

Annual Report 2014

Financial Section

For the Year ended March 31, 2014



TOMY Company, Ltd.

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

The Company revised the numerical data and records for years ended March 2013 and March 2014 due to adjustments made to past financial results, which it provides in the Six-Year Financial Summary, Financial Review, Consolidated Financial Statements, and Notes to Consolidated Financial Statements in this report.

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, 2014, 2012, 2011, 2010 and 2009

	Millions of yen					Thousands of U.S. dollars*2	
	2014	2013	2012	2011	2010	2009	2014
Net sales	¥154,804	¥178,745	¥187,265	¥159,490	¥178,713	¥1,515,429	\$1,504,120
Gross profit	53,142	55,160	61,137	52,668	54,994	52,447	516,345
Total selling, general and administrative expenses	49,807	52,613	50,951	42,341	44,538	47,441	483,939
Operating income	3,335	2,547	10,186	10,327	10,456	5,006	32,405
Ordinary income	3,300	2,622	9,823	10,143	10,382	5,436	32,068
Income before income (loss) taxes and minority interests	2,607	(4,846)	7,976	7,837	8,673	1,077	25,337
Net income (loss)	232	(7,173)	3,679	8,929	8,978	1,377	2,261
EBITDA *1	11,526	10,086	16,854	14,601	14,512	8,970	111,998
R&D Expenses	2,498	2,978	2,722	2,205	2,457	2,498	24,280
Depreciation and amortization	8,191	7,539	6,667	4,274	4,055	3,964	79,592
Net cash provided by operating activities	12,429	6,701	16,046	8,486	16,857	5,577	120,772
Net cash provided by (used in) investing activities	(1,015)	(3,414)	(38,048)	1,169	(3,033)	(2,886)	(9,865)
Net cash provided by (used in) financing activities	1,735	(8,494)	29,718	(6,767)	(8,538)	(2,634)	16,865
(As of March 31)							
Total assets	156,467	152,732	156,654	94,597	95,880	91,600	1,520,279
Net assets	50,907	49,692	51,805	48,744	42,062	30,666	494,635
Interest-bearing debt	72,889	66,293	68,815	21,270	25,270	33,997	708,215
Per Share Data (Yen)							
Net income (loss)	2.47	(76.21)	39.09	94.85	96.60	14.95	0.02
Dividend	10.00	10.00	14.00	14.00	12.00	10.00	0.09
Net assets	526.49	506.41	525.46	501.54	432.90	329.41	5.11

*1 EBITDA=Operating income+Depreciation and amortization

*2 U.S. dollar amounts have been translated at the rate of ¥102.92=US\$1, the approximate current exchange rate at March 31, 2014.

(Six-Year Financial Summary – Continue)

	2014	2013	2012	2011	2010	2009
Major Financial Indices						
Operating margin (%)	2.2	1.4	5.4	6.5	5.9	2.8
Gross profit margin (%)	34.3	30.9	32.6	33.0	30.8	29.0
Overseas sales ratio (%)	41.3	30.7	36.2	19.7	17.4	17.9
Return on equity (ROE) (%) *3	0.5	-	7.6	20.3	25.5	4.4
Return on assets (ROA) (%) *4	2.1	1.7	7.8	10.7	11.1	5.7
Equity ratio (%)	31.7	31.2	31.6	49.9	42.5	32.3
Debt-to-equity ratio (%) *5	143.2	133.4	132.8	43.6	60.1	110.9
Dividend on equity (DOE) (%)	1.9	1.9	2.7	2.8	2.8	3.0
Dividend payout ratio (%)	404.4	—	35.8	14.8	12.4	66.9
Stock Data						
Stock price at the fiscal year-end (Yen)	478	478	605	630	728	382
Market capitalization (Millions of yen)	44,994	44,996	56,952	59,306	68,534	34,261
PER (Times)	193.3	-	15.5	6.6	7.5	25.6
PBR (Times)	0.9	0.9	1.2	1.3	1.7	1.2
Number of shares outstanding (Thousand shares) *6	94,130	94,134	94,136	94,138	94,140	89,689
Company Data						
Number of subsidiaries	40	45	49	29	34	42
Number of employees (Consolidated)	2,056	2,171	2,294	2,535	2,572	2,574
Number of employees (Non-consolidated)	486	516	642	667	649	631
Average age of employees (Non-consolidated)	39.3	38.7	40	39.8	39.3	39.1

*3 Return on assets=Ordinary income÷Total assets

*4 Return on equity=Net income÷(Net assets–Subscription rights to shares–Minority interests)

*5 Debt to equity ratio=Interest-bearing debt÷Net assets

*6 Treasury stock has been excluded from these figures.

II. Financial Review

1. Operating Results

The Japanese economy continued to recover moderately during the fiscal year ended March 31, 2014, partly reflecting a correction of the strong yen and a recovery in stock prices resulting from the effects of economic measures. Overseas, the situation continued to be uncertain, with signs of slowdowns in growth in China and emerging countries despite a tone of economic recovery in the US.

In this environment, the TOMY Group concerted efforts to improve profitability and to achieve streamlined corporate management under the three following basic policies:

1. Establish stable revenue base with domestic toy business
2. Focus investment resources to US and European markets and further enhance the globalization process
3. Explore opportunities in growing Asian market and create foundation for future business

Consolidated net sales for the fiscal year declined 13.4% year on year to ¥154,804 million. Sales for TOMICA and trading card games were firm, exports of TRANSFORMERS related products grew, and the amusement machine POKEMON TRETТА continued to attract popularity. The TOMY International Group, which forms the core of the overseas business, carried out full-scale cross-selling with Japan and worked to expand sales synergies. Furthermore, a start was made on exploring business opportunities in Indonesia with the launch of an original product that is tailored to the purchase level and taste of Indonesian customers. However, in July, as part of a strategic plan to strengthen the core toy business and achieve streamlined corporate management, all the shares of wholly owned subsidiary TOYS UNION Co., Ltd. were transferred, causing its removal from the scope of consolidation and its net sales component to decline ¥30,773 million year on year. Operating income was ¥3,335 million, an increase of 30.9% year on year owing to progress in the reduction of selling, general and administrative expenses including a streamlining of personnel associated with the solicitation for voluntary retirement carried out in the previous fiscal year and a reduction in advertising expenses, despite a sales slump in China and a write-down of inventories. Ordinary income rose 25.9% year on year to ¥3,300 million partly as a result of an increase in foreign exchange gains in non-operating income. As for the bottom line, a net income of ¥232 million was recorded, compared with a net loss of ¥7,173 million in the previous fiscal year. Affecting the bottom line was ¥1,150 million in extraordinary income that included a gain on sales of investment securities, ¥1,842 million in extraordinary losses that included the cost of withdrawing part of the business in China, the cost of business structural reform by the TOMY International Group and a loss on sales of investment securities, and the recording of ¥2,333 million in total income taxes.

Overview of Reportable Segment

(Millions of yen)

	Net sales			Operating income (loss)		
	2014	2013	Change	2014	2013	Change
Japan	¥107,777	¥137,844	¥(30,066)	¥7,355	¥ 7,037	¥ 317
North America, Europe and Oceania	42,127	36,104	6,023	(723)	(1,637)	913
Asia (other than Japan)	49,500	28,970	20,530	526	1,445	(919)
Total	199,405	202,919	(3,513)	7,157	6,846	311
Eliminations and corporate	(44,601)	(24,173)	(20,428)	(3,822)	(4,299)	476
Consolidated	154,804	178,745	(23,941)	3,335	2,547	787

Japan

Net sales in Japan for the fiscal year was ¥107,777 million (down 21.8% year on year) while operating income was ¥7,355 million (up 4.5%).

In TOMICA, strong sales were achieved as a result of sales growth of the DREAM TOMICA series, collaboration with popular content. The trading card game DUEL MASTERS began to show firm sales reflecting the successful deployment of aggressive marketing to expand new users. Sales for a new product line of TRANSFORMERS attracted popularity and there was particular growth in the export sales. As for the new product line, products linked to popular characters and content such as those related to the mobile phone messenger application LINE, products related to DISNEY's new animated film PLANES and ORECANEKI DEVICE, a smartphone toy with a feature that links with the arcade game Monster Retsuden ORECA BATTLE, achieved popularity. In addition, the lineup of long-standing products was expanded with the launch of ANIA, a series of animal figures featuring gimmicks. In the toy peripheral business, the amusement machine POKEMON TRETТА continued to perform strongly. In July, as an optimization of the business portfolio to strengthen and expand the core toy business, TOMY transferred all its shares of its wholly owned subsidiary TOYS UNION Co., Ltd., a wholesaler of video game related products, to HAPPINET CORPORATION. Furthermore, in January, TOMY transferred some of the shares of TATSUNOKO PRODUCTION Co., Ltd. to Nippon Television Network Corporation, making TATSUNOKO PRODUCTION Co., Ltd. into an associate accounted for by the equity method. The aforementioned share transfer of TOYS UNION Co., Ltd. resulted in a decline in net sales. Contributing to the rise in operating income was a reduction in selling, general and administrative expenses.

North America, Europe and Oceania

Net sales in North America, Europe and Oceania was ¥42,127 million (up 16.7% year on year), while operating loss was ¥723 million, compared with operating loss of ¥1,637 million in the previous fiscal year. At the TOMY International Group, cross-selling with Japan was carried out at a full-scale level, and related products for POKEMON, for which a global licensing agreement has been concluded, and the motion interactive robots BATTROBORG, which are popular in Japan, showed growth in sales. Also, in spite of ending of the license period for products related to THOMAS & FRIENDS series in the previous fiscal year, sales of toys based on vehicles made by agriculture machinery maker John Deere, and baby products by Boon, Inc. and Keen Distribution, LLC were strong in each region. Sales were also affected by foreign currency exchange due to the yen depreciation. The main factors for the operating loss were an increase in advertising expenses to promote sales of key products, and the recording of ¥757 million as amortization of right of using trademark.

Asia (other than Japan)

Net sales in Asia (other than Japan) was ¥49,500 million (up 70.9% year on year) while operating income was ¥526 million (down 63.6%).

In ASEAN countries, further progress was made in the development of new products that are tailored to purchase levels and tastes in countries and regions. In Indonesia, ANIMAL WHEELS, an original-concept character toy featuring designs of both cars and animals, which are popular among boys in the country, was launched and attracted popularity. Furthermore, in-store promotions were vigorously implemented for TOMICA and ANIA. In China, although efforts to restructure the business were made, including closing unprofitable stores, after considering the direction of the business in light of the poor sales performance of the country, the TOMY Group will now focus on the sales of stable money earners such as products related to TOMICA, PLARAIL, POKEMON and DISNEY and withdraw from the sales of other products. With the aim of constructing a global production and procurement structure, a manufacturing subsidiary in Hong Kong was merged with a manufacturing subsidiary of TOMY International Group. Previously, TOMY International Group outsourced manufacturing directly by making orders to factories without going through its group's own manufacturing subsidiary, but now the newly merged manufacturing subsidiary functions as a global procurement center that has standardized the process of making orders. This standardization of the process of making orders for outsourced manufacturing boosted net sales significantly. The main factors for the decline in operating income were a sales slump in the China business mentioned above and a write-down of inventories.

Outlook for the Fiscal Year Ending March 31, 2015

The TOMY Group is transforming itself into a global group of toy companies by strengthening its toy business, which is the Group's core business, establishing a stable revenue base in Japan, and directing investment resources into overseas markets.

In the fiscal year ending March 31, 2015, the Group will further accelerate product reforms and business structural reforms that respond to changing times. The Group will not only strengthen new product development responding to playing trends as they evolve in line with changing times, but also work to strengthen TOMY brands such as Tomica, Plarail and Licca dolls. In parallel with these efforts, the Group will aggressively implement marketing strategies and promotional activities to secure a competitive edge. The Group will also push ahead with further development of sales channels in order to increase exposure of its toys among consumers by making use of e-commerce, convenience stores and others in addition to existing toy distribution channels. In overseas toy markets, which are continuing to show stable growth, the Group will continue to globalize its businesses and expand cross selling with TOMY International Group, which operates the overseas business. It will also make vigorous efforts to strengthen sales of long-standing products in the US and Europe. In Asia, the TOMY Group will work to introduce products by proactively launching new products that are in line with regional purchase levels.

Regarding the full-year consolidated operating results for the fiscal year ending March 31, 2015, in line with expectations of toy sales growth in Japan and overseas, the TOMY Group forecasts higher sales and income year on year, with expected net sales of ¥160,000 million (up 3.4%), operating income of ¥4,000 million (up 19.9%), ordinary income of ¥3,500 million (up 6.0%), and net income of ¥1,000 million (up 329.6%).

Financial Position

Assets

At the end of the fiscal year ended March 31, 2014, current assets stood at ¥90,595 million, up ¥4,452 million from the end of the previous fiscal year ended March 31, 2013. This is mainly attributable to ¥13,010 million increase in cash and deposits, despite decreases in notes and accounts receivable - trade and merchandise and finished goods.

Non-current assets stood at ¥65,778 million, down ¥773 million from the end of the previous fiscal year. This is mainly attributable to decreases in investment securities, land, deferred tax assets and leased assets, despite an increase in intangible assets.

Liabilities

At the end of the fiscal year ended March 31, 2014, current liabilities stood at ¥41,166 million, up ¥1,789 million from the end of the previous fiscal year. This is mainly attributable to increases in current portion of bonds with subscription rights to shares and short-term loans payable, despite decreases in notes and accounts payable - trade and accounts payable - other.

Non-current liabilities stood at ¥64,393 million, up ¥730 million from the end of the previous fiscal year. This is mainly attributable to an increase in bonds payable, despite decreases in bonds with subscription rights to shares, long-term loans payable and lease obligations.

Net assets

At the end of the fiscal year ended March 31, 2014, total net assets were ¥50,907 million, up ¥1,214 million from the end of the previous fiscal year. This is mainly attributable to an increase in foreign currency translation adjustment, despite decreases in deferred gains or losses on hedges, minority interests, remeasurements of defined benefit plans and retained earnings.

Cash flows

Cash and cash equivalents (hereafter "cash") at the end of the fiscal year ended March 31, 2014 was ¥46,325 million, an increase of ¥13,741 million compared with the end of the previous fiscal year ended March 31, 2013.

Net cash provided by operating activities was ¥12,429 million, compared with ¥6,701 million provided in the previous fiscal year. Cash was mainly provided by depreciation of ¥6,630 million, a decrease in notes and accounts receivable - trade of ¥4,279 million, income before income taxes and minority interests of ¥2,607 million, a decrease in inventories of ¥2,031 million, and amortization of goodwill of ¥1,615 million, while cash was mainly used for a decrease in accounts payable - other of ¥2,077 million, income taxes paid of ¥1,571 million, and a decrease in notes and accounts payable - trade of ¥1,448 million.

Net cash used in investing activities was ¥1,015 million, compared with ¥3,414 million used in the previous fiscal year. Cash was mainly used for purchase of property, plant and equipment of ¥2,914 million and purchase of intangible assets of ¥780 million, while cash was mainly provided by collection of short-term loans receivable of ¥1,198 million, proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation of ¥810 million and proceeds from sales of investment securities of ¥459 million.

Net cash provided by financing activities was ¥1,735 million, compared with ¥8,494 million used in the previous fiscal year. Cash was mainly provided by proceeds from issuance of bonds of ¥9,923 million, a net increase in short-term loans payable of ¥1,646 million and proceeds from long-term loans payable of ¥400 million, while cash was mainly used for repayments of long-term loans payable of ¥5,653 million, repayments of finance lease obligations of ¥2,828 million, redemption of bonds of ¥990 million and cash dividends paid of ¥759 million.

III. Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of yen)

As of March 31,	2013	2014
Assets		
Current assets		
Cash and deposits	¥ 33,764	¥ 46,775
Notes and accounts receivable - trade	23,892	18,271
Securities	64	—
Merchandise and finished goods	19,214	17,142
Work in process	368	317
Raw materials and supplies	759	762
Deferred tax assets	2,057	1,993
Other	6,178	5,491
Allowance for doubtful accounts	(158)	(158)
Total current assets	86,142	90,595
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,634	13,282
Accumulated depreciation	(7,935)	(7,967)
Accumulated impairment loss	(456)	(373)
Buildings and structures, net	5,242	4,942
Machinery, equipment and vehicles	2,038	1,931
Accumulated depreciation	(1,117)	(1,191)
Accumulated impairment loss	(0)	(0)
Machinery, equipment and vehicles, net	920	739
Tools, furniture and fixtures	25,608	25,614
Accumulated depreciation	(22,491)	(22,552)
Accumulated impairment loss	(273)	(421)
Tools, furniture and fixtures, net	2,843	2,639
Land	4,729	4,293
Leased assets	5,374	5,755
Accumulated depreciation	(2,182)	(2,929)
Leased assets, net	3,192	2,825
Construction in progress	243	1,323
Total property, plant and equipment	17,172	16,764
Intangible assets		
Goodwill	25,174	25,707
Right of using trademark	9,674	10,187
Other	7,532	7,578
Total intangible assets	42,382	43,473
Investments and other assets		
Investment securities	3,056	2,243
Deferred tax assets	517	103
Other	3,699	3,424
Allowance for doubtful accounts	(276)	(230)
Total investments and other assets	6,998	5,540
Total non-current assets	66,552	65,778

(Millions of yen)

As of March 31,	2013	2014
Deferred assets		
Bond issuance cost	¥ 37	¥ 93
Total deferred assets	37	93
Total assets	152,732	156,467
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,655	8,224
Short-term loans payable	5,971	7,335
Current portion of long-term loans payable	5,497	5,533
Current portion of bonds	990	—
Current portion of bonds with subscription rights to shares	—	4,900
Lease obligations	1,935	2,172
Accounts payable - other	6,479	4,365
Accrued expenses	5,439	6,297
Income taxes payable	478	453
Provision for sales returns	375	698
Allowance for recall	57	54
Sublease loss reserve	—	133
Provision for directors' bonuses	418	114
Provision for contingent loss	53	258
Other	1,023	624
Total current liabilities	39,376	41,166
Non-current liabilities		
Bonds payable	—	10,000
Bonds with subscription rights to shares	12,300	7,400
Long-term loans payable	41,534	37,719
Lease obligations	1,186	640
Deferred tax liabilities	2,800	2,810
Deferred tax liabilities for land revaluation	551	551
Provision for retirement benefits	2,982	—
Net defined benefit liability	—	3,084
Provision for directors' retirement benefits	228	206
Allowance for investment loss	10	10
Other	2,069	1,970
Total non-current liabilities	63,663	64,393
Total liabilities	103,039	105,559

(Millions of yen)

As of March 31,	2013	2014
Net assets		
Shareholders' equity		
Capital stock	¥ 3,459	¥ 3,459
Capital surplus	6,744	6,743
Retained earnings	35,840	35,320
Treasury shares	(1,322)	(1,323)
Total shareholders' equity	44,722	44,200
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	529	433
Deferred gains or losses on hedges	828	216
Revaluation reserve for land	68	68
Foreign currency translation adjustment	1,522	4,999
Remeasurements of defined benefit plans	—	(360)
Total accumulated other comprehensive income	2,948	5,358
Subscription rights to shares	729	644
Minority interests	1,292	704
Total net assets	49,692	50,907
Total liabilities and net assets	152,732	156,467

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

(Millions of yen)

Years ended March 31,	2013	2014
Net sales	¥ 178,745	¥ 154,804
Cost of sales	123,585	101,661
Gross profit	55,160	53,142
Selling, general and administrative expenses		
Packing and transportation expenses	2,877	3,044
Warehousing expenses	4,213	3,920
Advertising expenses	9,600	8,262
Directors' compensations	821	664
Salaries, allowances and bonuses	14,146	14,142
Provision for directors' bonuses	236	82
Retirement benefit expenses	1,220	1,202
Provision for directors' retirement benefits	77	66
Depreciation	2,609	2,150
Research and development expenses	2,709	2,243
Commission fee	2,578	2,787
Provision of allowance for doubtful accounts	(25)	24
Other	11,545	11,214
Total selling, general and administrative expenses	52,613	49,807
Operating income	2,547	3,335
Non-operating income		
Interest and dividend income	130	119
Amortization of negative goodwill	58	18
Rent income	195	202
Purchase discounts	90	10
Foreign exchange gains	358	533
Other	304	213
Total non-operating income	1,136	1,097
Non-operating expenses		
Interest expenses	830	818
Sales discounts	9	1
Amortization of bond issuance cost	22	20
Sublease loss reserve	—	133
Other	199	159
Total non-operating expenses	1,061	1,132
Ordinary income	2,622	3,300

(Millions of yen)

Years ended March 31,	2013	2014
Extraordinary income		
Gain on sales of non-current assets	¥ 6	¥ 70
Gain on sales of investment securities	—	839
Gain on bargain purchase	318	69
Gain on reversal of subscription rights to shares	29	170
Insurance income	197	—
Total extraordinary income	551	1,150
Extraordinary losses		
Loss on sales of non-current assets	2	20
Loss on retirement of non-current assets	114	72
Loss on sales of investment securities	—	547
Loss on valuation of investment securities	9	132
Impairment loss	6,233	242
Business structure improvement expenses	487	442
Loss on business withdrawal	—	241
Special extra retirement payments	860	—
Loss from fraud	80	143
Other	232	—
Total extraordinary losses	8,019	1,842
Income (loss) before income taxes and minority interests	(4,846)	2,607
Income taxes - current	503	1,607
Refund of income taxes	(7)	(2)
Income taxes - deferred	1,764	728
Total income taxes	2,259	2,333
Income (loss) before minority interests	(7,106)	274
Minority interests in income	67	41
Net income (loss)	(7,173)	232

(Consolidated statements of comprehensive income)

(Millions of yen)

Years ended March 31,	2013	2014
Income (loss) before minority interests	¥ (7,106)	¥ 274
Other comprehensive income		
Valuation difference on available-for-sale securities	307	(85)
Deferred gains or losses on hedges	787	(611)
Foreign currency translation adjustment	5,603	3,477
Total other comprehensive income	6,698	2,780
Comprehensive income	(407)	3,054
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(475)	3,012
Comprehensive income attributable to minority interests	68	42

Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2013

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	¥3,459	¥6,744	¥44,336	¥(1,321)	¥53,219
Changes of items during period					
Dividends of surplus			(1,317)		(1,317)
Net income (loss)			(7,173)		(7,173)
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		(0)		0	0
Reversal of revaluation reserve for land			(4)		(4)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(0)	(8,496)	(0)	(8,496)
Balance at end of current period	3,459	6,744	35,840	(1,322)	44,722

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	¥222	¥ 41	¥63	¥(4,081)	¥ —	¥(3,754)	¥594	¥1,745	¥51,805
Changes of items during period									
Dividends of surplus									(1,317)
Net income (loss)									(7,173)
Purchase of treasury shares									(1)
Disposal of treasury shares									0
Reversal of revaluation reserve for land									(4)
Net changes of items other than shareholders' equity	306	787	4	5,603	—	6,702	135	(452)	6,384
Total changes of items during period	306	787	4	5,603	—	6,702	135	(452)	(2,112)
Balance at end of current period	529	828	68	1,522	—	2,948	729	1,292	49,692

For the year ended March 31, 2014

(Millions of yen)

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

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

Consolidated Statements of Cash Flows

(Millions of yen)

Years ended March 31,	2013	2014
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	¥ (4,846)	¥ 2,607
Depreciation	6,275	6,630
Impairment loss	6,233	242
Loss (gain) on valuation of investment securities	9	132
Amortization of goodwill	1,424	1,615
Amortization of negative goodwill	(58)	(18)
Gain on bargain purchase	(318)	(69)
Increase (decrease) in allowance for doubtful accounts	(104)	0
Increase (decrease) in provision for retirement benefits	17	—
Increase (decrease) in net defined benefit liability	—	(39)
Interest and dividend income	(130)	(119)
Interest expenses	830	818
Loss (gain) on sales of property, plant and equipment	(3)	(49)
Decrease (increase) in notes and accounts receivable - trade	835	4,279
Decrease (increase) in inventories	(2,029)	2,031
Decrease (increase) in accounts receivable - other	527	32
Increase (decrease) in notes and accounts payable - trade	(1,213)	(1,448)
Increase (decrease) in accounts payable - other	1,277	(2,077)
Increase (decrease) in accrued expenses	(663)	532
Other, net	79	(359)
Subtotal	8,142	14,742
Interest and dividend income received	114	94
Interest expenses paid	(794)	(834)
Income taxes paid	(761)	(1,571)
Net cash provided by (used in) operating activities	6,701	12,429
Cash flows from investing activities		
Payments into time deposits	(111)	(0)
Purchase of property, plant and equipment	(2,457)	(2,914)
Proceeds from sales of property, plant and equipment	155	398
Purchase of intangible assets	(920)	(780)
Purchase of investment securities	(12)	(4)
Proceeds from sales of investment securities	2	459
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	810
Purchase of shares of subsidiaries	(8)	(374)
Purchase of treasury shares of subsidiaries	(280)	—
Collection of short-term loans receivable	37	1,198
Other, net	180	191
Net cash provided by (used in) investing activities	(3,414)	(1,015)

(Millions of yen)

Years ended March 31,	2013	2014
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	¥ 1,827	¥ 1,646
Proceeds from long-term loans payable	—	400
Repayments of long-term loans payable	(5,522)	(5,653)
Proceeds from issuance of bonds	—	9,923
Redemption of bonds	(1,050)	(990)
Cash dividends paid	(1,313)	(759)
Repayments of finance lease obligations	(2,430)	(2,828)
Other, net	(5)	(3)
Net cash provided by (used in) financing activities	(8,494)	1,735
Effect of exchange rate change on cash and cash equivalents	1,267	591
Net increase (decrease) in cash and cash equivalents	(3,939)	13,741
Cash and cash equivalents at beginning of period	36,522	32,583
Cash and cash equivalents at end of period	32,583	46,325

IV. Notes to Consolidated Financial Statements

TOMY Company, Ltd. and its consolidated subsidiaries
For the fiscal year ended March 31, 2014

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, 2014 include the accounts of the Company and 38 significant subsidiaries (together, the "Group").

(1) Number of consolidated subsidiaries: 38

Names of significant consolidated subsidiaries are as follows:

TOMY TEC Co., Ltd.; TAKARA TOMY A.R.T.S; TOMY MARKETING COMPANY; KIDDY LAND Co., Ltd.; TOMY Holdings, Inc.; TOMY International, Inc.; TOMY (Hong Kong) Ltd.

In the consolidated fiscal year under review, all shares of the former consolidated subsidiary TOYS UNION Co., Ltd. were transferred and the company has been removed from the consolidation scope. Similarly, the former consolidated subsidiary TOMY HANBAI (Sales Admin.) Company, Ltd. has been removed from the consolidation scope due to liquidation.

Furthermore, the former consolidated subsidiary TATSUNOKO PRODUCTION Co., Ltd. became an affiliated company due to a decrease in the ownership ratio caused by transfer of a portion of owned shares. Therefore, in the consolidated fiscal year under review, the company has been removed from consolidation scope and is now treated as an affiliated company accounted for by the equity method.

(2) Number of unconsolidated subsidiaries: 2

(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: 5

3. Significant Accounting Policies

(1) Important assets

a. Investment securities

Held-to-maturity securities:

Held-to-maturity securities are stated at amortized cost using the straight-line method.

Available-for-sale securities:

Securities with quoted market values

Securities with quoted market values are stated at fair value on the consolidated closing date. (Net unrealized gains and losses on available-for-sale securities are reported directly to net assets. The costs of these securities are calculated based on the moving-average cost method.)

Securities without quoted market values

Securities without quoted market values are stated on a cost basis using the moving-average cost method.

b. Derivatives

Derivative financial instruments are stated at fair value.

c. Inventories

The Company and domestic consolidated subsidiaries:

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

Foreign consolidated subsidiaries:

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

(2) Depreciation

a. Property, plant and equipment (excluding lease assets)

The Company and domestic consolidated subsidiaries:

Depreciation of property, plant and equipment (excluding lease assets) is calculated by the declining-balance method. (However, depreciation of buildings (excluding structures), acquired on or after April 1, 1998, is calculated by the straight-line method.)

Estimated useful lives of principal assets are presented as follows:

Buildings	2 to 65 years
Tools, furniture and fixtures	2 to 20 years

Foreign consolidated subsidiaries:

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

b. Intangible assets (excluding lease assets)

Amortization of intangible assets (excluding lease assets) is calculated by the straight-line method.

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

c. Lease assets

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

(3) Deferred assets

Bond issuance cost

Amortization of bond issuance cost is calculated by the straight-line method based on the bond redemption period.

(4) Provisions

a. Allowance for doubtful accounts

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

b. Provision for sales returns

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

c. Allowance for voluntary recall

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

d. Allowance for loss on sublease

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

e. Provision for directors' bonuses

The Company and domestic consolidated subsidiaries:

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

f. Provision for directors' retirement benefits

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

g. Allowance for investment loss

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

h. Provision for contingent loss

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

(5) Accounting methods for retirement benefits**a. Attribution period method for estimated retirement benefits**

Regarding the calculation of retirement benefit obligation, the straight-line attribution method is used for attributing estimated retirement benefits to the period until the end of the consolidated fiscal year under review.

b. Actuarial gain or loss and method for payment of prior service cost

Prior service cost are paid according to the straight-line method for a specific number of years (5 years) within the average remaining years of service for the employee at the time of occurrence.

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

(6) Translation of foreign currencies into Japanese yen

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

(7) Hedge**a. Methods of hedge accounting**

In principle, deferred hedge accounting has been adopted. Interest rate swap transactions that qualify for special treatment are accounted for by the special accounting method.

b. Hedging instruments and hedged items***Hedging instruments:***

- Forward exchange contracts
- Currency options
- Currency swaps
- Interest rate swaps

Hedging items:

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

c. Hedging policy

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

d. Methods of assessing hedging effectiveness

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

(8) Goodwill

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

(9) Cash and cash equivalents

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

(10) Other

Accounting methods for consumption and other taxes

Consumption taxes are excluded from items in the consolidated financial statements.

(Changes of accounting policies)

(Application to Accounting Standards for Retirement Benefits)

Accounting Standards for Retirement Benefits (Corporate Accounting Principles No. 26, May 17, 2012; hereinafter referred to as Retirement Benefits Accounting Standards) and Application Guidelines for Accounting Standards for Retirement Benefits (Application Guidelines for Corporate Accounting Principles No. 25, May 17, 2012; hereinafter referred to as Retirement Benefits Application Guidelines) have been applied from the end of the consolidated fiscal year under review (however, this excludes regulations contained in the text of Article 35 for Retirement Benefits Accounting Standards and Article 67 for Retirement Benefits Application Guidelines). Accordingly, a change was made to start recording retirement benefit obligation minus retirement assets as liabilities associated with retirement benefits. Unrecognized actuarial gains/losses and unrecognized prior service cost are now recorded as liabilities associated with retirement benefits.

Regarding the application of Retirement Benefits Accounting Standards, we follow the transitional treatment defined in Article 37 of Retirement Benefits Accounting Standards. At the end of the consolidated fiscal year under review, we adjusted the remeasurement of defined retirement benefit plans within accumulated other comprehensive income by the amount of financial impact associated with the change. Book value per share decreased by ¥3.83 per share.

As a result, in the end of consolidated fiscal year under review, we recorded ¥3,084 million in liabilities associated with retirement benefits and accumulated other comprehensive income decreased by ¥360 million.

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 1998 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	
	2014	2013
Difference between the fair value of land used for business activities after revaluation as of the end of the period and the book value of the said land after revaluation	¥(915)	¥(814)

(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	
	2014	2013
Time deposits	¥92	¥92
Buildings and structures	—	58
Land	8	270
Investment securities	—	154
Total	¥100	¥ 576

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

	Millions of yen	
	2014	2013
Notes and accounts payable—trade	¥ 90	¥1,611
Current portion of long-term loans payable	—	2
Accounts payable—other	—	0
Total	¥90	¥1,614

(3) Assets relating to unconsolidated subsidiaries and affiliated companies

	Millions of yen	
	2014	2013
Investment securities (shares)	¥271	¥52

(4) Goodwill and negative goodwill are presented as offsetting items.

	Millions of yen	
	2014	2013
Goodwill	¥25,707	¥25,192
Negative goodwill	—	(18)
After offset	¥25,707	¥25,174

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

	Millions of yen	
	2014	2013
Total commitment line of credit	¥5,000	¥5,000
Amount drawn (used)	—	—
Amount unused	¥5,000	¥5,000

5. Notes to Consolidated Statements of Income

(1) Research and development (R&D) expenses are included in selling, general and administrative (SG&A) expenses and manufacturing costs as follows:

	Millions of yen	
	2014	2013
	¥2,498	¥2,978

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

	Millions of yen	
	2014	2013
Buildings and structures	¥32	¥4
Machinery, equipment and vehicles	1	1
Tools, furniture and fixtures	0	0
Land	36	—
Intangible assets and other	0	—
Total	¥70	¥6

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

	Millions of yen	
	2014	2013
Buildings and structures	¥2	—
Machinery, equipment and vehicles	10	0
Tools, furniture and fixtures	0	0
Land	7	2
Total	¥20	¥2

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

	Millions of yen	
	2014	2013
Buildings and structures	¥1	¥9
Machinery, equipment and vehicles	0	1
Tools, furniture and fixtures	38	34
Intangible assets and other	32	69
Total	¥72	¥114

(5) Impairment loss

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

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

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

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

Furthermore, recoverable values of retail stores and software were measured as nil using their net sales values. The above idle land is written down by ¥8 million as extraordinary loss due to continuous decrease of market price to recoverable value. The recoverable value is measured by net sale values, which are calculated by reasonably reconcile land tax assessment.

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

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

2013			Millions of yen
Application	Type	Location	Impairment loss
Assets for business	Right of using trade mark	Dyersville, Iowa, U.S.	¥4,691
Assets for business	Investment and other assets	Dyersville, Iowa, U.S.	¥1,139
Assets for business	Tools, furniture and fixtures; software	Katsushika-ku, Tokyo Guangdong, China Thai Binh, Vietnam	¥ 191
Retail stores included in assets used in business activities	Building and structures; tools, furniture and fixtures; other	Futtsu, Chiba Suwa City, Nagano Kawagoe City, Saitama Sagyo-ku, Kyoto Koto-ku, Tokyo Setagaya-ku, Tokyo Simotsuga-gun, Tochigi	¥48
Welfare facility included in assets used in business activities	Building and structures; tools, furniture and fixtures; land	Chiba Chity, Chiba	¥146
Asset for rent	Building and structures	Osaka City, Osaka	¥7
Idle assets	Land	Shimotsuga-gun, Tochigi	¥ 8

Among assets for business and assets for business related to stores above, when a decision has been made to discontinue a certain business or close a certain store, or when a business/store has been continually posting operating loss and the estimated sum total of the future cash flow for the business/store has fallen below the book value of its assets, the book values of such business/store have been written down to their recoverable amounts with the amount of write-down (impairment loss) totaling ¥6,070 million recorded as an extraordinary loss.

The recoverable value has been measured based on the net sales value or the value in use. The net sales value has been measured as nil as the asset in question is scheduled for disposal after the business is discontinued or the store is closed. The value in use has been also measured as nil as no cash flow is expected from the business/store in the future as well as due to other reasons.

With respect to the aforementioned welfare facilities among the assets for business, as these are scheduled for sale, their book values have been written down to their recoverable amounts with the amount of write-down (impairment loss) totaling ¥146 million recorded as an extraordinary loss.

The recoverable value is measured based on the net sales value, which is measured based on the estimated sale value.

With respect to the aforementioned assets for rent, as they have been discontinued as a result of relocation of offices accompanying corporate reorganization, their book values have been written down to their recoverable amounts with the amount of write-down (impairment loss) totaling ¥7 million recorded as an extraordinary loss. (The assets for rent have been disposed of in the fiscal year ended March 31, 2014)

The recoverable value is measured based on the net sales value, which is measured as nil as the asset in question is scheduled for disposal after transfer.

With respect to the aforementioned idle assets, as their fair market value is continually decreasing and for other reasons, their book values have been written down to their recoverable amounts with the amount of

write-down (impairment loss) totaling ¥8 million recorded as an extraordinary loss.

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

(6) Inventories

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

	Millions of yen	
	2014	2013
Loss on valuation of inventories	¥ 3.043	¥1,093

(7) Loss on business withdrawal

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

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

	Millions of yen	
	2014	2013
Loss on valuation of inventories	¥ 241	¥ —

(8) Unfair transaction-related loss

Details of unfair transaction-related losses recorded in some of our consolidated subsidiaries are described below.

	Millions of yen	
	2014	2013
Provision for contingent loss	¥ 205	¥53
Fund outflows (inflows)	(62)	27
Total	143	80

6. Notes to Consolidated Statements of Comprehensive Income

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

	Millions of yen	
	2014	2013
Net valuation difference on available-for-sale securities:		
Amount arising during the year	¥(208)	¥477
Reclassification adjustments for gains and losses realized in net income	1	—
Before-tax amount	(207)	477
Tax (expense) or benefit	121	(170)
Net gains or losses on the securities	(85)	307
Net differed gains or losses on hedges:		
Amount arising during the year	920	1,383
Reclassification adjustments for gains and losses realized in net income	(2,005)	(26)
Before-tax amount	(1,085)	1,357
Tax (expense) or benefit	473	(570)
Net gains or losses on hedges	(611)	787
Foreign currency translation adjustments:		
Amount arising during the year	3,477	5,603
Reclassification adjustments for gains and losses realized in net income	—	—
Before-tax amount	3,477	5,603
Tax (expense) or benefit	—	—
Foreign currency transaction adjustment	3,477	5,603
Total other comprehensive loss	2,780	6,698

7. Lease Transactions

Finance lease transactions (lessees' accounting)

Finance leases that do not involve the transfer of ownership of leased property to the lessee

Lease assets

Property, plant and equipment

Mainly molds for manufacturing use in the toy business

8. Financial Instruments

Matters relating to the status of financial instruments

Approach toward financial instruments

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

9. Short-Term Investment Securities

(1) Available-for-sale securities

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

2013		Millions of yen		
	Type	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	(1) Stock	¥2,108	¥1,289	¥818
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥2,108	¥1,289	¥818
Securities whose carrying value does not exceed their acquisition cost	(1) Stock	¥ 134	¥ 156	¥ (22)
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥ 134	¥ 156	¥ (22)
Total		¥2,242	¥1,446	¥796

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	
	2014	2013
Carrying value		
Unlisted stocks	¥628	¥761

(2) Short-term investment securities for which an impairment loss was recognized

Acquisition cost data presented in the table is the book value after recognizing an impairment loss. An impairment loss was recognized and loss on valuation of investment securities recorded totaling ¥9 million (representing ¥9 million of non-marketable stock applicable to available-for-sale securities) for the year ended March 31, 2014.

With respect to impairment losses, in the event that the fair value as of the end of the period falls by 50% or more of the acquisition cost, the total amount is recorded as an impairment loss. In the event that the fair value as of the end of the period falls by between 30% and 50% of the acquisition cost, an amount deemed necessary is recognized as an impairment loss taking into consideration collectability.

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

The “Acquisition cost” item in the table is the book value after declaring impairment. In the consolidated fiscal year under review, impairment was declared and a 132 million yen loss on revaluation of investments in securities (132 million yen in other marketable securities not at market value, etc.) was recorded.

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

10. Derivative Transactions

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

(2) Derivative transactions for which hedge accounting has been adopted

Contract amounts or amounts equivalent to the principal identified in each contract as of the consolidated account settlement date by hedge accounting method are presented as follows:

a. Currency-related transactions

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

Note: Calculation method for fair value

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

2013					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value
Appropriation treatment	Forward foreign exchange contracts:	Foreign currency denominated claims and obligation			
	Buy:	(accounts payable, other)	¥11,596	¥1,354	¥ 1,740
	USD				
Total			¥11,596	¥1,354	¥ 1,740

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

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

2013					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value
Special treatment	Interest rate swap transactions	Long-term loans payable	¥ 10,800	¥ 9,600	(Note 2)
Deferred hedge accounting	Pay fixed / receive floating	Long-term loans payable	¥13,545	¥12,040	¥(168)

Note:

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

11. Retirement Benefits (Year to March 31, 2013 –Year to March 31, 2014)

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

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

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

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

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

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

(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)
Beginning balances of retirement benefit obligations	4,204
Service cost	231
Interest cost	111
Actuarial gain or loss	2
Payment of retirement benefits	(603)
Foreign exchange translation differences	185
Others	(57)
Ending balance of retirement benefit obligations	4,075

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

	(Millions of yen)
Beginning balances of pension assets	1,952
Expected return on plan assets	132
Actuarial gain or loss	96
Contributions by the Company	293
Payment of retirement benefits	(322)
Foreign exchange translation differences	120
Ending balance of pension assets	2,271

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

	(Millions of yen)
Beginning balances of net defined benefit liability	1,263
Retirement benefit expenses	281
Payment of retirement benefits	(82)
Decrease due to deconsolidation of subsidiaries	(181)
Ending balance of net defined benefit liability	1,280

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

	(Millions of yen)
Funded retirement benefit obligation	3,046
Pension assets	(2,271)
	775
Unfunded retirement benefit obligation	2,309
Net amount of liabilities and assets in consolidated balance sheet	3,084
net defined benefit liability	3,084
Net amount of liabilities and assets in consolidated balance sheet	3,084

e. Retirement benefit expenses and other details

	(Millions of yen)
Service cost	512
Interest cost	111
Expected return on plan assets	(132)
Amortization of actuarial gain or loss	114
Amortization of unrealized prior service cost	62
Retirement benefit expenses for defined benefit plans	669

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

f. Remeasurements of defined benefit plans

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

	(Millions of yen)
Unrecognized prior service cost	125
Unrecognized actuarial gain or loss	235
Total	360

g. Pension assets

i) Details of main pension assets

Breakdown of the main pension assets is as follows:

	(%)
Fixed income securities	40
Equity securities	58
Others	2
Total	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.

h. Basis of actuarial calculation

Basis of main actuarial calculations at the end of the consolidated fiscal year:

Discount rate: 1.369 to 4.56%

Long-term expected return on plan assets: 5.7 to 6.91%

(3) Defined contribution plans

Some consolidated subsidiaries of the Company were obligated to contribute ¥253 million to the plan for the consolidated fiscal year.

(4) Multi-Employer Pension Plan

The Company and its consolidated subsidiaries were obligated to contribute ¥343 million to employees' pension fund system under the category of a multi-employer pension plan, which were recorded in the same manner with defined contribution plans.

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

	Tokyo Jitsugyo Kosei Nenkin Kikin (Millions of yen)	East Japan Plastic Industry Pension Fund (Millions of yen)	Others (Millions of yen)
Amount of plan assets	130,259	76,697	90,443
Retirement benefit obligation in pension financing	188,692	108,829	109,720
Balance	(58,433)	(32,131)	(19,276)

b. Share of Company group's contribution to overall multi-employer pension plans (from April 1, 2013 through March 31, 2014)

Tokyo Jitsugyo Kosei Nenkin Kikin	East Japan Plastic Industry Pension Fund	Others
4.55%	1.60%	0.57%

c. Supplementary Explanation

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

	Tokyo Jitsugyo Kosei Nenkin Kikin	East Japan Plastic Industry Pension Fund	(Millions of yen) Others
The principle factors relating to the balance in (1) above			
Prior service obligation in pension financing	35,102	33,777	19,100
Deficiency carried forward	23,330	-	1,595
General reserves	-	-	(12)
Surplus	-	(1,645)	(1,406)
Amortization method of prior service cost under the multi-employer pension plan			
Amortization period	20 years	20 years	15 to 20 years
Amortization period	Straight-line method	Straight-line method	Straight-line method
Extraordinary payment	131	26	3

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

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

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

The Company and domestic consolidated subsidiaries have adopted a comprehensively established employees' pension fund. The amount of pension assets has not been included in the aforementioned data because of the difficulty in reasonably calculating the amount corresponding to the own contributions. In addition, the simplified method has been adopted to calculate the retirement benefit obligation at consolidated subsidiaries.

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	
	2014	2013
Selling, general and administrative expenses	¥85	¥164

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

	Millions of yen	
	2014	2013
Extraordinary income	¥170	¥29

13. Income Taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen	
	2014	2013
Deferred tax assets:		
Loss on valuation of inventories	¥ 877	¥ 805
Allowance for doubtful accounts	358	234
Income taxes payable	34	31
Accrued bonuses	293	103
Provision for retirement benefits	—	987
Retirement benefit obligation	941	—
Provision for directors' retirement benefits	157	76
Retirement of unrealized inventory profit	462	622
Loss carryforwards	4,952	7,783
Depreciation and amortization	93	144
Loss on valuation of investment securities	663	1,497
Impairment loss	142	126
Other	2,301	1,446
Total gross deferred tax assets	11,277	13,859
Valuation allowance	(7,453)	(9,433)
Total deferred tax assets	¥3,824	¥ 4,426
Deferred tax liabilities:		
Reserve for advanced depreciation of noncurrent assets	¥ (115)	¥ (121)
Valuation difference on available-for-sale securities	(156)	(11)
Intangible noncurrent assets	(3,793)	(3,534)
Other	(483)	(1,000)
Deferred tax liabilities for land revaluation	(551)	(551)
Total deferred tax liabilities	(5,100)	(5,219)
Net deferred tax assets	¥(1,276)	¥(793)

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

	Millions of yen	
	2014	2013
Current assets — Deferred tax assets	¥1,993	¥2,057
Noncurrent assets — Deferred tax assets	103	517
Current liabilities — Other	(11)	(17)
Noncurrent liabilities — Deferred tax liabilities	(2,810)	(2,800)
Noncurrent liabilities — Deferred tax liabilities for land revaluation	¥ (551)	¥ (551)

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

	2014	2013
Statutory tax rate of the Company	38.0%	—
(Reconciliation)		
Permanent nondeductible expenses such as entertainment expenses	9.8	—
Nondeductible income such as dividends received	(15.3)	—
Increase (decrease) in valuation allowance	(5.1)	—
Inhabitants' tax lump-sum payments	1.5	—
Effect of enacted changes in tax laws and rates on Japanese tax	(8.2)	—
Amortization of goodwill	23.2	—
Liquidation of consolidated subsidiaries, etc.	43.7	—
Adjustment on deferred tax assets due to change in income tax rate	7.7	—
Other	(5.8)	—
<u>Effective tax rates after adoption of tax-effect accounting</u>	<u>89.5</u>	<u>—</u>

(Note) For the fiscal year ended March 31, 2013, the tax rate reconciliation is omitted because loss before income taxes is included.

14. Segment Information

(1) Net sales by geographic segment

2014	Millions of yen			
	Japan	North America, Europe and Oceania	Asia (other than Japan)	Total
Net sales				
Sales to outside customers	¥107,171	¥42,087	¥5,544	¥154,804
Intersegment sales and transfers	606	40	43,955	44,601
Total	107,777	42,127	49,500	199,405
Segment income (loss)	7,355	(723)	526	7,157
Segment assets	45,996	42,945	12,892	101,833
Other items				
Depreciation and amortization	4,642	1,625	248	6,516
Amortization of goodwill	109	71	-	180
Increase in property, plant and equipment and intangible assets	¥2,850	¥660	¥142	¥3,654

(Notes)

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

2013

Millions of yen

	Japan	North America, Europe and Oceania	Asia (other than Japan)	Total
Net sales				
Sales to outside customers	¥137,104	¥36,062	¥5,577	¥178,745
Intersegment sales and transfers	737	42	23,392	24,173
Total	137,844	36,104	28,970	202,919
Segment income (loss)	7,037	(1,637)	1,445	6,846
Segment assets	55,380	44,291	10,189	109,862
Other items				
Depreciation and amortization	3,689	2,342	142	6,174
Amortization of goodwill	175	59	-	234
Increase in property, plant and equipment and intangible assets	¥1,687	¥936	¥450	¥3,074

(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
2014	¥90,910	¥36,796	¥27,096
2013	¥123,912	¥31,512	¥23,320

Note: The above regions reflect the locations of the TOMY entities that record the sales.

15. Per Share Information

	Yen	
The fiscal year ended March 31	2014	2013
Net assets per share	¥526.49	¥506.41
Earnings per share	2.47	(76.21)
Earnings per diluted share	2.06	—

Note: Earnings per share and earnings per diluted share are calculated on the following basis.

	Millions of yen	
The fiscal year ended March 31	2014	2013
Earnings per share		
Net income	¥232	¥(7,173)
Amount not applicable to shareholders of common stock	—	—
Net income applicable to common stock	¥232	¥(7,173)
Average number of shares for the period (thousand shares)	94,133	94,135
Earnings per diluted share		
Net income adjustment amount	3	—
(Of which is interest expense after deducting the amount equivalent to tax)	(3)	—
Increase in the number of common stock (thousand shares)	20,678	—
(Of which is the number of bond with warrants (thousand shares))	(20,678)	—
Overview of diluted stock is not included in calculations for earnings per diluted share due to the absence of stock with a potential dilutive effect.		
New share subscription rights (number of different issues)	16	14
Bond with warrants (number of different issues)		3
Number of diluted stock (thousand shares)	6,381	27,810

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 affect Group's financial position and operating results.

VI. Anti-Takeover Measures

The Policy toward large-scale purchases, etc. of the Company's shares (hereinafter referred to as "this Policy") has been created for the purpose of securing and enhancing the corporate value of the Company and the common interests of its shareholders.

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

Outline of this Policy

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

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

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

Special features of this Policy

The special features of this Policy are as follows.

1. Reflection of shareholders' will

The contents of this Policy reflect the intention of shareholders.

- A resolution by Shareholders Meeting is required for introduction and renewals of this Policy.
- In cases where the special committee in its recommendation attaches a condition to the effect that the Countermeasures shall be implemented by resolution of Shareholders Meeting, such resolution of Shareholders Meeting shall be required.
- This Policy can be abolished by resolution of Shareholders Meeting.
- As the term of office of Directors is reduced to one year, the statement of intent of shareholders can be expressed by election of Directors at annual regular Shareholders Meeting.

2. A highly independent special committee

It is prescribed that for implementation of the Countermeasures, etc., there is a need to obtain a recommendation of the special committee without fail, and that the Company's Board of Directors shall pay utmost attention to the recommendations given by the special committee. The members of the special committee will be elected from such highly independent posts as the Company's outside directors and outside audit & supervisory board members.

3. Term of validity

The term of validity of this Policy is until the close of the ordinary Shareholders Meeting of the Company held with respect to the accounting year ending March, 2016. A separate resolution of Shareholders Meeting of the Company shall be required to renew this Policy. Moreover, even during the term of validity, it is possible to abolish this Policy at any time by resolution of Shareholders Meeting of the Company or by resolution of the Company's Board of Directors.

Influence on shareholders and investors of Countermeasures if they are implemented

Because the system of allotment of stock acquisition rights without contribution itself is not implemented by the Company at the time of introduction of this Policy, there will be no direct influence in terms of either rights or economic benefits to shareholders and investors.

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

Items of revision made on continuation of this Policy

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

1. Languages used for statement of intent

Under this Policy, the Board of Directors and special committee must conduct a review, evaluation, etc. of a purchase proposal in an extremely limited amount of time. In order to ensure the full and proper implementation of such review, evaluation, etc., the language to be used in the statement of intent and the Necessary Information (including additional information) shall be limited to Japanese.

2. Clarification of persons who attempt to conduct the Large-Scale Purchases, etc.

In order to ensure the effectiveness of the Former Policy, it has been made clear that the persons who attempt to conduct the Large-Scale Purchases, etc. that are subject to the application of this Policy include "persons who the Company's Board of Directors, based on the special committee's recommendation, reasonably determines to fall within the scope of persons attempting to conduct Large-Scale Purchases, etc."

3. Setting of deadline and extended term for provision of the Necessary Information

From the perspective of ensuring a quick implementation of this Policy, the Necessary Information shall be required to be provided within a time period considered reasonable by the Company's Board of Directors. Such time period may be extended when an extension request is made by a subject-to-policy purchaser with a reasonable reason. In addition, from the same perspective, when the Board of Directors requests for additional information on the Necessary Information and if a subject-to-policy purchaser provides a reasonable explanation as to the unavailability of some part of such information, even if any or all of the information requested by the Company's Board of Directors is not provided, the relevant purchase proposal may be referred to the special committee.

4. Abolition of quorum requirement for the resolution at Shareholders Meeting of the Company concerning the implementation of Countermeasures

Since the Company's Articles of Incorporation do not provide for the quorum for Shareholders Meeting, there shall be no quorum requirement for the resolution at Shareholders Meeting of the Company concerning the implementation of Countermeasures based on this Policy.