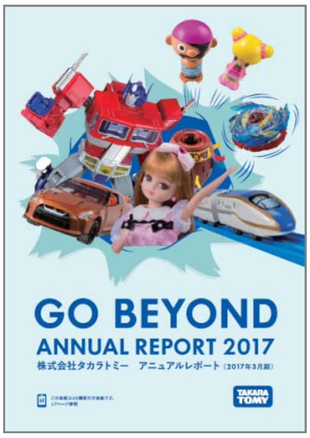
Annual Report 2017
Financial Section
For the Year ended March 31, 2017



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, 2017, 2016, 2015, 2014, 2013 and 2012

	Millions of yen					
	2017	**2016**	**2015**	**2014**	**2013**	**2012**
Net sales	**¥167,661**	¥163,067	¥149,938	¥154,804	¥178,745	¥187,265
Gross profit	**63,736**	57,339	52,704	53,142	55,160	61,137
Total selling, general and administrative expenses	**55,992**	54,641	50,237	49,807	52,613	50,951
Operating profit	**7,744**	2,698	2,466	3,335	2,547	10,186
Ordinary profit	**7,823**	1,459	2,014	3,300	2,622	9,823
Profit (loss) before income taxes	**7,127**	(6,711)	206	2,607	(4,846)	7,976
Profit (loss) attributable to owners of parent	**5,372**	(6,703)	(1,817)	232	(7,173)	3,679
EBITDA[2]	**16,275**	11,692	11,194	11,526	10,087	16,854
R&D Expenses	**3,225**	3,144	2,598	2,498	2,978	2,722
Depreciation and amortization	**8,531**	8,994	8,728	8,191	7,539	6,667
Net cash provided by operating activities	24,896	8,675	6,827	12,429	6,701	16,046
Net cash provided by (used in) investing activities	(3,793)	(3,974)	(2,428)	(1,015)	(3,414)	(38,048)
Net cash provided by (used in) financing activities	(1,927)	(6,014)	(10,022)	1,735	(8,494)	29,718
(As of March 31)						
Total assets	157,693	145,652	159,638	156,467	152,732	156,654
Net assets	51,611	37,824	49,650	50,907	49,692	51,805
Interest-bearing debt	64,748	71,776	75,337	72,889	66,293	68,815
Per Share Data (Yen)						
Earnings	¥61.88	(78.74)	(19.91)	2.47	(76.21)	39.09
Dividend	10.00	10.00	10.00	10.00	10.00	14.00
Net assets	548.45	432.87	567.91	526.49	506.41	525.46

*1 EBITDA=Operating profit + Depreciation, amortization of goodwill

(Six-Year Financial Summary – Continue)

	2017	2016	2015	**2014**	**2013**	**2012**
Major Financial Indices						
Operating margin (%)	4.6	1.7	1.6	2.2	1.4	5.4
Overseas sales ratio (%)	36.8	41.6	42.8	41.3	30.7	36.2
Return on equity (ROE) (%)[2]	12.2	(15.7)	(3.7)	0.5	(14.8)	7.6
Return on assets (ROA) (%)[3]	5.2	1.0	1.3	2.1	1.7	7.8
Equity ratio (%)[4]	32.4	25.5	30.2	31.7	31.2	31.6
Dividend payout ratio (%)[5]	16.2	—	—	404.4	—	35.8
Stock Data						
Stock price at year-end (Yen)	1,113	822	714	478	478	605
PER (Times)	18.0	—	—	193.3	—	15.5
Number of shares outstanding (Thousand shares)[6]	93,103	85,814	84,856	94,130	94,134	94,136
Company Data						
Number of subsidiaries	**35**	34	38	40	45	49
Number of employees (Consolidated)	**1,951**	2,042	2,086	2,056	2,171	2,294
Number of employees (Non-consolidated)	**495**	491	490	486	516	642
Average age of employees (Non-consolidated)	**41.3**	40.9	40.4	39.3	38.7	40.0

2 Profit attributable to owners of parent ÷ Average of total equity*
*Equity=Net assets–Subscription rights to shares–Non-controlling interests
3 Return on assets=Ordinary profit ÷ Total assets
4 Equity ratio=Equity ÷ Total assets ×100
5 Payout ratio＝Dividend per share for common stock with the record date in the corresponding fiscal year (Total) ÷Earnings per share ×100
6 Treasury stock has been excluded from these figures.

II. Financial Review

1. Operating Results

Highlights of the Fiscal Year Ended March 31, 2017

・Net sales increased by 2.8% year on year. The increase is attributable to strong toy sales in the Japanese and the Asian (other than Japan) markets despite releases of products related to movie content having run their course in Europe, North America, and Australia.
・Operating profit increased significantly. This is attributable to a substantial increase in gross profit, mainly from strong sales from the high-margin domestic toys, and a decrease in the cost of procurements.
・In the Japanese market, the TOMY Group enhanced existing lineups in long-standing products TOMICA, PLARAIL and LICCA dolls, and also expanded the lineups of each product. Also, there was a substantial increase in sales from the next-generation spinning-top battle toy BEYBLADE BURST associated with the start of the animated television series by the same name in April 2016, and the trading card game DUEL MASTERS. During the year-end shopping season, the sensational new pet toy HATCHIMALS ("Umarete! Woomo") attracted much public interest.
・In the overseas market, as a result of launches of 20th anniversary commemorative products for POKEMON, and the popularity of POKEMON GO, sales were strong for POKEMON-related products, despite a decrease in net sales due to releases of movie-related products having run their course.
・The TOMY Group is striving to restructure its overseas business, and in the previous fiscal year TOMY International Group's management structure was changed to one where the Americas (North America and Latin America), Europe and Oceania are directly managed and controlled by the leadership of the Company's Head Office. As part of these initiatives, during the first six months of the fiscal year ended March 31, 2017, the TOMY Group recorded an impairment loss on intangible assets with respect to certain baby products, etc. in Oceania.
・In order to strengthen sales and marketing in Southeast Asia, TOMY Southeast Asia Pte. Ltd. was established in Singapore and began operations in November 2016.
・To respond to the changing business environment and advance into a new era of toy manufacturing, the TOMY Group procured funds during the fourth quarter of the fiscal year ended March 31, 2017 by disposing treasury shares and offering the Company's shares for sale with the goal of acquiring and investing in new content such as characters for TV and movies, which the Group will focus on going forward, and strengthening the smartphone app business.

Summary of Consolidated Earnings

(Millions of yen)

	2016	2017	Change	Change (%)
Net sales	163,067	167,661	4,594	2.8
Operating profit	2,698	7,744	5,046	187.0
Ordinary profit	1,459	7,823	6,363	435.9
Profit (loss) attributable to owners of parent	(6,703)	5,372	12,075	–

Consolidated net sales for the fiscal year was ¥167,661 million (up 2.8% year on year). In the Japanese market, the Group continued to enhance existing lineups in long-standing products TOMICA, PLARAIL and LICCA dolls, and also expanded the lineups of each product. There was also a substantial increase in sales from the next-generation spinning-top battle toy BEYBLADE BURST associated with the start of the animated television series by the same name in April 2016, and the trading card game DUEL MASTERS. Moreover, in the overseas market, POKEMON performed strongly.

Operating profit grew substantially to ¥7,744 million (up 187.0% year on year). This is attributable to the increase in gross profit due to the strong growth of sales of high-margin domestic toys, combined with a decrease in the cost of procurement and other outlays.

Ordinary profit increased substantially to ¥7,823 million (up 435.9% year on year). The increase was attributable to the significantly increased operating profit as mentioned above, in addition to recording foreign exchange gains in non-operating income.

Profit attributable to owners of parent was ¥5,372 million, compared with a loss attributable to owners of parent of ¥6,703 million in the previous fiscal year, showing a substantial improvement. This improvement is attributable to the substantial gain in ordinary profit mentioned previously, despite having recorded impairment loss on intangible assets with respect to certain baby products, etc. in Oceania at the TOMY International Group in the six months of the fiscal year ended March 31, 2017.

Overview of Reportable Segments

(Millions of yen)

	2016	2017	Change	Change (%)
Net sales	163,067	167,661	4,594	2.8
Japan	108,519	131,810	23,291	21.5
Americas	34,622	28,512	(6,110)	(17.6)
Europe	10,641	8,573	(2,068)	(19.4)
Oceania	2,509	2,509	0	0.0
Asia (other than Japan)	57,288	47,771	(9,516)	(16.6)
Eliminations and corporate	(50,513)	(51,515)	(1,002)	-
Operating profit (loss)	2,698	7,744	5,046	187.0
Japan	8,293	10,030	1,736	20.9
Americas	(1,586)	197	1,783	–
Europe	(2,418)	(581)	1,837	–
Oceania	(104)	57	161	–
Asia (other than Japan)	878	725	(153)	(17.4)
Eliminations and corporate	(2,364)	(2,685)	(320)	-

Japan
Net sales in Japan for the fiscal year was ¥131,810 million (up 21.5% year on year), while operating profit was ¥10,030 million (up 20.9%). In the long-standing products TOMICA, PLARAIL and LICCA dolls, the Company, while enhancing existing product lines, took steps to expand each of the product lines. In the TOMICA range, sales grew owing to growing popularity for TOMICA WORLD THRILLING MOUNTAIN, designed to expand the world of driving play with TOMICA, and the addition of new points of availability (POA), such as convenience stores and bookstores, for the individually packaged item series such as the TOMICA PREMIUM series of highly detailed collectible models that offer a realistic reproduction of form that also appeals to adults. In the PLARAIL range, SMARTPHONE DRIVER! DOUBLE CAMERA DOCTOR YELLOW, which allows operation via a smartphone by looking at images from two cameras loaded on the vehicle, won the highest award in the innovation toy category of the 2016 Japan Toy Awards and drew public attention. In the LICCA doll range, the SELF CHECKOUT! BIG SHOPPING MALL for enjoying realistic self-checkout play that operates using infra-red light attracted popularity. Meanwhile, the LICCA BIJOU series, a new product line designed for enjoyment of both children and adults which featured a slightly more grown-up version of LICCA dolls with real clothes and of which sales started in June 2016, attracted popularity. The Company aggressively operated information dissemination using social networking sites such as twitter and instagram, as well as corporate tie-ups and other projects in order to bolster its brand value.
The animated television series of the next-generation spinning-top battle toy BEYBLADE BURST started in April 2016 and the product generated strong sales results partly due to the Company's sales promotions which have involved holding in-store events nationwide. The Company also saw sales of trading card game DUEL MASTERS increase year on year, owing to an increase in the target new user market as a result of revised merchandising and promotion in the previous fiscal year. During the year-end shopping season, the sensational new pet toy HATCHIMALS (“Umarete! Woomo”) that provides a heart-melting egg hatching experience was popular and attracted a lot of media attention as well. The Company also released new character goods based on an animated television production created by the Company. T-ARTS Company, Ltd. installed GACHA capsule toy vending machines at locations such as Narita International Airport, and these machines are proving popular, mainly with overseas tourists as a unique POA. T-ARTS also started operating an amusement machine called POKEMON GA-OLE in July 2016 that prints out the POKEMONs that players capture in the game allowing players to acquire them on the spot, and that is growing in popularity.
The significant year-on-year increase in net sales was due to the strong sales of priority products, long-standing products and other toy products, as well as shipments to the Americas having been included in this segment following changes to product distribution effective from the current fiscal year. The main reason for the increase in operating profit was the substantial increase in gross profit resulting from the growth in net sales.

Americas (North America and Latin America)
Net sales in Americas (North America and Latin America) was ¥28,512 million (down 17.6% year on year), while operating profit was ¥197 million, compared with an operating loss of ¥1,586 million in the previous fiscal year.
Americas has continued to restructure its business. As part of its restructuring measures, the Group is “concentrating on and selecting businesses that improve profitability.” In line with this, TOMY International Group withdrew from certain baby products that were unprofitable and concentrated investment of management resources into six core brands including THE FIRST YEARS and JJ COLE baby product brands and JOHN DEERE agricultural machinery toys. The POKEMON series saw strong overall sales due to the addition of 20th anniversary commemorative products such as plush toys and figures to its existing lines and sales of POKEMON Z-RING, a game-linked bracelet worn by the lead character, as well as the popularity of POKEMON GO. On the other hand, releases of products related to movie content ran their course and agricultural machinery toys and baby- and preschool-related products performed weakly. As a result, net sales for Americas declined overall. However operating profit improved, reflecting the decrease in selling, general and administrative expenses, despite decreased net sales.

Europe
Net sales in Europe was ¥8,573 million (down 19.4% year on year), while operating loss improved substantially to ¥581 million, compared with an operating loss of ¥2,418 million in the previous fiscal year.
The Group is now working to restructure its business in Europe following on from similar efforts in the Americas. The Group streamlined its operations by shifting from direct sales to distributorship sales in countries such as Russia and Poland and concentrating its operations in the UK, France, and Germany.
The Group also completed personnel reduction associated with an organizational restructuring during the previous fiscal year. Furthermore, from this fiscal year, it has concentrated investment of its management resources on its eight core brands.

Sales of the POKEMON series grew overall, with the popularity of 20th anniversary commemorative products and strong sales of plush toys, figures and game-software-linked toy POKEMON Z-RING. On the other hand, releases of products related to movie content ran their course, and sales of baby and preschool products were weak, along with agricultural machinery toys. As a result, net sales in Europe declined year on year. Operating loss improved substantially, however owing to lower sales costs realized through the above-mentioned business restructuring efforts.

Oceania

Net sales in Oceania was ¥2,509 million (up 0.0% year on year), while operating profit was ¥57 million, improving from an operating loss of ¥104 million in the previous fiscal year.
In Oceania, releases of products related to movie content, which attracted popularity in the previous fiscal year, ran their course. However, sales of POKEMON-related products were strong and the Group promoted Japanese products. The recording of operating profit resulted from a decline in selling, general and administrative expenses.

Asia (other than Japan)

Net sales in Asia (other than Japan) was ¥47,771 million (down 16.6% year on year), while operating profit was ¥725 million (down 17.4%).
The Group established TOMY Southeast Asia Pte. Ltd. in Singapore, which started sales and marketing activities in Southeast Asia in November 2016. TOMICA saw brisk sales reflecting the Group's efforts to promote the construction of optimal sales spaces through cooperation with toy distributors and expand POA to increase handling of its products in convenience stores and bookstores, following Japan's model. Furthermore, in China, Thailand, India, Indonesia, and Malaysia the Group has launched TOMICA COOL DRIVE, a low-priced TOMICA suited to different purchase levels in countries and regions. In South Korea, Hong Kong, Taiwan, and other countries and regions, the next-generation spinning-top battle toy BEYBLADE BURST garnered popularity as the accompanying animated television series went on air. On the other hand, manufacturing subsidiary TOMY (Hong Kong) Ltd. saw a decline in shipments to Europe and North America, which was one of the main factors leading to the declines in net sales and operating profit.

Outlook for the Fiscal Year Ending March 31, 2018

In the domestic business, while continuing to enhance the existing product lines of long-standing products such as TOMICA, PLARAIL and LICCA dolls, we are working to broaden each of these product lines. As part of these initiatives, we will enhance new product lines to expand the world of play such as DX TOMICA PARKING, which provides enjoyable driving play.
In LICCA dolls, 2017 marks the fiftieth anniversary of this product line. In addition to holding exhibitions and launching commemorative products, we will continue branding and expanding the target market through the use of SNS and other strategies. In the next-generation spinning-top battle toy BEYBLADE BURST, broadcasts of the BEYBLADE BURST TV animation series started in April 2016, and the product was a big hit with product line sales volume in Japan surpassing 9 million product units. Looking ahead in the fiscal year ending March 31, 2018, we plan to make a full-scale entry into overseas markets. As for TRANSFORMERS, we expect a movie to be released each year, consecutively for three years beginning in 2017, and we are preparing movie-related products to be released in markets around the world. Also, we will continue to strengthen merchandising and promotion for the trading card game DUEL MASTERS, for which we aim to acquire new customer stratum.
In other initiatives, commencing July 2017, the TOMY Group will pull together its resources to develop toys and amusement machines related to THE SNACK WORLD, a cross-media project of LEVEL-5 Inc. We will also develop multiple character goods including TOMICA HYPER RESCUE DRIVE HEAD, which is original content of the Company and the first TOMICA branded TV animation, and MIRACLE TUNES!, an SFX TV series aimed at girls.
In the overseas business, profitability is improving after having revised the management administration structure of TOMY International Group and rebuilt the business by the leadership of the Company's Head Office. Over the fiscal year ending March 31, 2018, we will continue to concentrate on investing management resources on core brands, which are the primary earnings base, and proceed with launching domestic products in overseas markets.
Regarding the full-year consolidated operating results for the fiscal year ending March 31, 2018, the TOMY Group forecasts increases in both revenues and profit compared with the fiscal year ended March 31, 2017, with net sales of ¥170,000 million (up 1.4%), operating profit of ¥8,000 million (up 3.3%), ordinary profit of ¥8,000 million (up 2.3%), and profit attributable to owners of parent of ¥5,500 million (up 2.4%).

Financial Position

<Assets>

At the end of the fiscal year ended March 31, 2017, current assets stood at ¥102,891 million, up ¥14,802 million from the end of the previous fiscal year ended March 31, 2016. This is mainly attributable to an increase in cash and deposits, despite a decrease in merchandise and finished goods.

Non-current assets stood at ¥54,772 million, down ¥2,745 million from the end of the previous fiscal year. This is mainly attributable to decreases in goodwill and right of using trademark.

<Liabilities>

At the end of the fiscal year ended March 31, 2017, current liabilities stood at ¥43,649 million, up ¥995 million from the end of the previous fiscal year. This is mainly attributable to increases in notes and accounts payable - trade, accounts payable - other, accrued expenses and income taxes payable, despite a decrease in short-term loans payable.

Non-current liabilities stood at ¥62,432 million, down ¥2,740 million from the end of the previous fiscal year. This is mainly attributable to a decrease in long-term loans payable.

<Net assets>

At the end of the fiscal year ended March 31, 2017, total net assets were ¥51,611 million, up ¥13,786 million from the end of the previous fiscal year. This is mainly attributable to increases in capital surplus and retained earnings, and disposal of treasury shares.

Cash Flows

Cash and cash equivalents (hereafter “cash”) at the end of the fiscal year ended March 31, 2017 was ¥58,530 million, an increase of ¥18,627 million compared with the end of the previous fiscal year ended March 31, 2016.

Net cash provided by operating activities was ¥24,896 million, compared with ¥8,675 million provided in the previous fiscal year. Cash was mainly provided by depreciation of ¥7,300 million, profit before income taxes of ¥7,127 million, a decrease in inventories of ¥4,045 million, an increase in accrued expenses of ¥2,234 million, an increase in accounts payable - other of ¥2,214 million, amortization of goodwill of ¥1,404 million, and an increase in notes and accounts payable - trade of ¥1,069 million, while cash was mainly used for income taxes paid of ¥1,681 million and an increase in notes and accounts receivable - trade of ¥1,038 million.

Net cash used in investing activities was ¥3,793 million, compared with ¥3,974 million used in the previous fiscal year. Cash was mainly used for purchase of property, plant and equipment of ¥3,560 million and purchase of intangible assets of ¥1,388 million.

Net cash used in financing activities was ¥1,927 million, compared with ¥6,014 million used in the previous fiscal year. Cash was mainly used for repayments of long-term loans payable of ¥4,396 million, repayments of finance lease obligations of ¥4,025 million and net decrease in short-term loans payable of ¥3,471 million, while cash was mainly provided by proceeds from disposal of treasury shares of ¥7,215 million and proceeds from long-term loans payable of ¥2,000 million.

III. Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and deposits	40,046	58,623
Notes and accounts receivable - trade	20,167	20,942
Merchandise and finished goods	18,437	13,982
Work in process	439	328
Raw materials and supplies	1,223	1,286
Deferred tax assets	2,103	1,931
Other	5,841	5,965
Allowance for doubtful accounts	(170)	(168)
Total current assets	88,089	102,891
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,608	13,381
Accumulated depreciation	(8,406)	(8,530)
Accumulated impairment loss	(457)	(412)
Buildings and structures, net	4,743	4,437
Machinery, equipment and vehicles	2,229	2,337
Accumulated depreciation	(1,495)	(1,605)
Accumulated impairment loss	(17)	(17)
Machinery, equipment and vehicles, net	716	714
Tools, furniture and fixtures	26,932	21,982
Accumulated depreciation	(23,068)	(19,137)
Accumulated impairment loss	(1,108)	(458)
Tools, furniture and fixtures, net	2,754	2,387
Land	4,309	4,194
Leased assets	6,250	7,762
Accumulated depreciation	(3,136)	(4,161)
Accumulated impairment loss	(0)	(0)
Leased assets, net	3,113	3,599
Construction in progress	303	485
Total property, plant and equipment	15,940	15,819
Intangible assets		
Goodwill	22,017	20,468
Right of using trademark	7,626	6,853
Other	6,908	6,593
Total intangible assets	36,552	33,915
Investments and other assets		
Investment securities	2,628	2,584
Deferred tax assets	80	207
Other	2,398	2,294
Allowance for doubtful accounts	(82)	(49)
Total investments and other assets	5,025	5,037
Total non-current assets	57,518	54,772
Deferred assets		
Bond issuance cost	44	29
Total deferred assets	44	29
Total assets	145,652	157,693

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,398	9,477
Short-term loans payable	11,636	7,099
Current portion of long-term loans payable	4,234	4,408
Lease obligations	2,370	2,287
Accounts payable - other	5,677	7,809
Accrued expenses	7,130	8,881
Income taxes payable	954	2,038
Provision for sales returns	460	428
Allowance for recall	70	107
Provision for directors' bonuses	25	177
Provision for contingent loss	49	–
Other	1,646	934
Total current liabilities	42,654	43,649
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	45,904	43,240
Lease obligations	959	950
Deferred tax liabilities	2,520	2,293
Deferred tax liabilities for land revaluation	472	472
Net defined benefit liability	3,238	3,034
Provision for directors' retirement benefits	128	141
Other	1,949	2,300
Total non-current liabilities	65,173	62,432
Total liabilities	107,827	106,082
Net assets		
Shareholders' equity		
Capital stock	3,459	3,459
Capital surplus	6,423	9,045
Retained earnings	24,972	29,264
Treasury shares	(6,814)	(2,073)
Total shareholders' equity	28,040	39,696
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	738	735
Deferred gains or losses on hedges	(698)	1,133
Revaluation reserve for land	146	364
Foreign currency translation adjustment	9,846	9,999
Remeasurements of defined benefit plans	(928)	(866)
Total accumulated other comprehensive income	9,105	11,366
Subscription rights to shares	320	182
Non-controlling interests	357	365
Total net assets	37,824	51,611
Total liabilities and net assets	145,652	157,693

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

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net sales	163,067	167,661
Cost of sales	105,727	103,924
Gross profit	57,339	63,736
Selling, general and administrative expenses	54,641	55,992
Operating profit	2,698	7,744
Non-operating income		
Interest and dividend income	240	97
Rent income	148	155
Foreign exchange gains	–	596
Other	227	111
Total non-operating income	616	961
Non-operating expenses		
Interest expenses	805	624
Sales discounts	23	27
Amortization of bond issuance cost	15	15
Foreign exchange losses	564	–
Commission fee	208	5
Other	237	210
Total non-operating expenses	1,854	882
Ordinary profit	1,459	7,823
Extraordinary income		
Gain on sales of non-current assets	4	14
Gain on reversal of subscription rights to shares	332	56
Reversal of provision for contingent loss	–	29
Other	13	3
Total extraordinary income	350	103
Extraordinary losses		
Loss on sales of non-current assets	1	46
Impairment loss	7,492	689
Loss on sales of shares of subsidiaries and associates	323	–
Business structure improvement expenses	683	–
Other	21	63
Total extraordinary losses	8,522	799
Profit (loss) before income taxes	(6,711)	7,127
Income taxes - current	1,177	2,680
Income taxes - deferred	(1,227)	(949)
Total income taxes	(49)	1,730
Profit (loss)	(6,662)	5,397
Profit attributable to non-controlling interests	41	24
Profit (loss) attributable to owners of parent	(6,703)	5,372

(Consolidated statements of comprehensive income)

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Profit (loss)	(6,662)	5,397
Other comprehensive income		
Valuation difference on available-for-sale securities	(222)	(2)
Deferred gains or losses on hedges	(1,212)	1,831
Revaluation reserve for land	26	–
Foreign currency translation adjustment	(2,101)	152
Remeasurements of defined benefit plans, net of tax	(286)	62
Total other comprehensive income	(3,796)	2,043
Comprehensive income	(10,458)	7,440
Comprehensive income attributable to owners of parent	(10,500)	7,415
Comprehensive income attributable to non-controlling interests	41	25

Consolidated Statements of Changes in Net Assets
For the year ended March 31, 2016

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,459	6,741	32,525	(7,437)	35,288
Changes of items during period					
Dividends of surplus			(849)		(849)
Loss attributable to owners of parent			(6,703)		(6,703)
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares		30		625	655
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(348)			(348)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	(317)	(7,553)	622	(7,248)
Balance at end of current period	3,459	6,423	24,972	(6,814)	28,040

	Accumulated other comprehensive income						Subscription rights to shares	Non-controlling 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	Premeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	961	513	120	11,948	(641)	12,902	680	778	49,650
Changes of items during period									
Dividends of surplus									(849)
Loss attributable to owners of parent									(6,703)
Purchase of treasury shares									(2)
Disposal of treasury shares									655
Change in treasury shares of parent arising from transactions with non-controlling shareholders									(348)
Net changes of items other than shareholders' equity	(222)	(1,212)	26	(2,101)	(286)	(3,796)	(360)	(420)	(4,577)
Total changes of items during period	(222)	(1,212)	26	(2,101)	(286)	(3,796)	(360)	(420)	(11,825)
Balance at end of current period	738	(698)	146	9,846	(928)	9,105	320	357	37,824

For the year ended March 31, 2017

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,459	6,423	24,972	(6,814)	28,040
Changes of items during period					
Dividends of surplus			(862)		(862)
Profit (loss) attributable to owners of parent			5,372		5,372
Purchase of treasury shares				(4)	(4)
Disposal of treasury shares		2,611		4,745	7,356
Change in treasury shares of parent arising from transactions with non-controlling shareholders		11			11
Reversal of revaluation reserve for land			(217)		(217)
Net changes of items other than shareholders' equity					
Total changes of items during period		2,622	4,292	4,740	11,656
Balance at end of current period	3,459	9,045	29,264	(2,073)	39,696

	Accumulated other comprehensive income						Subscription rights to shares	Non-controlling 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	Premeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	738	(698)	146	9,846	(928)	9,105	320	357	37,824
Cumulative effects of changes in accounting policies									
Restated balance									
Changes of items during period									
Dividends of surplus									(862)
Profit (loss) attributable to owners of parent									5,372
Purchase of treasury shares									(4)
Disposal of treasury shares									7,356
Change in treasury shares of parent arising from transactions with non-controlling shareholders									11
Reversal of revaluation reserve for land									(217)
Net changes of items other than shareholders' equity	(3)	1,831	217	152	62	2,260	(138)	8	2,130
Total changes of items during period	(3)	1,831	217	152	62	2,260	(138)	8	13,786
Balance at end of current period	735	1,133	364	9,999	(866)	11,366	182	365	51,611

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash flows from operating activities		
Profit (loss) before income taxes	(6,711)	7,127
Depreciation	7,343	7,300
Impairment loss	7,492	689
Amortization of goodwill	1,743	1,404
Gain on reversal of subscription rights to shares	(332)	(56)
Increase (decrease) in allowance for reversal of contingent liabilities	–	(49)
Increase (decrease) in allowance for doubtful accounts	(133)	(29)
Increase (decrease) in net defined benefit liability	(359)	(140)
Interest and dividend income	(240)	(97)
Interest expenses	805	624
Loss (gain) on sales of shares of subsidiaries and associates	323	–
Business structure improvement expenses	683	–
Foreign exchange losses (gains)	433	316
Loss (gain) on sales of property, plant and equipment	(2)	50
Decrease (increase) in notes and accounts receivable - trade	(2,583)	(1,038)
Decrease (increase) in inventories	(232)	4,045
Decrease (increase) in prepaid expenses	(857)	758
Decrease (increase) in accounts receivable - other	143	37
Decrease (increase) in advance payments	(458)	801
Increase (decrease) in notes and accounts payable - trade	99	1,069
Increase (decrease) in accounts payable - other	1,094	2,214
Increase (decrease) in accrued expenses	2,047	2,234
Other, net	387	99
Subtotal	10,684	27,361
Interest and dividend income received	236	98
Interest expenses paid	(803)	(624)
Extra retirement payments	(270)	(257)
Income taxes paid	(1,172)	(1,681)
Net cash provided by (used in) operating activities	8,675	24,896
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,080)	(3,560)
Proceeds from sales of property, plant and equipment	6	334
Purchase of intangible assets	(991)	(1,388)
Proceeds from contribution to facilities	–	812
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(25)	–
Other, net	117	
Net cash provided by (used in) investing activities	(3,974)	(3,793)

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,892	(3,471)
Proceeds from long-term loans payable	33,750	2,000
Repayments of long-term loans payable	(39,501)	(4,396)
Cash dividends paid	(851)	(863)
Repayments of finance lease obligations	(2,839)	(4,025)
Purchase of treasury shares	(2)	(4)
Proceeds from disposal of treasury shares	655	7,215
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(808)	(4)
Proceeds from sales and leasebacks	–	1,625
Other, net	(310)	(1)
Net cash provided by (used in) financing activities	(6,014)	(1,927)
Effect of exchange rate change on cash and cash equivalents	(756)	(547)
Net increase (decrease) in cash and cash equivalents	(2,070)	18,627
Cash and cash equivalents at beginning of period	41,972	39,902
Cash and cash equivalents at end of period	39,902	58,530

IV. Notes to Consolidated Financial Statements
TOMY Company, Ltd. and its consolidated subsidiaries
For the fiscal year ended March 31, 2017

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, 2017 include the accounts of the Company and 35 significant subsidiaries (together, the "Group").

(1) Number of consolidated subsidiaries: 35
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.
TOMY Southeast Asia Pte. Ltd. was newly established for the year ended March 31, 2017 and included in the scope of consolidation.

(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 sales on 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 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 determined by the retail method with book value

written down to the net realizable value. (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 value 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 equipment attached to buildings), acquired on and after April 1, 1998, as well as equipment attached to buildings, and structures respectively acquired on after April 1, 2016, are calculated by the straight-line method.)
Estimated useful lives of principal assets are presented as follows:
Buildings and structures ....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
Provision for sales returns is provided 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
Allowance for the voluntary recall of products is provided to an amount that is reasonably estimated and deemed as necessary as of the end of the consolidated fiscal year.

d. Provision for directors' bonuses
Provision for directors' bonuses is provided for directors' bonus payments at an estimated amount to be paid for during the consolidated fiscal year.

e. 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.

(5) Accounting methods for retirement benefits

a. Attribution method based on service period for estimated retirement benefits

In calculation of retirement benefit obligation, expected retirement benefits are attributed to periods up to and including the consolidated fiscal year under review using the benefit formula method.

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.

c. Adoption of the simplified method in small companies, etc.

For the purpose of the calculation of net defined benefit liability and retirement benefit expenses, some of the consolidated subsidiaries of the Company adopt a simplified method in which retirement benefit obligations are assumed to be equal to the amount of benefits payable assuming the voluntary retirement of all employees at fiscal year-end.

(6) Translation of foreign currencies into Japanese yen

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the relevant spot exchange rates as of the consolidated account settlement date. The resulting transaction gains or losses are included in the accompanying Consolidated Statement of Income. Assets and liabilities of foreign subsidiaries and other branches, offices, etc. of the Company are translated into Japanese yen based on the relevant spot exchange as of the consolidated account settlement date, and revenue and expenses of them are translated into Japanese yen based on the average exchanges rates over the term. The resulting translation adjustments are included in the accompanying Consolidated Balance Sheet under "Foreign currency translation adjustments."

(7) Hedge

a. Methods of hedge accounting

In principle, deferred hedge accounting has been adopted. .

b. Hedging instruments and hedged items

Hedging instruments:

- Forward exchange contracts
- 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 20 years. For immaterial amounts, goodwill and negative goodwill are collectively recorded as an expense at the time they incurred.

(9) Scope of cash and cash equivalents in the consolidated statements of cash flows
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)
(Adoption of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)
Due to amendments of the Corporation Tax Act, the Company adopted the "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 32 of June 17, 2016) for the consolidated fiscal year under review, and the Company any changed the depreciation method for equipment attached to buildings, and structures that were respectively acquired from April 1, 2016 from the declining balance method to the straight line method.
The impact from these changes on consolidated financial statements in the consolidated fiscal year under review are immaterial.

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	
	2017	2016
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	¥(853)	¥ (925)

(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	
	2017	2016
Time deposits	¥92	¥92
Buildings and structures	1	2
Land	5	5
Total	¥100	¥100

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

	Millions of yen	
	2017	2016
Notes and accounts payable—trade	¥50	¥66
Total	¥50	¥66

(3) Assets relating to unconsolidated subsidiaries and affiliated companies

	Millions of yen	
	2017	2016
Investment securities (shares)	¥208	¥193

5. Notes to Consolidated Statements of Income

(1) Due to a decrease in the profitability of inventories at fiscal year-end, inventories were written down. The inventory valuation losses indicated below are included in cost of sales:

	Millions of yen	
	2017	2016
	¥5,204	¥3,931

(2) Research and development (R&D) expenses are included in general and administrative expenses and manufacturing costs as follows:

	Millions of yen	
	2017	2016
	¥3,225	¥3,144

(3) Major expenses of selling, general and administrative expenses are presented as follows.

	Millions of yen	
	2017	2016
Advertising expenses	¥13,477	¥11,632
Salaries, allowances and bonuses	15,063	14,682
Provision for directors' bonuses	186	29
Provision for directors' retirement benefits	24	49
Retirement benefit expenses	898	860
Provision of allowance for doubtful accounts	31	23

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

	Millions of yen	
	2017	2016
Buildings and structures	¥–	¥ 2
Machinery, equipment and vehicles	1	1
Tools, furniture and fixtures	12	0
Total	¥14	¥4

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

	Millions of yen	
	2017	2016
Machinery, equipment and vehicles	¥(33)	¥ 0
Tools, furniture and fixtures	1	1
Land	77	-
Intangible assets and other	0	0
Total	¥ 46	¥ 1

In the consolidated fiscal year under review, during the sale of noncurrent assets comprising a building and structures with attached land, a profit was made on the sale of the building and structures part while a loss was made on sale of the land, and as a result, the gain and loss from such sales were totaled, and a "Loss on sales of noncurrent assets" was recorded.

(6) Impairment loss

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

2017 Millions of yen

Application	Type	Location	Impairment loss
Assets for business use	Tools, furniture and fixtures, leased assets, intangible fixed assets (other)	Katsushika-ku, Tokyo	¥33
Assets for business use	Trademark rights, intangible fixed assets (other)	Dandenong, Victoria, Australia	526
Assets for business use	Investment and others assets (other)	Kowloon, Hong Kong	18
Assets for business use	Buildings and structures, tools, furniture and fixtures, intangible fixed assets (other)	Exeter, Devon, United Kingdom	66
Assets for business use	Tools, furniture and fixtures	Achon, France	1
Stores among assets for business use (retail outlets)	Buildings and structures, tools, furniture and fixtures, investment and others assets (other)	Nagoya, Aichi, ect.	43

From a management accounting standpoint, the TOMY Group groups assets for business use according to their regional or business relevance. Lease assets and idle assets are grouped by item, in the smallest units possible.

For assets for business use in Australia, since the collectability for certain licenses, etc. was no longer acknowledged, the book value basis was reduced down to collectable value, and a corresponding decrease amount was recorded as impairment loss (526 million yen) in extraordinary loss. The collectable value of these asset groups were measured according to use values, and use values were evaluated as zero since future cash flow is not expected.

In addition, with regard to other assets for business uses and stores among assets for business use (retail outlets), due to the recording of ongoing operating losses and the fact that the total of estimated future cash flows are below the book values of these assets, their book values have been written down to their recoverable value, with this amount of decrease posted as an impairment loss (¥162 million) in extraordinary loss. Recoverable value is measured as net realizable value or value in use. As these assets are expected to be disposed of after closure, the net sales value was assessed at zero. As no future cash flows are expected, the value in use was assessed at zero.

2016 Millions of yen

Application	Type	Location	Impairment loss
Assets for business use	Tools, furniture and fixtures, etc., trademark rights, intangible assets (other), investments and other assets (other)	Exeter, Devon, United Kingdom	¥3,403
Assets for business use	Tools, furniture and fixtures, etc., trademark rights	Dyersville, Iowa, United States	941
Assets for business use	Trademark rights	Dandenong, Victoria, Australia	64
Assets for business use	Machinery, equipment and vehicles	Ichikawa, Chiba Prefecture and others	5
Assets for business use (retail outlets)	Buildings and structures, tools, furniture and fixtures, etc.	Wakayama, Wakayama Prefecture; Hirakata, Osaka Prefecture; and others	61
Assets for business use (lease assets)	Buildings and structures, etc.	Kawachi-gun, Tochigi Prefecture	28
Idle assets	Land	Shimotsuga-gun, Tochigi Prefecture	1
—	Goodwill	Exeter, Devon, United Kingdom	2,984

From a management accounting standpoint, the TOMY Group groups assets for business use according to their regional or business relevance. Lease assets and idle assets are grouped by item, in the smallest units possible.

Due to a change in business segments during the fiscal year under review, the groupings of assets for business use and goodwill at some overseas subsidiaries were revised to enable more appropriate accounting.

Owing to changes in future business plans based on the post-revision groupings, in Europe the asset groups of assets for business use and goodwill are no longer expected to generate the initially anticipated level of earnings. Accordingly, their book values were written down to their recoverable value, with the amount of decrease posted as an impairment loss (¥6,388 million) in extraordinary loss. With regard to assets for business use in the United States and Australia, the withdrawal from certain license-related businesses is expected to significantly reduce the scope of operations, so these rights are no longer expected to be recoverable. Accordingly, the book value of these assets was written down to their recoverable value, with the amount of decrease posted as an impairment loss (¥1,006 million) in extraordinary loss. The recoverable value of these asset groups is measured at their value in use. However, as no future cash flows are anticipated, their value in use was assessed at zero.

In addition, with regard to assets for business use (retail outlets), assets for business use (lease assets) and idle assets, due to the recording of ongoing operating losses and the fact that estimated future cash flows are below the book values of these assets, their book values have been written down to their recoverable value, with this amount of decrease posted as an impairment loss (¥96 million) in extraordinary loss. Recoverable value is measured as net realizable value or value in use. As these assets are expected to be disposed of after closure, the net realizable value was assessed at zero. As no future cash flows are expected, the value in use was assessed at zero.

(7) Business structure improvement expenses

For the year ended March 31, 2017

Not applicable

For the year ended March 31, 2016

At a Board of Directors meeting on October 20, 2015, in order to make each area of the TOMY International Group visible, clarify lines of reporting and accelerate the management of profits and losses, a resolution was passed to revise the jurisdiction of operations for the TOMY International Group in all areas of the Americas, Europe, Oceania, bringing each area under the direct control of the Company and placing an executive of the Company in charge of operations in each area.

These changes will result in a realignment of personnel owing to a change in the management style to date and closures or changes in the business model at multiple locations, with the Company directing business structure improvements.

As part of these business structure improvements, during the fiscal year under review the Company recorded extra retirement payments at overseas consolidated subsidiaries of ¥683 million.

6. Notes to Consolidated Statements of Comprehensive Income

The amount of reclassification adjustment and tax effect relating to other comprehensive income are as follows:

	Millions of yen	
	2017	2016
Net valuation difference on available-for-sale securities:		
Amount arising during the year	¥(43)	¥ (299)
Reclassification adjustments for gains and losses realized in net income	—	—
Before-tax amount	(43)	(299)
Tax (expense) or benefit	40	76
Net gains or losses on the securities	(2)	(222)
Net differed gains or losses on hedges:		
Amount arising during the year	1,094	(859)
Reclassification adjustments for gains and losses realized in net income	1,548	(957)
Before-tax amount	2,642	(1,816)
Tax (expense) or benefit	(811)	604
Net gains or losses on hedges	1,831	(1,212)
Revaluation reserve for land:		
Tax (expense) or benefit	—	26
Foreign currency translation adjustments:		
Amount arising during the year	152	(2,101)
Remeasurement of defined benefit plans, net of tax:		
Amount arising during the year	17	(343)
Reclassification adjustments for gains and losses realized in net income	44	56
Before-tax amount	62	(286)
Tax (expense) or benefit	—	—
Remeasurement of defined benefit plans, net of tax	62	(286)
Total other comprehensive income	¥2,043	¥(3,796)

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 and amusement machines for the toy peripheral business

Depreciation and amortization methods for lease assets

For details, please refer to "(2) Depreciation" of "3. Significant Accounting Policies" under "Basis of Presenting the Consolidated Financial Statements."

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 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

2017				Millions of yen
	Type	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	(1) Stock	¥1,747	¥788	¥959
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	1,747	788	959
Securities whose carrying value does not exceed their acquisition cost	(1) Stock	—	—	—
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
	Total	¥1,747	¥788	¥959

2016				Millions of yen
	Type	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	(1) Stock	¥1,559	¥504	¥1,055
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	1,559	504	1,055
Securities whose carrying value does not exceed their acquisition cost	(1) Stock	247	277	(29)
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	247	277	(29)
	Total	¥1,807	¥781	¥1,025

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	
	2017	2016
Unlisted stocks	¥628	¥628

10. Derivative Transactions

(1) Derivative transactions for which hedge accounting has not been adopted Currency-related transactions

2017					Millions of yen
Method of hedge accounting	Type of transaction	Contract Amount	Contract amount exceeding one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward foreign exchange contracts: Buy: USD	¥998	¥—	¥(46)	¥(46)
	Total	¥998	¥—	¥(46)	¥(46)

2016					Millions of yen
Method of hedge accounting	Type of transaction	Contract Amount	Contract amount exceeding one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward foreign exchange contracts: Buy: USD	¥461	¥—	¥0	¥0
	Option trading: Buy: USD	191	—	0	0
	Sell: USD	95	—	(3)	(3)
	Currency swap	21	—	3	3
	Total	¥770	¥—	¥0	¥0

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

(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

2017					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged Items	Contract amount	Contract amount exceeding one year	Fair value
Principle method	Forward Foreign exchange contracts: Buy: USD	Foreign currency denominated claims and obligation (accounts receivable, accounts payable, etc.)	¥24,883	¥5,923	¥1,699
	Sell: USD		1,824	—	45
		Total	¥26,707	¥5,923	¥1,745

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

2016					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged Items	Contract amount	Contract amount exceeding one year	Fair value
Principle method	Forward Foreign exchange contracts: Buy: USD	Foreign currency denominated claims and obligation (accounts receivable, accounts payable, etc.)	¥17,167	¥1,757	¥ (1,052)
	Sell: USD		1,549	—	(2)
		Total	¥18,716	¥1,757	¥ (1,055)

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

2017					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value
Principle method	Interest rate swap transactions Pay fixed / receive floating	Long-term loans payable	¥7,500	¥7,500	¥ (46)

2016					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value
Principle method	Interest rate swap transactions Pay fixed / receive floating	Long-term loans payable	¥7,500	¥7,500	¥ (68)

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

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.

Some consolidated subsidiaries of the Company adopt a simplified method in which retirement benefit obligations are assumed to be equal to the amount of benefits payable assuming the voluntary retirement of all employees at fiscal year-end.

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.

Company’s certain subsidiaries in Japan received approval from the Minister of Health, Labour and Welfare, effective September 30, 2016 and March 1, 2017, for dissolution of multi-employer pension plans that they had adopted. Due to the dissolution of these pension plans, these pension plans were transitioned to defined contribution pension plans that were established as a replacement system.

(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)

	2017	2016
Beginning balances of retirement benefit obligations	¥4,707	¥4,919
Service cost	268	260
Interest cost	99	122
Actuarial gain or loss	(48)	27
Prior service cost	—	(105)
Payment of retirement benefits	(299)	(353)
Foreign exchange translation differences	(13)	(161)
Others	6	0
Ending balance of retirement benefit obligations	¥4,719	¥4,707

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

(Millions of yen)

	2017	2016
Beginning balances of pension assets	¥2,746	¥2,882
Expected return on plan assets	212	230
Actuarial gain or loss	(58)	(332)
Contributions by the Company	291	323
Payment of retirement benefits	(236)	(250)
Foreign exchange translation differences	(4)	(105)
Ending balance of pension assets	¥2,949	¥2,746

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

(Millions of yen)

	2017	2016
Beginning balances of net defined benefit liability	¥1,277	¥1,524
Retirement benefit expenses	205	204
Payment of retirement benefits	(219)	(439)
Decrease due to deconsolidation of subsidiaries	—	(12)
Ending balance of net defined benefit liability	¥1,264	¥1,277

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)

	2017	2016
Funded retirement benefit obligation	¥3,914	¥3,955
Pension assets	(2,949)	(2,746)
	964	1,208
Unfunded retirement benefit obligation	2,069	2,029
Net amount of liabilities and assets in consolidated balance sheet	3,034	3,238
Defined benefit liability	3,034	3,238
Net amount of liabilities and assets in consolidated balance sheet	¥3,034	¥3,238

e. Retirement benefit expenses and other details

(Millions of yen)

	2017	2016
Service cost	¥268	¥260
Interest cost	99	122
Expected return on plan assets	(212)	(230)
Amortization of actuarial gain or loss	86	(121)
Amortization of unrealized prior service cost	(21)	41
Retirement benefit expenses calculated by the simplified method	205	204
Retirement benefit expenses for defined benefit plans	¥426	¥276

f. Remeasurements of retirement benefits

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

(Millions of yen)

	2017	2016
Prior service cost	¥(21)	¥ 147
Actuarial gain or loss	83	(480)
Foreign exchange translation differences	—	46
Total	¥62	¥(286)

g. Accumulated remeasurements of retirement benefits

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

(Millions of yen)

	2017	2016
Unrecognized prior service cost	¥ 63	¥ 84
Unrecognized actuarial gain or loss	(929)	(1,013)
Total	¥(866)	¥ (928)

h. Pension assets

i) Details of main pension assets

Breakdown of the main pension assets is as follows:

	2017	2016
Bonds	38%	47%
Equity securities	49	50
Others	13	3
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

	2017	2016
Discount rate	0.50 — 4.06%	0.51 — 3.98%
Long-term expected return on plan assets	5.88 — 10.04	6.00 — 10.23

Note: The Company and some consolidated subsidiaries do not disclose expected salary increase rates, because they adopt so-called point system.

(3) Defined contribution plans

The Company and some consolidated subsidiaries were obligated to contribute ¥330 million to the plan for the year ended March 31, 2017 compared to ¥319 million for the previous year.

(4) Multi-Employer Pension Plan

The amounts required to be contributed to employees' pension fund system under the category of a multi-employer pension plan for the years ended March 31, 2017 and 2016 were respectively ¥193 million and ¥308 million, 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, 2017. Please take note that (1) the most funded status of multi-employer pension plans and (2) the share of Company group’s contribution to overall multi-employer pension plans for the consolidated fiscal year ended March 31, 2017 were omitted, because the employees' pension fund was dissolved at the end of the consolidated fiscal year ended March 31, 2017.

a. Most recent funded status of multi-employer pension plans as of March 31, 2016

(Millions of yen)

	2016 (As of March 31, 2016)	
	Tokyo Jitsugyo Kosei Nenkin Kikin	East Japan Plastic Industry Pension Fund
Amount of plan assets	¥154,438	¥90,151
Total amount of actuarial obligation and minimum actuarial reserve in pension financing	198,155	115,937
Balance	¥(43,717)	¥(25,786)

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

	Tokyo Jitsugyo Kosei Nenkin Kikin	East Japan Plastic Industry Pension Fund
2016	4.82%	1.20%

c. Supplementary Explanation

The principle factors relating to the balance in **a.** on the previous page, and amortization method of prior service cost and extraordinary payment under the multi-employer pension plan are as follows:

(Millions of yen)

	2017			2016		
	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	¥—	¥—	¥—	¥31,713	¥32,067	¥—
Deficiency carried forward	—	—	—	12,003	—	—
General reserves	—	—	—	—	(4,405)	—
Surplus	—	—	—	—	(1,876)	—
Amortization method of prior service cost under the multi-employer pension plan						
Amortization period	—	—	—	20 years	20 years	—
Amortization method	—	—	—	Amortization of principal and interest using the straight-line method	Amortization of principal and interest using the straight-line method	—
Extraordinary payment	¥63	¥31	¥—	¥131	¥30	¥1

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 **b.** on the previous page 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

	2017	2016
Selling, general and administrative expenses	¥59	¥57

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

Millions of yen

	2017	2016
Extraordinary income	¥56	¥332

13. Tax-Effect Accounting

(1) Breakdown of the reasons for deferred tax assets and deferred tax liabilities

Millions of yen

	2017	2016
Deferred tax assets:		
Loss on valuation of inventories	¥1,060	¥ 1,018
Allowance for doubtful accounts	162	154
Income business taxes payable	159	90
Accrued bonuses	637	234
Retirement benefit obligation	901	866
Provision for directors' retirement benefits	114	107
Retirement of unrealized inventory profit	787	811
Loss carryforwards	4,339	5,479
Depreciation and amortization	132	111
Loss on valuation of investment securities	343	341
Impairment loss	148	165
Other	2,042	1,981
Total gross deferred tax assets	10,830	11,363
Valuation allowance	(7,398)	(8,239)
Total deferred tax assets	¥ 3,431	¥ 3,124
Deferred tax liabilities:		
Reserve for advanced depreciation of noncurrent assets	¥ (47)	¥ (98)
Valuation difference on available-for-sale securities	(237)	(278)
Intangible noncurrent assets	(2,631)	(2,861)
Other	(672)	(228)
Deferred tax liabilities for revaluation	(472)	(472)
Total deferred tax liabilities	(4,062)	(3,940)
Net deferred tax assets	¥ (630)	¥ (816)

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

Millions of yen

	2017	2016
Current assets — Deferred tax assets	¥ 1,931	¥ 2,103
Noncurrent assets — Deferred tax assets	207	80
Current liabilities — Other	(4)	(8)
Noncurrent liabilities — Deferred tax liabilities	(2,293)	(2,520)
Noncurrent liabilities — Deferred tax liabilities for revaluation	¥ (472)	¥ (472)

(2) Breakdown of major Items that were the causes of the difference, where there was a significant difference between statutory effective tax rate and the burden rate of corporate tax, etc., after applying tax-effect accounting

	2017	2016
Statutory tax rate of the Company	30.9%	—
(Reconciliation)		
Permanent nondeductible expenses such as entertainment expenses	1.6	—
Nondeductible income such as dividends received	(3.7)	—
Increase (decrease) in valuation allowance	(0.3)	—
Inhabitants' tax lump-sum payments	1.1	—
Elimination of unrealized income	(6.2)	—
Amortization of goodwill	6.1	—
Subsidiaries tax rates difference	(1.5)	—
Other	(3.7)	—
Effective tax rates after adoption of tax-effect accounting	24.3	—

(Note) The relevant information for the consolidated fiscal year ended March 31, 2016 is omitted, because the Company reported a loss before income taxes.

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

For the year ended March 31, 2017

Millions of yen

	Japan	Americas	Europe	Oceania	Asia	Total
Net sales						
Sales to outside customers	¥118,159	¥28,420	¥8,545	¥2,509	¥10,026	¥167,661
Intersegment sales and transfers	13,651	92	27	-	37,745	51,515
Total	131,810	28,512	8,573	2,509	47,771	219,177
Segment income (loss)	10,030	197	(581)	57	725	10,429
Segment assets	60,609	36,673	4,531	3,480	25,293	130,588
Other items						
Depreciation and amortization	5,418	1,467	16	35	203	7,140
Amortization of goodwill	-	664	-	76	663	1,404
Increase in property, plant and equipment and intangible assets	¥4,256	¥757	¥78	¥3	¥144	¥5,240

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, 2016

Millions of yen

	Japan	Americas	Europe	Oceania	Asia	Total
Net sales						
Sales to outside customers	¥107,111	¥34,445	¥10,604	¥2,487	¥8,418	¥163,067
Intersegment sales and transfers	1,407	177	36	21	48,870	50,513
Total	108,519	34,622	10,641	2,509	57,288	213,580
Segment income (loss)	8,293	(1,586)	(2,418)	(104)	878	5,063
Segment assets	65,197	39,596	6,591	3,856	24,433	139,676
Other items						
Depreciation and amortization	4,620	1,937	343	62	226	7,190
Amortization of goodwill	—	753	150	86	752	1,743
Increase in property, plant and equipment and intangible assets	¥2,198	¥1,072	¥242	¥4	¥375	¥3,894

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
2017	¥105,959	¥33,993	¥27,709	¥167,661
2016	95,256	38,997	28,813	163,067

15. Per Share Information

	2017	2016
		Yen
Net assets per share	¥548.45	¥432.87
Earnings (loss) per share	61.88	(78.74)
Diluted earnings per share	60.94	—

Notes:

1. Although dilutive shares exist as of March 31, 2016, diluted earnings (losses) per share are not took into account for the fiscal year under review, because net loss per share was recorded.
2. Earnings per share and Earnings per diluted share are calculated on the following basis.

	2017	2016
Earnings per share		
Profit (loss) attributable to owners of parent (millions of yen)	¥5,372	¥ (6,703)
Amount not applicable to shareholders of common stock (millions of yen)	—	—
Profit (loss) attributable to owners of parent applicable to common stock (millions of yen)	5,372	(6,703)
Average number of shares for the period (thousand shares)	86,820	85,132
Adjusted profit attributable to owners of parent (millions of yen)	—	—
Number of common stock increased (thousand shares)	1,338	—
(of which new share subscription rights included (thousand shares))	1,338	—
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)	2	3
Number of diluted stock (thousand shares)	320	291

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, 2016.

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.