	¥149,938	¥(4,865)	(3.1)
Operating income	3,335	2,466	(868)	(26.0)
Ordinary income	3,300	2,014	(1,285)	(39.0)
Net income (loss)	¥ 232	¥ (1,817)	¥(2,050)	–

*(Reference)

Summary of consolidated earnings excluding TOYS UNION Co., Ltd. and TATSUNOKO PRODUCTION Co., Ltd.

(Millions of yen)

	2014	2015	Change	Change (%)
Net sales	¥148,325	¥149,938	¥ 1,612	1.1
Operating income	3,210	2,466	(744)	(23.2)
Ordinary income	3,155	2,014	¥(1,140)	(36.2)
Net income (loss)	¥ 105	¥ (1,817)	¥(1,922)	–

Consolidated net sales for the fiscal year was ¥149,938 million (down 3.1% year on year). This decline was mainly the result of the transfers of the shares of TOYS UNION Co., Ltd. and TATSUNOKO PRODUCTION Co., Ltd., and the subsequent removal of these companies from the scope of consolidation as part of a strategic plan to strengthen the core toy business and achieve streamlined corporate management (amount of impact: ¥6,478 million). When excluding the sales of TOYS UNION Co., Ltd. and TATSUNOKO PRODUCTION Co., Ltd., net sales increased by ¥1,612 million year on year and exceeded those of the same period of the previous fiscal year for the fourth consecutive quarter.

Operating income was ¥2,466 million (down 26.0% year on year). Gross profit decreased due to the increase in the cost of sales impacted by yen depreciation in foreign currency exchange. Meanwhile, there was also an increase of ¥738 million year on year in advertising expenses and research and development expenses following strategic efforts to strengthen the areas of marketing and new product development, leading to a decline in operating income.

Ordinary income was ¥2,014 million (down 39.0% year on year). The main factor for the decrease was a decrease in foreign exchange gains in non-operating income.

Net loss was ¥1,817 million (net income of ¥232 million in the previous fiscal year). Extraordinary losses of ¥1,852 million was recorded. This primarily reflected ¥1,170 million in civil procedure settlement costs at a consolidated U.S. subsidiary of the Company and ¥214 million in loss from fraud associated with improper accounting practices at T-ENTAMEDIA Company, Ltd. Meanwhile, total income taxes decreased by ¥319 million year on year, mainly in line with a decrease in income before income taxes and minority interests.

(Millions of yen)

	2014	2015	Change	Change (%)
Net sales	¥154,804	¥149,938	¥(4,865)	(3.1)
Japan	107,777	102,808	(4,969)	(4.6)
North America, Europe and Oceania	42,127	41,843	(284)	(0.7)
Asia (other than Japan)	49,500	53,850	4,349	8.8
Eliminations and corporate	(44,601)	(48,563)	(3,961)	–
Operating income (loss)	3,335	2,466	(868)	(26.0)
Japan	7,355	6,402	(953)	(13.0)
North America, Europe and Oceania	(723)	(610)	112	(15.6)
Asia (other than Japan)	526	2,063	1,537	292.1
Eliminations and corporate	¥ (3,822)	¥ (5,387)	¥(1,565)	–

Japan

Net sales in Japan for the fiscal year was ¥102,808 million (down 4.6% year on year) while operating income was ¥6,402 million (down 13.0% year on year).

In the Japanese market, products for girls such as the PRIPARA amusement machine (for which the number of registered members during the eight months since the start of business operations exceeded company expectations by rising above 1,200,000 persons) and products related to FROZEN (sales of 200,000 dresses), and high target products such as the trading card game WIXOSS (which attracted popularity due to its coordination with a late-evening animated series and achieved sales six times greater than company expectations) and the next-generation entertainment robot OMNIBOT series attracted popularity, despite weaker consumer sentiment due to the consumption tax hike and other factors and significant changes in the competitive environment for toys for elementary-school-age boys. In this way, the Company was able to create hit products. Moreover, sales of long-standing products such as TOMICA, PLARAIL, and LICCA dolls were also firm. Furthermore, sales of TRANSFORMERS-related products (for which a movie released in the summer of 2014 was a worldwide hit) exported outside Japan were steady. On the other hand, there were declines in sales of products such as the trading card game DUEL MASTERS due to the impact of changes in the competitive environment. The major factor in the decrease in net sales was the above-mentioned impact from share transfers of TOYS UNION Co., Ltd. and TATSUNOKO PRODUCTION Co., Ltd., which came to ¥6,478 million. The decrease in operating income reflected a decline in gross profit resulting from rises mainly in the cost of procurements and a strategic increase in advertising expenses and research and development expenses.

North America, Europe and Oceania

Net sales in North America, Europe and Oceania was ¥42,127 million (up 16.7% year on year), while Net sales in North America, Europe and Oceania was ¥42,127 million (up 16.7% year on year), while operating loss was ¥723 million, compared with operating loss of ¥1,637 million in the previous fiscal year.

At the TOMY International Group, cross-selling with Japan was carried out at a full-scale level, and related products for POKEMON, for which a global licensing agreement has been concluded, and the motion interactive robots BATTROBORG, which are popular in Japan, showed growth in sales. Also, in spite of ending of the license period for products related to THOMAS & FRIENDS series in the previous fiscal year, sales of toys based on vehicles made by agriculture machinery maker John Deere, and baby products by Boon, Inc. and Keen Distribution, LLC were strong in each region. Sales were also affected by foreign currency exchange due to the yen depreciation. The main factors for the operating loss were an increase in advertising expenses to promote sales of key products, and the recording of ¥757 million as amortization of right of using trademark.

Asia (other than Japan)

Net sales in Asia (other than Japan) was ¥53,850 million (up 8.8% year on year) due to firm shipments from manufacturing subsidiary TOMY (Hong Kong) Ltd. to Japan, while operating income was ¥2,063 million (up 292.1% year on year).

In ASEAN countries, further progress was made in the development of new products that are suited to the purchase levels in countries and regions and reflect the tastes of local children. In Singapore, sales of TAIL BATTLER, a toy for boys that is controlled with reels and rods, started and attracted popularity. In addition, sales of BLAST FIGHTER, a battle robot toy, started in nine Asian countries including Indonesia. A decrease in selling, general and administrative expenses resulting from the partial withdrawal from business in China contributed to the increase in operating income.

Outlook for the Fiscal Year Ending March 31, 2016

In the Japanese market, we will strengthen sales of products for boys such as by launching Beyblade Burst, which incorporates new gimmicks and latest technology, to the battle toy Beyblade and G Shot, which was arranged as a modern version of the old-time rubber-band gun games, as an initiative to expand sales in the toy market for elementary-school-age boys, which has been impacted by changes in the competitive environment. In addition we will aggressively develop products linked to popular characters and content, and aim to expand sales such as with Star Wars related products, which has had a new film release for the first time in 10 years.

In the Overseas market, we will aggressively strengthen sales on a global basis. In addition to global merchandizing license of toys, etc. for Inside Out and The Good Dinosaur, which are the latest works of Disney/Pixar, which we expect will assist sales expansion in Europe and North America, we have acquired a toy merchandizing license for Miles from Tomorrowland, an animated work from dedicated Disney channel Disney Junior.

Regarding the full-year consolidated operating results for the fiscal year ending March 31, 2016, the TOMY Group forecasts increases in both revenues and income, with net sales of ¥170,000 million (up 13.4%), operating income of ¥4,000 million (up 62.2%), ordinary income of ¥3,300 million (up 63.8%), and profit attributable to owners of parent of ¥1,300 million (a net loss of ¥1,817 million for the fiscal year ended March 31, 2015).

Financial Position

Assets

At the end of the fiscal year ended March 31, 2015, current assets stood at ¥88,651 million, down ¥1,943 million from the end of the previous fiscal year ended March 31, 2014. This is mainly attributable to a decrease in cash and deposits, despite an increase in merchandise and finished goods due mainly to the effect of yen depreciation.

Non-current assets stood at ¥70,927 million, up ¥5,148 million from the end of the previous fiscal year. This is mainly attributable to increases in goodwill and right of using trademark on a Japanese currency converted base owing to yen depreciation, despite those items decreasing US$18,916 thousand on a local currency base.

Liabilities

At the end of the fiscal year ended March 31, 2015, current liabilities stood at ¥37,571 million, down ¥3,594 million from the end of the previous fiscal year. This is mainly attributable to redemption of current portion of bonds with subscription rights to shares, despite an increase in short-term loans payable.

Non-current liabilities stood at ¥72,416 million, up ¥8,023 million from the end of the previous fiscal year. This is mainly attributable to increases in long-term loans payable, lease obligations and deferred tax liabilities, despite retirement by purchase of bonds with subscription rights to shares.

Net assets

At the end of the fiscal year ended March 31, 2015, total net assets were ¥49,650 million, down ¥1,257 million from the end of the previous fiscal year. This is mainly attributable to a decrease in retained earnings and purchase of treasury shares, despite an increase in foreign currency translation adjustment.

Cash flows

Cash and cash equivalents (hereafter "cash") at the end of the fiscal year ended March 31, 2015 was ¥41,972 million, a decrease of ¥4,352 million compared with the end of the previous fiscal year ended March 31, 2014.

Net cash provided by operating activities was ¥6,827 million, compared with ¥12,429 million provided in the previous fiscal year. Cash was mainly provided by depreciation of ¥7,106 million, amortization of goodwill of ¥1,651 million and an increase in accounts payable - other of ¥939 million, while cash was mainly used for an increase in inventories of ¥1,828 million.

Net cash used in investing activities was ¥2,428 million, compared with ¥1,015 million used in the previous fiscal year. Cash was mainly used for purchase of property, plant and equipment of ¥3,564 million and purchase of intangible assets of ¥938 million, while cash was mainly provided by proceeds from sales of property, plant and equipment of ¥1,977 million.

Net cash used in financing activities was ¥10,022 million, compared with ¥1,735 million provided in the previous fiscal year. Cash was mainly used for payments for retirement by purchase of convertible bonds of ¥7,400 million, redemption of convertible bonds of ¥4,900 million, purchase of treasury shares of ¥6,197 million, repayments of long-term loans payable of ¥5,695 million and repayments of finance lease obligations of ¥3,122 million, while cash was mainly provided by proceeds from long-term loans payable of ¥17,000 million.

III. Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of yen)

As of March 31,	2014	**2015**
Assets		
Current assets		
Cash and deposits	¥ 46,775	**¥ 42,117**
Notes and accounts receivable - trade	18,271	**18,387**
Merchandise and finished goods	17,142	**19,647**
Work in process	317	**334**
Raw materials and supplies	762	**1,122**
Deferred tax assets	1,993	**1,276**
Other	5,491	**5,943**
Allowance for doubtful accounts	(158)	**(177)**
Total current assets	90,595	**88,651**
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,282	**13,722**
Accumulated depreciation	(7,967)	**(8,446)**
Accumulated impairment loss	(373)	**(399)**
Buildings and structures, net	4,942	**4,876**
Machinery, equipment and vehicles	1,931	**2,169**
Accumulated depreciation	(1,191)	**(1,420)**
Accumulated impairment loss	(0)	**(12)**
Machinery, equipment and vehicles, net	739	**737**
Tools, furniture and fixtures	25,614	**27,202**
Accumulated depreciation	(22,552)	**(23,267)**
Accumulated impairment loss	(421)	**(488)**
Tools, furniture and fixtures, net	2,639	**3,446**
Land	4,293	**4,336**
Leased assets	5,755	**6,937**
Accumulated depreciation	(2,929)	**(3,498)**
Accumulated impairment loss	–	**(2)**
Leased assets, net	2,825	**3,436**
Construction in progress	1,323	**273**
Total property, plant and equipment	16,764	**17,106**
Intangible assets		
Goodwill	25,707	**28,210**
Right of using trademark	10,187	**11,427**
Other	7,578	**8,031**
Total intangible assets	43,473	**47,669**
Investments and other assets		
Investment securities	2,243	**2,913**
Deferred tax assets	103	**115**
Other	3,424	**3,348**
Allowance for doubtful accounts	(230)	**(226)**
Total investments and other assets	5,540	**6,151**
Total non-current assets	¥65,778	**¥70,927**

(Millions of yen)

As of March 31,	2014	**2015**
Deferred assets		
Bond issuance cost	¥ 93	**¥ 59**
Total deferred assets	93	**59**
Total assets	156,467	**159,638**
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,224	**8,639**
Short-term loans payable	7,335	**8,614**
Current portion of long-term loans payable	5,533	**5,829**
Current portion of bonds with subscription rights to shares	4,900	–
Lease obligations	2,172	**2,194**
Accounts payable - other	4,365	**4,748**
Accrued expenses	6,297	**5,772**
Income taxes payable	453	**622**
Provision for sales returns	698	**488**
Allowance for recall	54	**94**
Sublease loss reserve	133	–
Provision for directors' bonuses	114	–
Provision for contingent loss	258	**49**
Other	624	**517**
Total current liabilities	41,166	**37,571**
Non-current liabilities		
Bonds payable	10,000	**10,000**
Bonds with subscription rights to shares	7,400	–
Long-term loans payable	37,719	**50,893**
Lease obligations	640	**1,433**
Deferred tax liabilities	2,810	**3,790**
Deferred tax liabilities for land revaluation	551	**499**
Net defined benefit liability	3,084	**3,561**
Provision for directors' retirement benefits	206	**152**
Allowance for investment loss	10	–
Other	1,970	**2,084**
Total non-current liabilities	64,393	**72,416**
Total liabilities	¥105,559	**¥109,987**

(Millions of yen)

As of March 31,	2014	**2015**
Net assets		
Shareholders’ equity		
Capital stock	¥ 3,459	**¥ 3,459**
Capital surplus	6,743	**6,741**
Retained earnings	35,320	**32,525**
Treasury shares	(1,323)	**(7,437)**
Total shareholders’ equity	44,200	**35,288**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	433	**961**
Deferred gains or losses on hedges	216	**513**
Revaluation reserve for land	68	**120**
Foreign currency translation adjustment	4,999	**11,948**
Remeasurements of defined benefit plans	(360)	**(641)**
Total accumulated other comprehensive income	5,358	**12,902**
Subscription rights to shares	644	**680**
Minority interests	704	**778**
Total net assets	50,907	**49,650**
Total liabilities and net assets	¥156,467	**¥159,638**

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income (Consolidated statements of income)

(Millions of yen)

Years ended March 31,	2014	**2015**
Net sales	¥ 154,804	**¥ 149,938**
Cost of sales	101,661	**97,233**
Gross profit	53,142	**52,704**
Selling, general and administrative expenses		
Packing and transportation expenses	3,044	**2,923**
Warehousing expenses	3,920	**3,904**
Advertising expenses	8,262	**8,971**
Directors' compensations	664	**620**
Salaries, allowances and bonuses	14,142	**13,867**
Provision for directors' bonuses	82	**6**
Retirement benefit expenses	1,202	**1,235**
Provision for directors' retirement benefits	66	**47**
Depreciation	2,150	**2,173**
Research and development expenses	2,243	**2,273**
Commission fee	2,787	**2,930**
Provision of allowance for doubtful accounts	24	**19**
Other	11,214	**11,264**
Total selling, general and administrative expenses	49,807	**50,237**
Operating income	3,335	**2,466**
Non-operating income		
Interest and dividend income	119	**91**
Amortization of negative goodwill	18	**–**
Rent income	202	**153**
Purchase discounts	10	**–**
Foreign exchange gains	533	**210**
Other	213	**145**
Total non-operating income	1,097	**601**
Non-operating expenses		
Interest expenses	818	**809**
Sales discounts	1	**13**
Amortization of bond issuance cost	20	**33**
Sublease loss reserve	133	**–**
Other	159	**196**
Total non-operating expenses	1,132	**1,053**
Ordinary income	¥ 3,300	**¥ 2,014**

(Millions of yen)

Years ended March 31,	2014	**2015**
Extraordinary income		
Gain on sales of non-current assets	¥ 70	**¥ 12**
Gain on sales of investment securities	839	–
Gain on bargain purchase	69	–
Gain on liquidation of subsidiaries and affiliates	–	16
Gain on reversal of subscription rights to shares	170	**15**
Total extraordinary income	1,150	**44**
Extraordinary losses		
Loss on sales of non-current assets	20	**1**
Loss on retirement of non-current assets	72	**182**
Loss on sales of investment securities	547	–
Loss on valuation of investment securities	132	**0**
Impairment loss	242	**161**
Business structure improvement expenses	442	–
Loss on business withdrawal	241	–
Settlement fee	–	**1,170**
Loss from fraud	143	**214**
Error correction fee	–	**78**
Other	–	**43**
Total extraordinary losses	1,842	**1,852**
Income (loss) before income taxes and minority interests	2,607	**206**
Income taxes - current	1,607	**1,124**
Refund of income taxes	(2)	**(4)**
Income taxes - deferred	728	**893**
Total income taxes	2,333	**2,013**
Income (loss) before minority interests	274	**(1,806)**
Minority interests in income	41	**10**
Net income (loss)	¥ 232	**¥(1,817)**

(Consolidated statements of comprehensive income)

(Millions of yen)

Years ended March 31,	2014	**2015**
Income (loss) before minority interests	¥ 274	**¥ (1,806)**
Other comprehensive income		
Valuation difference on available-for-sale securities	(85)	**527**
Deferred gains or losses on hedges	(611)	**296**
Revaluation reserve for land	–	**51**
Foreign currency translation adjustment	3,477	**6,949**
Remeasurement of defined benefit plans, net of tax	–	**(281)**
Total other comprehensive income	2,780	**7,492**
Comprehensive income	3,054	**5,685**
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,012	**5,675**
Comprehensive income attributable to minority interests	¥ 42	**¥ 10**

Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2014

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	¥3,459	¥6,744	¥35,840	¥(1,322)	¥44,722
Cumulative effects of changes in accounting policies					–
Restated balance	3,459	6,744	35,840	(1,322)	44,722
Changes of items during period					
Dividends of surplus			(753)		(753)
Net income (loss)			232		232
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares		(0)		0	0
Net changes of items other than shareholders' equity					
Total changes of items during period	–	(0)	(520)	(1)	(522)
Balance at end of current period	3,459	6,743	35,320	(1,323)	44,200

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	¥529	¥828	¥68	¥1,522	¥ –	¥2,948	¥729	¥1,292	¥49,692
Cumulative effect of changes in accounting policies									
Restated balance	529	828	68	1,522	–	2,928	729	1,292	49,692
Changes of items during period									
Dividends of surplus									(753)
Net income (loss)									232
Purchase of treasury shares									(2)
Disposal of treasury shares									0
Net changes of items other than shareholders' equity	(95)	(611)	–	3,477	(360)	2,410	(85)	(587)	1,737
Total changes of items during period	(95)	(611)	–	3,477	(360)	2,410	(85)	(587)	1,214
Balance at end of current period	433	216	68	4,999	(360)	5,358	644	704	50,907

For the year ended March 31, 2015

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	¥3,459	¥6,743	¥35,320	¥(1,323)	¥44,200
Cumulative effects of changes in accounting policies			(36)		(36)
Restated balance	3,459	6,743	35,283	(1,323)	44,163
Changes of items during period					
Dividends of surplus			(941)		(941)
Net income (loss)			(1,817)		(1,817)
Purchase of treasury shares				(6,197)	(6,197)
Disposal of treasury shares		(2)		84	81
Net changes of items other than shareholders' equity					
Total changes of items during period	–	(2)	(2,758)	(6,113)	(8,874)
Balance at end of current period	3,459	6,741	32,525	(7,437)	35,288

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	¥433	¥216	¥68	¥4,999	¥(360)	¥5,358	¥644	¥704	¥50,907
Cumulative effect of changes in accounting policies									(36)
Restated balance	433	216	68	4,999	(360)	5,358	644	704	50,871
Changes of items during period									
Dividends of surplus									(941)
Net income (loss)									(1,817)
Purchase of treasury shares									(6,197)
Disposal of treasury shares									81
Net changes of items other than shareholders' equity	527	296	51	6,949	(281)	7,544	36	73	7,653
Total changes of items during period	527	296	51	6,949	(281)	7,544	36	73	(1,221)
Balance at end of current period	961	513	120	11,948	(641)	12,902	680	778	49,650

Consolidated Statements of Cash Flows

(Millions of yen)

Years ended March 31,	2014	**2015**
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	¥ 2,607	**¥ 206**
Depreciation	6,630	**7,106**
Impairment loss	242	**161**
Loss (gain) on valuation of investment securities	132	**0**
Amortization of goodwill	1,615	**1,651**
Amortization of negative goodwill	(18)	–
Gain on bargain purchase	(69)	–
Increase (decrease) in allowance for doubtful accounts	0	**(2)**
Increase (decrease) in net defined benefit liability	(39)	**140**
Interest and dividend income	(119)	**(91)**
Interest expenses	818	**809**
Loss (gain) on sales of property, plant and equipment	(49)	**(11)**
Decrease (increase) in notes and accounts receivable - trade	4,279	**420**
Decrease (increase) in inventories	2,031	**(1,828)**
Decrease (increase) in accounts receivable - other	32	**58**
Increase (decrease) in notes and accounts payable - trade	(1,448)	**(199)**
Increase (decrease) in accounts payable - other	(2,077)	**939**
Increase (decrease) in accrued expenses	532	**(889)**
Other, net	(359)	**(85)**
Subtotal	14,742	**8,387**
Interest and dividend income received	94	**85**
Interest expenses paid	(834)	**(791)**
Income taxes paid	(1,571)	**(853)**
Net cash provided by (used in) operating activities	12,429	**6,827**
Cash flows from investing activities		
Payments into time deposits	(0)	**(230)**
Purchase of property, plant and equipment	(2,914)	**(3,564)**
Proceeds from sales of property, plant and equipment	398	**1,977**
Purchase of intangible assets	(780)	**(938)**
Purchase of investment securities	(4)	**(3)**
Proceeds from sales of investment securities	459	**10**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	810	–
Purchase of shares of subsidiaries	(374)	–
Purchase of treasury shares of subsidiaries	–	
Collection of short-term loans receivable	1,198	**5**
Other, net	191	**315**
Net cash provided by (used in) investing activities	¥(1,015)	**¥(2,428)**

(Millions of yen)

Years ended March 31,	2014	**2015**
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	¥ 1,646	**¥ 1,157**
Proceeds from long-term loans payable	400	**17,000**
Repayments of long-term loans payable	(5,653)	**(5,695)**
Proceeds from issuance of bonds	9,923	**–**
Redemption of bonds	(990)	**–**
Cash dividends paid	(759)	**(944)**
Payment for retirement by purchase of convertible bonds	–	**(7,400)**
Redemption of convertible bonds	–	**(4,900)**
Repayments of finance lease obligations	(2,828)	**(3,122)**
Purchase of treasury shares	(2)	**(6,197)**
Other, net	(1)	**79**
Net cash provided by (used in) financing activities	1,735	**(10,022)**
Effect of exchange rate change on cash and cash equivalents	591	**1,270**
Net increase (decrease) in cash and cash equivalents	13,741	**(4,352)**
Cash and cash equivalents at beginning of period	32,583	**46,325**
Cash and cash equivalents at end of period	¥46,325	**¥41,972**

IV. Notes to Consolidated Financial Statements
TOMY Company, Ltd. and its consolidated subsidiaries
For the fiscal year ended March 31, 2015

1. Basis of Presenting the Consolidated Financial Statements
The accompanying consolidated financial statements have been prepared 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 the application and disclosure requirements of the International Financial Reporting Standards.

The financial information set out herein is an English translation of the audited Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Net Assets, Consolidated Statements of Cash Flows and the Financial Notes, which were prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act and related regulations and in conformity with the accounting principles and practices generally accepted in Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOMY Company, Ltd. (the “Company”) is incorporated and operates.

2. Scope of Consolidation
The consolidated financial statements as of March 31, 2015 include the accounts of the Company and 38 significant subsidiaries (together, the “Group”).

(1) Number of consolidated subsidiaries: 38
Names of significant consolidated subsidiaries are as follows:
TOMY TEC Co., Ltd.; TAKARA TOMY A.R.T.S; TOMY MARKETING COMPANY; KIDDY LAND Co., Ltd.; TOMY Holdings, Inc.; TOMY International, Inc.; TOMY (Hong Kong) Ltd.
During the fiscal year under review, three new companies were established and included in the scope of consolidation. Also, three companies that were included in the scope of consolidation in the preceding fiscal year were excluded from the year under review, two due to merger and one due to liquidation.

(2) Number of unconsolidated subsidiaries: None

(3) Number of affiliates which are accounted for by the equity method: 1

(4) Number of affiliates which are not accounted for by the equity method: 2

3. Significant Accounting Policies
(1) Important assets
a. Investment securities
Held-to-maturity securities:
Held-to-maturity securities are stated at amortized cost using the straight-line method.

Available-for-sale securities:
Securities with quoted market values
Securities with quoted market values are stated at fair value on the consolidated closing date. (Net unrealized gains and losses on available-for-sale securities are reported directly to net assets. The costs of these securities are calculated based on the moving-average cost method.)
Securities without quoted market values
Securities without quoted market values are stated on a cost basis using the moving-average cost method.

b. Derivatives
Derivative financial instruments are stated at fair value.

c. Inventories
The Company and domestic consolidated subsidiaries:
Inventory is stated principally at cost, cost being determined by the gross average method. (The balance sheets amounts are determined by writing down the book value according to the decrease in profitability.)

The inventory of certain subsidiaries, however, is stated at cost, cost being determined by the retail inventory method. (The balance sheets amounts are determined by writing down the book value according to the decrease in profitability.)

Foreign consolidated subsidiaries:
The inventory of foreign consolidated subsidiaries is stated at the lower of cost or market using the first-in, first-out method.

(2) Depreciation
a. Property, plant and equipment (excluding lease assets)
The Company and domestic consolidated subsidiaries:
Depreciation of property, plant and equipment (excluding lease assets) is calculated by the declining-balance method. (However, depreciation of buildings (excluding structures), acquired on or after April 1, 1998, is calculated by the straight-line method.)
Estimated useful lives of principal assets are presented as follows:
Buildings .... 2 to 65 years
Tools, furniture and fixtures .... 2 to 20 years

Foreign consolidated subsidiaries:
Depreciation of property, plant and equipment is calculated by the straight-line method based on the estimated useful lives of each asset.

b. Intangible assets (excluding lease assets)
Amortization of intangible assets (excluding lease assets) is calculated by the straight-line method.
In addition, amortization of internal-use software is calculated by the straight-line method over the useful life of the asset estimated by the Company (within five years).

c. Lease assets
Depreciation of lease assets is calculated using the straight-line method with the lease periods as their useful lives and no residual value.

(3) Deferred assets
Bond issuance cost
Amortization of bond issuance cost is calculated by the straight-line method based on the bond redemption period.

(4) Provisions
a. Allowance for doubtful accounts
Allowance for doubtful accounts is provided for monetary receivables as of the end of the consolidated fiscal year on the historical bad-debts rate for normal receivables, and the amount deemed necessary to cover individual accounts estimated to be uncollectible.

b. Provision for sales returns
Consolidated subsidiaries provide for losses due to sales returns after the end of the consolidated fiscal year to an estimated amount deemed necessary based on past sales return data.

c. Allowance for voluntary recall
The Company provides for an allowance for the voluntary recall of products to an amount that is reasonably estimated and deemed as necessary as of the end of the consolidated fiscal year.

d. Allowance for loss on sublease
The Company provides for an allowance for loss on sublease to an amount that is reasonably estimated and deemed as necessary as of the end of the consolidated fiscal year.

e. Provision for directors' bonuses
The Company and domestic consolidated subsidiaries:
The Company and domestic consolidated subsidiaries provide for directors' bonus payments at an estimated amount to be paid for during the consolidated fiscal year.

f. Provision for directors' retirement benefits
Consolidated subsidiaries provide for accrued directors' retirement benefits at an estimated amount deemed necessary as of the end of the consolidated fiscal year according to internal regulations.

g. Allowance for investment loss
The Company provides for an allowance for investment loss relating to investments in affiliated companies to an amount deemed necessary after taking into account subject assets and other details.

h. Provision for contingent loss
When settling funds burden over unfair transactions between trading partners, in order to prepare for possible future contingent losses, at the end of the current consolidated fiscal year the Company posted the estimated amount deemed necessary for loss burden.

(5) Accounting methods for retirement benefits
a. Attribution period method for estimated retirement benefits
Regarding the calculation of retirement benefit obligation, the straight-line attribution method is used for attributing estimated retirement benefits to the period until the end of the consolidated fiscal year under review.
b. Actuarial gain or loss and method for payment of prior service cost
Prior service cost are paid according to the straight-line method for a specific number of years (5 years) within the average remaining years of service for the employee at the time of occurrence.

Regarding actuarial gain or loss, mainly the straight-line attribution method is used to pay a proportional amount from the consolidated fiscal year following the occurrence of gain/loss, for a specific number of years (5 years) within the average remaining years of service for the employee during the consolidated fiscal years in which the gain/loss occurred.

(6) Translation of foreign currencies into Japanese yen
All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing as of the consolidated account settlement date. The resulting transaction gains or losses are included in the determination of net income. Assets and liabilities of foreign and other subsidiaries are translated into Japanese yen based on the exchange rates prevailing as of the consolidated account settlement date. Revenue and expenses of foreign and other subsidiaries are translated into Japanese yen based on the average exchanges rates over the term. Differences arising from such translations are included in both foreign currency translation adjustment and minority interests in the net assets section of the balance sheets.

(7) Hedge
a. Methods of hedge accounting
In principle, deferred hedge accounting has been adopted. Interest rate swap transactions that qualify for special treatment are accounted for by the special accounting method.

b. Hedging instruments and hedged items
Hedging instruments:
- Forward exchange contracts
- Currency options
- Currency swaps
- Interest rate swaps

Hedging items:
- Monetary assets and liabilities denominated in foreign currencies
- Forecasted transactions denominated in foreign currencies
- Variable interest rate debt

c. Hedging policy
Hedging with a certain range is undertaken to mitigate foreign exchange and interest rate volatility risks.

d. Methods of assessing hedging effectiveness
Steps are taken to assess the hedging effectiveness of hedging instruments and hedged items. However, details of hedging effectiveness are omitted in those instances where there is a high correlation between hedging instruments and related hedged items with respect to important terms and conditions including principal, interest rate and term.

(8) Goodwill
Goodwill and negative goodwill are amortized using the straight-line method over a period of five to 20 years. For immaterial amounts, goodwill and negative goodwill are charged in full to income at the time they occur.

(9) Cash and cash equivalents
Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, readily available deposits and short-term investments with original maturities not exceeding three months, which are highly liquid and virtually risk-free with respect to change of value.

(10) Other
Accounting methods for consumption and other taxes
Consumption taxes are excluded from items in the consolidated financial statements.

(Changes of accounting policies)
(Application to Accounting Standards for Retirement Benefits)
Accounting Standards for Retirement Benefits (Corporate Accounting Principles No. 26, May 17, 2012; hereinafter referred to as Retirement Benefits Accounting Standards) and Application Guidelines for Accounting Standards for Retirement Benefits (Application Guidelines for Corporate Accounting Principles No. 25, March 26, 2015; hereinafter referred to as Retirement Benefits Application Guidelines) have been applied from the end of the consolidated fiscal year under review based on regulations contained in the text of Article 35 for Retirement Benefits Accounting Standards and Article 67 for Retirement Benefits Application Guidelines. Accordingly, the Company has reviewed its calculation method of retirement benefit obligations and service costs, changed the method of attributing expected benefit to periods from the straight-line basis to the benefit formula basis, and changed the method of determination of the discount rate. This change was from a discount rate based on a number of years approximately equal to the average remaining service period to a single weighted average discount rate that reflects expected retirement benefit payment periods and the expected payment amount for each expected payment period.

Following Clause 37 of the Retirement Benefits Accounting Standards, which stipulates transitional treatment of the new standard, the effect of the change in the calculation method of retirement benefit obligations and service costs is adjusted in retained earnings at the beginning of the fiscal year ended March 31, 2015.

This change had the effect, at the beginning of the fiscal year under review, of increasing the retirement benefit liability by ¥36 million and reducing retained earnings by ¥36 million. Furthermore, this change resulted in increases of ¥37 million for operating income, ordinary income and income before minority interests for the fiscal year under review.

The impact of this change on net assets per share and net loss per share was slight.

4. Notes to Consolidated Balance Sheets
(1) Land revaluation
In accordance with the Law Concerning Land Revaluation (Law No. 34 promulgated on March 31, 1998 and last revised on March 31, 2001) land used for business activities was revalued on March 31, 2002.

Pursuant to the partial revision of the Law Concerning Land Revaluation (Law No. 24 promulgated on March 31, 1999), the income tax effect of the difference between the book value and the revalued amount has been presented under liabilities as deferred tax liabilities for land revaluation, and the amount of deduction has been presented under net assets as revaluation reserve for land.

Revaluation method
Under Article 2, Paragraph 4 of the Ordinance Implementing the Law Concerning Land Revaluation (Article 119 of the Cabinet Order promulgated on March 31, 1998), the land price for revaluation was determined based on the official notice prices assessed and published by the Chief Officer of the National Tax

Administration, as provided for by Article 16 of the Law Concerning Public Notification of Land Prices. The appropriate adjustments were made to reflect these official notice prices.
Date of revaluation...March 31, 2002

	Millions of yen	
	2015	2014
Difference between the fair value of land used for business activities after revaluation as of the end of the period and the book value of the said land after revaluation	¥(915)	¥(915)

(2) Assets pledged as collateral and collateralized liabilities
Assets pledged as collateral and the relevant liabilities are presented as follows:
a. Assets pledged as collateral

	Millions of yen	
	2015	2014
Time deposits	¥92	¥92
Buildings and structures	2	—
Land	5	8
Total	¥100	¥100

b. Liabilities for which the above assets are pledged as collateral

	Millions of yen	
	2015	2014
Notes and accounts payable—trade	¥14	¥ 90
Total	¥14	¥90

(3) Assets relating to unconsolidated subsidiaries and affiliated companies

	Millions of yen	
	2015	2014
Investment securities (shares)	¥207	¥271

(4) The Company has entered into an agreement with four banks under which it will be provided with a commitment line of credit. This initiative was undertaken to ensure the efficient procurement of working capital. The unused balance under this commitment line of credit is as follows:

	Millions of yen	
	2015	2014
Total commitment line of credit	¥5,000	¥5,000
Amount drawn (used)	—	—
Amount unused	¥5,000	¥5,000

5. Notes to Consolidated Statements of Income
(1) Research and development (R&D) expenses are included in selling, general and administrative (SG&A) expenses and manufacturing costs as follows:

	Millions of yen	
	2015	2014
	¥2,598	¥2, 498

(2) Breakdown of gain on sales of noncurrent assets is presented as follows:

	Millions of yen	
	2015	2014
Buildings and structures	¥ —	¥32
Machinery, equipment and vehicles	2	1
Tools, furniture and fixtures	10	0
Land	—	36
Intangible assets and other	—	0
Total	¥12	¥70

(3) Breakdown of loss on sales of noncurrent assets is presented as follows:

	Millions of yen	
	2015	2014
Buildings and structures	¥ —	¥ 2
Machinery, equipment and vehicles	1	10
Tools, furniture and fixtures	0	0
Land	—	7
Intangible assets and other	0	—
Total	¥ 1	¥20

(4) Breakdown of loss on retirement of noncurrent assets is presented as follows:

	Millions of yen	
	2015	2014
Buildings and structures	¥ 17	¥ 1
Machinery, equipment and vehicles	0	0
Tools, furniture and fixtures	5	38
Leased assets	44	—
Intangible assets and other	113	32
Investment and other assets	0	—
Total	¥182	¥72

(5) Impairment loss

The Group reported an impairment loss in connection with the following asset groups:

2015 — Millions of yen

Application	Type	Location	Impairment loss
Assets for business	Tools, furniture and fixtures; software	Ichikawa City, Chiba; Other	¥108
Retail stores included in assets used in business activities	Building and structures; tools, furniture and fixtures; other	Musashino City, Tokyo; Suzuka City, Mie; Other	¥53

Assets used for business activities are grouped according to their connection with each business and according to each individual property with respect to major stores and assets for lease. For idle assets, the smallest units are the individual properties themselves.

With respect to the aforementioned assets for business as well as stores used for business activities, the Group decided to discontinue the operation or close stores, or continued to incur operating losses. At the same time, estimated future cash flows fall below the book values of each asset. Accordingly, book values have been written down to their recoverable amounts with the amount of write-down (impairment loss) totaling ¥161 million in 2015 recorded as an extraordinary loss.

2014			Millions of yen
Application	Type	Location	Impairment loss
Assets for business	Tools, furniture and fixtures; software	Guangdong, China Shanghai, China, other	¥75
Assets for business	Intangible assets and other assets	Dyersville, Iowa, U.S.	¥17
Retail stores included in assets used in business activities	Building and structures; tools, furniture and fixtures; other	Musashino City, Tokyo	¥144
Idle assets	Land	Shimotsuga-gun, Tochigi	¥ 4

Assets used for business activities are grouped according to their connection with each business and according to each individual property with respect to stores and assets for lease. For idle assets, the smallest units are the individual properties themselves.

With respect to the aforementioned stores used for business activities as well as software, the Group decided to discontinue the operation or close stores, or continued to incur operating losses. At the same time, estimated future cash flows fall below the book values of each asset. Accordingly, book values have been written down to their recoverable amounts with the amount of write-down (impairment loss) totaling ¥237 million in 2014 recorded as an extraordinary loss.

Furthermore, recoverable values of retail stores and software were measured as nil using their net sales values. As these assets are not expected to generate future cash flows, their value in use was measured as nil.

With respect to the aforementioned idle assets, as their fair market value is continually decreasing and for other reasons, their book values have been written down to their recoverable amounts with the amount of write-down (impairment loss) totaling ¥4 million recorded as an extraordinary loss.

The recoverable value is measured based on the net sales values, which is measured based on rationally adjusted appraised value of land facing a thoroughfare.

(6) Inventories

The balance of inventories is the amount after writing down the book value in line with the decline in profitability. The cost of sales includes the following loss on valuation of inventories.

	Millions of yen	
	2015	2014
Loss on valuation of inventories	¥2,324	¥ 3,043

(7) Loss on business withdrawal

In the consolidated fiscal year under review, we focused sales in our China business on TOMICA and PLARAIL, as well as products related to POKEMON and DISNEY. Accordingly, we withdrew from sales of baby products and other products.

Consequently, we recorded the following loss on business withdrawal as an extraordinary loss.

	Millions of yen	
	2015	2014
Loss on valuation of inventories	¥ —	¥ 241

(8) Settlement
During the fiscal year under review, a lawsuit was filed against a U.S. consolidated subsidiary of the Company. Taking into overall consideration the progress of the action, the content of the matter in question, and the amount of losses, including litigation expenses, the Company decided that an early resolution to the matter through settlement would be the best policy. As a result, on August 7, 2014, the Company entered into a settlement agreement with the claimant. The matter was concluded in court on March 2, 2015, marking the formal settlement.

(1) Date on which the lawsuit was filed: August 14, 2012

(2) Name and address of the party filing the lawsuit

1) Name: Craftwood II, Inc.

2) Address: Seal Beach, California. USA

(3) Content of the lawsuit

Craftwood II, Inc., filed a civil suit against a U.S. consolidated subsidiary of the Company, alleging that the said subsidiary had submitted faxes for sales purposes to certain customers and claiming for damages due to the content of items listed.

(4) Name and address of the settlement counterparty and principal content of the settlement

1) Name: Craftwood II, Inc., and its class members

2) Address: Seal Beach, California, USA

3) Principal content of the settlement

The Company's U.S. consolidated subsidiary agreed to pay a settlement package of US$10,075,000 to Craftwood II, Inc., and its class members, in return for which the plaintiffs dropped their lawsuits.

Owing to the settlement of this lawsuit, during the fiscal year under review the Company recorded an extraordinary loss of US$1,170,000, including litigation-related expenses, in relation to the settlement fee paid to Craftwood II, Inc., and its class members.

(9) Unfair transaction-related loss
Details of unfair transaction-related losses recorded in some of our consolidated subsidiaries are described below.

	Millions of yen	
	2015	2014
Provision for contingent loss	¥(208)	¥205
Fund outflows (inflows)	423	(62)
Total	¥214	¥143

6. Notes to Consolidated Statements of Comprehensive Income

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments, including amounts attributable to minority interests, are as follows:

	Millions of yen	
	2015	2014
Net valuation difference on available-for-sale securities:		
Amount arising during the year	¥ 727	¥ (208)
Reclassification adjustments for gains and losses realized in net income	(0)	1
Before-tax amount	727	(207)
Tax (expense) or benefit	(199)	121
Net gains or losses on the securities	527	(85)
Net differed gains or losses on hedges:		
Amount arising during the year	1,228	920
Reclassification adjustments for gains and losses realized in net income	(745)	(2,005)
Before-tax amount	483	(1,085)
Tax (expense) or benefit	(186)	473
Net gains or losses on hedges	296	(611)
Revaluation reserve for land:		
Tax (expense) or benefit	51	—
Foreign currency translation adjustments:		
Amount arising during the year	6,949	3,477
Remeasurement of defined benefit plans, net of tax:		
Amount arising during the year	(352)	—
Reclassification adjustments for gains and losses realized in net income	70	—
Before-tax amount	(281)	—
Tax (expense) or benefit	—	—
Remeasurement of defined benefit plans, net of tax	(281)	—
Total other comprehensive income	¥7,544	¥2,780

7. Lease Transactions

Finance lease transactions (lessees' accounting)
Finance leases that do not involve the transfer of ownership of leased property to the lessee

Lease assets

Property, plant and equipment
Mainly molds for manufacturing use in the toy business

8. Financial Instruments

Matters relating to the status of financial instruments

Approach toward financial instruments

In addition to borrowing from banks, the Group issues bonds and bonds with subscription rights to shares to fund the essential requirements of mainly its toy business operations. At the same time, the Group invests temporary surplus funds in safe and secure financial assets. The Group utilizes derivatives to offset the risk of interest rate fluctuation with respect to its borrowings as well as the risk of foreign currency exchange rate fluctuation at the time of claim and obligation settlement. The Group does not use derivatives for speculative purposes.

9. Short-Term Investment Securities

(1) Available-for-sale securities

2015				Millions of yen
	Type	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	(1) Stock	¥2,076	¥774	¥1,302
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥2,076	¥774	¥1,302
Securities whose carrying value does not exceed their acquisition cost	(1) Stock	¥0	¥0	¥(0)
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥0	¥0	¥(0)
	Total	¥2,077	¥775	¥1,302

2014				Millions of yen
	Type	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	(1) Stock	¥1,341	¥766	¥575
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥1,341	¥766	¥575
Securities whose carrying value does not exceed their acquisition cost	(1) Stock	¥1	¥1	¥(0)
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥1	¥1	¥(0)
	Total	¥1,343	¥768	¥575

Note: Short-term investment securities with no market value for which it is deemed difficult to measure a fair value and accordingly carried at their acquisition cost not included in available-for-sale securities in the table above are presented as follows:

	Millions of yen	
	2015	2014
Unlisted stocks	¥628	¥628

(2) Securities for which impairment was declared during the consolidated fiscal year under review

The “Acquisition cost” item in the table is the book value after declaring impairment. In the consolidated fiscal year under review, impairment was declared and a ¥0 million loss on revaluation of investments in securities (¥0 million in other marketable securities not at market value, etc.) was recorded.

Note that impairment was declared for all cases in which the market value at the end of said fiscal year became at 50% or less of the acquisition value. For cases in which the market value decreased by about 30% to 50% of the acquisition value, the possibility of recovery was considered and impairment was declared for the amount determined as necessary.

10. Derivative Transactions
(1) Derivative transactions for which hedge accounting has not been adopted

(2) Derivative transactions for which hedge accounting has been adopted
Contract amounts or amounts equivalent to the principal identified in each contract as of the consolidated account settlement date by hedge accounting method are presented as follows:
a. Currency-related transactions

2015					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value
Appropriation treatment	Forward foreign exchange contracts: Buy: USD	Foreign currency denominated claims and obligation (accounts payable, other)	¥13,242 1,835	1,874 —	¥ 967 5
		Total	¥15,078	1,874	973

Note: Calculation method for fair value
Fair value is calculated based on the market value identified by the financial institution counterparty.

2014					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value
Appropriation treatment	Forward foreign exchange contracts: Buy: USD	Foreign currency denominated claims and obligation (accounts payable, other)	¥6,298 1,117	— —	¥ 466 (1)
		Total	¥7,415	—	465

Note: Calculation method for fair value
Fair value is calculated based on the market value identified by the financial institution counterparty.

b. Interest-related transactions

2015					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value
Special treatment	Interest rate swap transactions	Long-term loans payable	¥ 8,400	¥7,200	(Note 2)
Deferred hedge accounting	Pay fixed / receive floating	Long-term loans payable	¥20,961	¥19,038	¥(134)

2014					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value
Special treatment	Interest rate swap transactions	Long-term loans payable	¥ 9,600	¥8,400	(Note 2)
Deferred hedge accounting	Pay fixed / receive floating	Long-term loans payable	¥13,176	¥11,529	¥(69)

Note:
1. Fair value is calculated based on the market value identified by the financial institution counterparty.
2. The fair value of interest rate swaps which are accounted for using the special treatment is included in that of the corresponding hedged long-term loans payable.

11. Retirement Benefits

(1) Outline of the retirement benefit plan adopted by the Company

The Company has adopted funded and unfunded defined benefit plans and defined contribution plans to prepare for the payment of employee retirement benefits.

Under the defined-benefit pension plans (all of which are funded plans), we pay lump-sum benefit or a pension to each employee based on his or her salary and length of his or her service.

Under the retirement lump-sum benefit plans (which are basically an unfunded plan, but some are funded plans as the result of setup of retirement benefit trust), we pay the lump-sum benefit to each employee based on his or her salary and length of his or her service.

Under the defined-benefit pension plans and the retirement lump-sum benefit plans adopted by some consolidated subsidiaries, the simplified method is used for calculation of net defined benefit liability and retirement benefit expenses.

The Company and some consolidated subsidiaries participate in employees' pension fund system under the category of a multi-employer pension plan. When the required contribution amount for any plan cannot be reasonably calculated, such plan is accounted for in the same method with the defined contribution plans.

Certain subsidiaries in Japan that had adopted multi-employer pension plans wound up these plans effective January 30, 2015, following approval by the Minister of Health, Labour and Welfare.

(2) Defined Benefit Plan

a. Reconciliation of beginning and ending balances of retirement benefit obligations (excluding the items listed in (c) below)

(Millions of yen)

	2015	2014
Beginning balances of retirement benefit obligations	¥4,075	¥4,204
Cumulative effects of changes in accounting policies	36	—
Restated Balance	4,111	4,204
Service cost	253	231
Interest cost	123	111
Actuarial gain or loss	360	2
Payment of retirement benefits	(303)	(603)
Foreign exchange translation differences	374	185
Others	0	(57)
Ending balance of retirement benefit obligations	¥4,919	¥4,075

b. Reconciliation of beginning and ending balances of pension assets (excluding the items listed in (c) below)

(Millions of yen)

	2015	2014
Beginning balances of pension assets	¥2,271	¥1,952
Expected return on plan assets	197	132
Actuarial gain or loss	34	96
Contributions by the Company	357	293
Payment of retirement benefits	(237)	(322)
Foreign exchange translation differences	259	120
Ending balance of pension assets	¥2,882	¥2,271

c. Reconciliation of beginning and ending balances of net defined benefit liability under the plan that the simplified method is applied to

(Millions of yen)

	2015	2014
Beginning balances of net defined benefit liability	¥1,280	¥1,263
Retirement benefit expenses	424	281
Payment of retirement benefits	(180)	(82)
Decrease due to deconsolidation of subsidiaries	—	(181)
Ending balance of net defined benefit liability	¥1,524	¥1,280

d. Reconciliation of the ending balance of retirement benefit obligation and pension assets, and the book value of liabilities and assets for retirement benefits

(Millions of yen)

	2015	2014
Funded retirement benefit obligation	¥3,770	¥3,046
Pension assets	(2,882)	(2,271)
	888	775
Unfunded retirement benefit obligation	2,673	2,309
Net amount of liabilities and assets in consolidated balance sheet	3,561	3,084
net defined benefit liability	3,561	3,084
Net amount of liabilities and assets in consolidated balance sheet	¥3,561	¥3,084

e. Retirement benefit expenses and other details

	(Millions of yen) 2015	2014
Service cost	¥253	¥231
Interest cost	123	111
Expected return on plan assets	(197)	(132)
Amortization of actuarial gain or loss	41	114
Amortization of unrealized prior service cost	62	62
Retirement benefit expenses calculated by the simplified method	424	281
Retirement benefit expenses for defined benefit plans	¥707	¥669

Note: Retirement benefit expenses at consolidated subsidiaries using the simplified method are recorded in "Service cost."

f. Remeasurements of defined benefit plans

Items recorded in "Remeasurements of defined benefit plans" (before related tax effects) are as follows:

	2015	(Millions of yen) 2014
Prior service cost	¥ 62	¥ —
Actuarial gain or loss	(284)	—
Foreign exchange translation differences	(59)	—
Total	¥(281)	¥ —

g. Accumulated remeasurements of defined benefit plans

Items recorded in "Accumulated remeasurements of defined benefit plans" (before related tax effects) are as follows:

	2015	(Millions of yen) 2014
Unrecognized prior service cost	¥ (62)	¥(125)
Unrecognized actuarial gain or loss	(579)	(235)
Total	¥(641)	¥(360)

h. Pension assets

i) Details of main pension assets

Breakdown of the main pension assets is as follows:

	2015	20145
Fixed income securities	40%	40%
Equity securities	58	58
Others	2	2
Total	100	100

ii) Long-term expected rate of return on plan assets

Long-term expected rate of return on plan assets is determined considering the pension asset allocation and long-term expected return on plan assets composed of various kinds of assets, at the present and in the future.

i. Basis of actuarial calculation

	2015	2014
Discount rate	0.91 — 3.93%	1.37 — 4.56%
Long-term expected return on plan assets	6.01 — 11.35	5.70 — 6.91

(3) Defined contribution plans

Some consolidated subsidiaries of the Company were obligated to contribute ¥281 million to the plan for the year ended March 31, 2015 compared to ¥253 million for the previous year.

(4) Multi-Employer Pension Plan

The Company and its consolidated subsidiaries were obligated to contribute ¥322 million to employees' pension fund system under the category of a multi-employer pension plan, which were recorded in the same manner with defined contribution plans. Some of the pension funds have been dissolved for the fiscal year ended March 31, 2015.

a. Most recent funded status of multi-employer pension plans as of March 31, 2014 and 2015

(Millions of yen)

	2015			2014		
	Tokyo Jitsugyo Kosei Nenkin Kikin	East Japan Plastic Industry Pension Fund	Others	Tokyo Jitsugyo Kosei Nenkin Kikin	East Japan Plastic Industry Pension Fund	Others
Amount of plan assets	¥140,981	¥82,993	¥80,786	¥130,259	¥76,697	¥90,443
Total amount of actuarial obligation and minimum actuarial reserve in pension financing (Note)	192,493	111,398	101,036	188,692	108,829	109,720
Balance	¥(51,512)	¥(28,405)	¥(20,250)	¥(58,433)	¥(32,131)	¥(19,276)

Note: This was reported as “Retirement benefit obligation in pension financing” in the previous fiscal year.

b. Share of Company group’s contribution to overall multi-employer pension plans

	Tokyo Jitsugyo Kosei Nenkin Kikin	East Japan Plastic Industry Pension Fund	Others
2015	4.76%	1.23%	0.34%
2014	4.55%	1.60%	0.57%

c. Supplementary Explanation

The principle factors relating to the balance in (1) above, and amortization method of prior service cost and extraordinary payment under the multi-employer pension plan are as follows:

(Millions of yen)

	2015			2014		
	Tokyo Jitsugyo Kosei Nenkin Kikin	East Japan Plastic Industry Pension Fund	Others	Tokyo Jitsugyo Kosei Nenkin Kikin	East Japan Plastic Industry Pension Fund	Others
The principle factors relating to the balance in (a) above						
Prior service obligation in pension financing	¥33,399	¥32,810	¥18,439	¥35,102	¥33,777	¥19,100
Deficiency carried forward	18,113	—	2,148	23,330	—	1,595
General reserves	—	(2,760)	(12)	—	—	(12)
Surplus	—	(1,645)	(325)	—	(1,645)	(1,406)
Amortization method of prior service cost under the multi-employer pension plan						
Amortization period	20 years	20 years	15 to 20 years	20 years	20 years	15 to 20 years
Amortization method	Straight-line method	Straight-line method	Straight-line method	Straight-line method	Straight-line method	Straight-line method
Extraordinary payment	¥137	¥29	¥2	¥131	¥26	¥3

Note: The Company group amortized extraordinary payment used for amortization prior service cost in the consolidated financial statements for the consolidated fiscal year under review.

In addition, deficiency carried forward in pension financing will be, if needed, amortized based on actuarial review of pension schemes by employing a method such as an increase in ratio of extraordinary payment.

Please take note that the percentage in 2) above does not match the actual percentage shouldered by the Company group.

12. Stock Options

(1) The account and the amount of stock options charged as expenses for the fiscal year ended March 31

Millions of yen

	2015	2014
Selling, general and administrative expenses	¥63	¥85

(2) The amount of stock options charged as income due to their forfeiture resulting from non-use

Millions of yen

	2015	2014
Extraordinary income	¥15	¥170

13. Income Taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen	
	2015	2014
Deferred tax assets:		
Loss on valuation of inventories	¥ 834	¥ 877
Allowance for doubtful accounts	402	358
Income taxes payable	55	34
Accrued bonuses	44	293
Retirement benefit obligation	1,007	941
Provision for directors' retirement benefits	121	157
Retirement of unrealized inventory profit	594	462
Loss carryforwards	5,423	4,952
Depreciation and amortization	193	93
Loss on valuation of investment securities	370	663
Impairment loss	168	142
Other	1,502	2,301
Total gross deferred tax assets	10,720	11,277
Valuation allowance	(7,671)	(7,453)
Total deferred tax assets	¥ 3,049	¥ 3,824
Deferred tax liabilities:		
Reserve for advanced depreciation of noncurrent assets	¥ (104)	¥ (115)
Valuation difference on available-for-sale securities	(355)	(156)
Intangible noncurrent assets	(4,316)	(3,793)
Other	(675)	(483)
Deferred tax liabilities for land revaluation	(499)	(551)
Total deferred tax liabilities	(5,952)	(5,100)
Net deferred tax assets	¥(2,902)	¥(1,276)

Note: Net deferred tax assets are included in the following accounts in the consolidated balance sheets:

	Millions of yen	
	2015	2014
Current assets — Deferred tax assets	¥ 1,276	¥ 1,993
Noncurrent assets — Deferred tax assets	115	103
Current liabilities — Other	(4)	(11)
Noncurrent liabilities — Deferred tax liabilities	(3,790)	(2,810)
Noncurrent liabilities — Deferred tax liabilities for land revaluation	¥ (499)	¥ (551)

(2) The reconciliation between the effective tax rates reflected in the consolidated financial statements and the statutory tax rate is summarized as follows:

	2015	2014
Statutory tax rate of the Company	35.6%	38.0%
(Reconciliation)		
Permanent nondeductible expenses such as entertainment expenses	282.5	9.1
Nondeductible income such as dividends received	(32.7)	(15.3)
Increase (decrease) in valuation allowance	180.0	(5.1)
Inhabitants' tax lump-sum payments	4.0	1.5
Effect of enacted changes in tax laws and rates on Japanese tax	12.0	(8.2)
Amortization of goodwill	285.5	23.2
Liquidation of consolidated subsidiaries, etc.	(1.5)	43.7
Adjustment on deferred tax assets due to change in income tax rate	121.3	7.7
Overseas subsidiaries tax rates difference	45.6	3.8
Other	43.9	(8.9)
Effective tax rates after adoption of tax-effect accounting	976.2	89.5

14. Segment Information
(1) Net sales by geographic segment

For the year ended March 31, 2015 — Millions of yen

	Japan	North America, Europe and Oceania	Asia (other than Japan)	Total
Net sales				
Sales to outside customers	¥102,127	¥41,824	¥5,986	¥149,938
Intersegment sales and transfers	680	18	47,863	48,563
Total	102,808	41,843	53,850	198,501
Segment income (loss)	6,402	(610)	2,063	7,854
Segment assets	48,559	45,449	15,675	109,684
Other items				
Depreciation and amortization	4,949	1,866	180	6,996
Amortization of goodwill	—	78	—	78
Increase in property, plant and equipment and intangible assets	¥1,876	¥1,301	¥254	¥3,432

Notes:
1. Amounts of segment liabilities are not periodically provided or used by the supreme decision-making organization of the Company.
2. Increase in property, plant and equipment and intangible assets does not include lease assets.

For the year ended March 31, 2014 — Millions of yen

	Japan	North America, Europe and Oceania	Asia (other than Japan)	Total
Net sales				
Sales to outside customers	¥107,171	¥42,087	¥5,544	¥154,804
Intersegment sales and transfers	606	40	43,955	44,601
Total	107,777	42,127	49,500	199,405
Segment income (loss)	7,355	(723)	526	7,157
Segment assets	45,996	42,945	12,892	101,833
Other items				
Depreciation and amortization	4,642	1,625	248	6,516
Amortization of goodwill	109	71	—	180
Increase in property, plant and equipment and intangible assets	¥2,850	¥660	¥142	¥3,654

Notes:
1. Amounts of segment liabilities are not periodically provided or used by the supreme decision-making organization of the Company.
2. Increase in property, plant and equipment and intangible assets does not include lease assets.

(2) Net sales by market

Millions of yen

	Japan	North America	Other	Total
2015	¥85,732	¥37,662	¥26,542	¥149,938
2014	¥90,910	¥36,796	¥27,096	¥154,804

15. Per Share Information

		Yen
The fiscal year ended March 31	2015	2014
Net assets per share	¥567.91	¥526.49
Earnings (loss) per share	(19.91)	2.47
Earnings per diluted share	¥ —	¥ 2.06

Notes:

1. Although dilutive shares exist as of end fiscal year 2015, diluted earnings (losses) per share are not took into account for the fiscal year under review.
2. Earnings per share and earnings per diluted share are calculated on the following basis.

The fiscal year ended March 31	2015	2014
Earnings per share		
Net income (loss) (millions of yen)	(1,817)	¥232
Amount not applicable to shareholders of common stock (millions of yen)	—	—
Net income applicable to common stock (millions of yen)	(1,817)	¥232
Average number of shares for the period (thousand shares)	91,269	94,133
Earnings per diluted share		
Net income adjustment amount (millions of yen)	—	3
(Of which is interest expense after deducting the amount equivalent to tax) (millions of yen)	—	(3)
Increase in the number of common stock (thousand shares)	—	20,678
(Of which is the number of bond with warrants (thousand shares)	—	(20,678)
Overview of diluted stock is not included in calculations for earnings per diluted share due to the absence of stock with a potential dilutive effect (parent company)		
New share subscription rights (number of different issues)	14	16
Number of diluted stock (thousand shares)	6,117	6,381

V. Business Risks

The major risks to TOMY Group that may affect its consolidated operating results or financial position are as described below.

Recognizing that the following risks could potentially occur, TOMY Group shall continue to strengthen its risk management system, which includes measures to avoid the occurrence of such risks and response plans in the case such risks occur.

1. Effect of Hit Products

In the toy business, the mainstay business of TOMY Group, operating results tend to be affected by the success or failure of specific products and specific contents.

In order to soften such impacts, TOMY Group strives to create continuous hit products such as by strengthening development, enriching product lineup, and fostering content. Nevertheless, the presence or absence of a hit product may affect TOMY Group’s financial condition and operating results.

2. Fluctuation of Quarterly Operating Results

In the toy business of TOMY Group, there is normally a trend of net sales growth in the third quarter due to the Christmas and year-end shopping season. Although TOMY Group works to even out operating results by introducing key products in other seasons and expanding the toy peripheral business, we expect seasonal fluctuation in operating results to continue.

3. Fluctuation of Exchange Rates

The proportion of TOMY Group consolidated sales accounted for by overseas sales is increasing, while majority of the toys sold in Japan are accounted by imports denominated in US dollars. Group companies hedge exchange risk by such means as forward exchange contracts pursuant to the Group’s foreign exchange risk hedging policy, however in the event that the risk-reduction effect thereof is diminished for reasons such as substantial fluctuations in exchange rates, the Group’s financial condition and operating results may be affected, for example by increases or decreases in the profits or losses or assets and liabilities at fiscal year-end of overseas consolidated subsidiaries when converted into yen.

4. Overseas Business Expansion

The expansion of business in overseas markets is one of TOMY Group’s priority strategies, and the Group is not only establishing sales bases globally but is also undertaking the production in China of the majority of the products it sells both in Japan and overseas. In addition to foreign exchange risk, the Group is exposed to risks associated with the conduct of global activity, including unstable political circumstances, financial instability, differences of culture and commercial practices, peculiarities of legal systems and unpredictable changes in investment regulations and tax systems, labor shortages and rises in labor costs, and the lack of development of systems for protecting intellectual property rights.

TOMY Group is proceeding with the global development of its business in a manner that pays close attention to overseas risks, including restructuring its overseas network, reforming its China-reliant production system by such means as accelerating the shift of production to Vietnam and other countries, and strengthening measures to counter the production of imitation products. Nevertheless, abrupt changes in individual countries’ political, economic, or legal systems or other circumstances may affect the Group’s financial position and operating results.

5. Effect of Price Fluctuations of Raw Materials

TOMY Group handles toy varieties made of materials such as plastic and zinc die-cast alloys. It is therefore affected by the prices of crude oil and metal materials. Aiming to soften the impacts of such fluctuations, the Group conducts various initiatives such as devising methods of procuring raw materials that also involve companies that provide consignment-based manufacturing to the Group and making the production-distribution system more efficient. Nevertheless, in circumstances such as sharp increases in prices of raw materials or supply shortages, the Group’s financial position and business results may be affected.

6. Product Safety
TOMY Group carries out measures to enhance product quality and ensure product safety based on stringent quality-control standards. However, if an event such as a serious problem related to the safety or quality of a product handled by the Group, payment of product-liability compensation, or recall were to arise, causing the Group product prices to decline and giving rise to a major cost burden, the Group's financial position and operating results may be affected.

7. Important Business Contracts
TOMY Group enters into important business contracts with third parties, as described in the Securities Report of TOMY Company, Ltd. However, if for some reason in the future it is no longer possible to continue a contract, this may affect the Group's financial position and operating results.
(For a description of important business contracts, see "5. Important business contracts, etc." in A. Corporate Information, II. Review of operations stated in the Securities Report, which is in Japanese only.)

8. Leakage of Information
TOMY Group holds important business-related information and confidential, personal, and other information concerning customers and other entities with which it does business.

Owing to its measures to enhance and ensure thorough adherence to information security, the Group takes great care to maintain the confidentiality of this information, however it is possible that information could leak outside the Group as a result of unforeseen circumstances.
If such a situation were to arise, it may diminish the trust held in the Group and may affect the Group's financial position and operating results.

9. Disaster Risk
TOMY Group engages in business both in Japan and elsewhere around the world, and in the event of the occurrence of natural disasters such as earthquakes, floods, typhoons or of other events such as cyber attacks, wars, terrorist acts, global pandemics, or power failures or other infrastructure stoppages, its business activity may be severely impeded either wholly or partially.

The Group takes steps such as devising business continuity plans (BCPs), but if circumstances such as the aforesaid were to give rise to significant costs resulting from physical damage or human casualties, the Group's financial position and operating results may be materially affected.

10. Evaluation and Impairment of Intangible Assets
TOMY Group has a considerable value of intangible assets including goodwill, which were arising from the acquisition of TOMY International Group. Such assets have already been annually amortized based on straight-line method and necessary impairment losses were recognized. At this point we foresee that no additional significant impairments would be necessary. However, if the performance of the TI Group does not improve to the extent that has been assumed, impairments of such assets in the future will be more likely, and may materially affected Group's financial position and operating results.

VI. Anti-Takeover Measures

The Policy toward large-scale purchases, etc. of the Company's shares (hereinafter referred to as "this Policy") has been created for the purpose of securing and enhancing the corporate value of the Company and the common interests of its shareholders.
This Policy was introduced because the Company judged that there is a need for certain rules that would prevent attempts of large-scale purchases of the Company's shares if such attempts do not contribute to enhancement of the corporate value of the Company and are against the common interests of its shareholders. These rules need to regulate such actions as acquirement by the Company of information that would enable shareholders to appropriately decide whether to accept or reject the purchase concerned, ensuring sufficient information and time required for the Company's Board of Directors to propose alternatives, or obstructing purchases that due to their nature pose a threat to the corporate value

Outline of this Policy

This Policy together with the amendment of Articles of Incorporation that is carried out related to its establishment is a rights plan with prior warnings, the introduction/renewal of which has been approved by Shareholders Meeting of the Company', enabling in case of emergency implementation of such measures (hereinafter referred to as "the Countermeasures") as allotment of stock acquisition rights without contribution. The concrete content of these measures are as follows.

1. Persons (hereinafter referred to as "the Purchasers") who attempt to conduct the large-scale purchases, etc. of share certificates, etc. issued by the Company amounting to 20% or more of all issued shares (hereinafter referred to as "the Large-Scale Purchases, etc.") are required to submit information regarding the Large-Scale Purchases, etc. to the Company beforehand.
2. In times of emergency, the Company's Board of Directors shall establish a special committee. This special committee may request the Company's Board of Directors to submit an opinion on the contents of the Large-Scale Purchases, etc., basis documents, or alternative proposals.
3. The special committee, having received the information from the Purchasers or the Company's Board of Directors, after the Company's Board of Directors makes a referral to the committee, counting from the time when the Company's Board of Directors receives a proposal in writing, in which all the information required to examine the contents of the purchase related to the Large-Scale Purchases, etc. concerned is entered, as a rule, shall conduct a review and evaluation of the contents of the purchase within a maximum of 60 business days, make a judgment regarding whether to implement the Countermeasures against the Purchasers or not, and submit its recommendation to the Company's Board of Directors (in addition, the special committee in its recommendation may attach a condition to the effect that the Countermeasures shall be implemented by resolution of Shareholders Meeting of the Company). In cases, where it judges that it is required, the special committee may acquire advice from independent external experts, etc. Moreover, the Company's Board of Directors shall carry out negotiations with the Purchasers, disclose information to the shareholders, and conduct other measures.
4. The Company's Board of Directors shall pay utmost attention to the recommendations given by the special committee, and in the end shall decide by resolution whether to implement the Countermeasures. Furthermore, in cases where the special committee in its recommendation attaches a condition to the effect that the Countermeasures shall be implemented by resolution of Shareholders Meeting of the Company, as a rule, the Company's Board of Directors shall convene Shareholders Meeting of the Company' as promptly as possible from the viewpoint of business, and bring up the proposal regarding the implementation of the Countermeasures for discussion. In this case, the Company's Board of Directors shall carry out the resolution regarding whether the Countermeasures are or are not to be implemented in accordance with the decision of the Shareholders Meeting concerned.
5. In cases where the Purchasers are recognized as not observing the procedures stipulated in this Policy or as being clearly against the corporate value of the Company and the common interests of its shareholders, provided that it is recognized that it is reasonable to implement the Countermeasures, the Company may decide on implementing the countermeasures based on the decision of such purport by the special committee.
6. If the Countermeasures are implemented, the stock acquisition rights allotted to the shareholders can be issued with attached conditions regarding exercise of rights stipulating that certain persons such as the Purchasers, etc. (hereinafter referred to as "the Non-Qualified Persons") cannot

exercise their rights to shares and also can be issued with attached provisions regarding acquisition stipulating that the Company may in exchange for shares of the Company acquire stock acquisition rights from persons other than the Non-Qualified Persons. Hereby, in cases where the Company's shares are issued to shareholders other than the Non-Qualified Persons, the proportion of voting rights on the Company's shares owned by the Non-Qualified Persons concerned will be diluted.

Special features of this Policy

The special features of this Policy are as follows.

1. Reflection of shareholders' will
   The contents of this Policy reflect the intention of shareholders.
   - A resolution by Shareholders Meeting is required for introduction and renewals of this Policy.
   - In cases where the special committee in its recommendation attaches a condition to the effect that the Countermeasures shall be implemented by resolution of Shareholders Meeting, such resolution of Shareholders Meeting shall be required.
   - This Policy can be abolished by resolution of Shareholders Meeting.
   - As the term of office of Directors is reduced to one year, the statement of intent of shareholders can be expressed by election of Directors at annual regular Shareholders Meeting.
2. A highly independent special committee
   It is prescribed that for implementation of the Countermeasures, etc., there is a need to obtain a recommendation of the special committee without fail, and that the Company's Board of Directors shall pay utmost attention to the recommendations given by the special committee. The members of the special committee will be elected from such highly independent posts as the Company's outside directors and outside audit & supervisory board members.
3. Term of validity
   The term of validity of this Policy is until the close of the ordinary Shareholders Meeting of the Company held with respect to the accounting year ending March, 2016. A separate resolution of Shareholders Meeting of the Company shall be required to renew this Policy. Moreover, even during the term of validity, it is possible to abolish this Policy at any time by resolution of Shareholders Meeting of the Company or by resolution of the Company's Board of Directors.

Influence on shareholders and investors of Countermeasures if they are implemented

Because the system of allotment of stock acquisition rights without contribution itself is not implemented by the Company at the time of introduction of this Policy, there will be no direct influence in terms of either rights or economic benefits to shareholders and investors.
Moreover, in the time of allotment of stock acquisition rights without contribution, stock acquisition rights shall be allotted to shareholders without contribution on the day appointed for allotment with one stock acquisition right per every share of the Company owned. In cases where a shareholder does not go through the procedure of exercise of stock acquisition rights within the prescribed exercise period, due to the fact that other shareholders may exercise their stock acquisition rights, the shares owned by that shareholder will be diluted, but if the shareholder does go through the procedure whereby the Company acquires stock acquisition rights of shareholders in exchange for the Company's shares, as the shareholder shall receive from the Company the Company's shares in exchange for the acquisition of stock acquisition rights by the Company, there will be no dilution.
Furthermore, although in the process of the procedure stipulated in this Policy, the Company shall disclose appropriately and timely the information required for shareholders, if although a resolution for allotment of stock acquisition rights without contribution has been passed or allotment of stock acquisition rights without contribution has been made, in case due to such circumstances as the purchasers retracting the Large-Scale Purchases, etc., the Company may by the day preceding the day, on which the period for exercise of stock acquisition rights starts, acquire stock acquisition rights without contribution and without issuing the Company's shares to persons owning stock acquisition rights. In that case, as no per-share dilution of the Company shares' value happens, the investors, who sell the Company's shares on the assumption that the per-share value of the Company's shares dilutes, may incur losses corresponding to the fluctuation of share price.

Items of revision made on continuation of this Policy

Shareholders have voted in favor of the proposal for revising main items described below at ordinary Shareholders Meeting of the Company held on June 26, 2013.

1. Languages used for statement of intent
   Under this Policy, the Board of Directors and special committee must conduct a review, evaluation, etc. of a purchase proposal in an extremely limited amount of time. In order to ensure the full and proper implementation of such review, evaluation, etc., the language to be used in the statement of intent and the Necessary Information (including additional information) shall be limited to Japanese.
2. Clarification of persons who attempt to conduct the Large-Scale Purchases, etc.
   In order to ensure the effectiveness of the Former Policy, it has been made clear that the persons who attempt to conduct the Large-Scale Purchases, etc. that are subject to the application of this Policy include "persons who the Company's Board of Directors, based on the special committee's recommendation, reasonably determines to fall within the scope of persons attempting to conduct Large-Scale Purchases, etc."
3. Setting of deadline and extended term for provision of the Necessary Information
   From the perspective of ensuring a quick implementation of this Policy, the Necessary Information shall be required to be provided within a time period considered reasonable by the Company's Board of Directors. Such time period may be extended when an extension request is made by a subject-to-policy purchaser with a reasonable reason. In addition, from the same perspective, when the Board of Directors requests for additional information on the Necessary Information and if a subject-to-policy purchaser provides a reasonable explanation as to the unavailability of some part of such information, even if any or all of the information requested by the Company’s Board of Directors is not provided, the relevant purchase proposal may be referred to the special committee.
4. Abolition of quorum requirement for the resolution at Shareholders Meeting of the Company concerning the implementation of Countermeasures
   Since the Company's Articles of Incorporation do not provide for the quorum for Shareholders Meeting, there shall be no quorum requirement for the resolution at Shareholders Meeting of the Company concerning the implementation of Countermeasures based on this Policy.