Annual Report 2013
Financial Section
For the Year ended March 31, 2013

TOMY Company, Ltd.

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

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

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

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

I. Six-Year Financial Summary

TOMY Company, Ltd. and its consolidated subsidiaries
Years ended March 31, 2013, 2012, 2011, 2010, 2009 and 2008

	Millions of yen						Thousands of U.S. dollars*6
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2013**
Net sales	**¥179,042**	¥187,265	¥159,490	¥178,713	¥180,586	¥192,423	**$1,903,700**
Gross profit	**55,160**	61,137	52,668	54,994	52,447	53,923	**586,503**
Total selling, general and administrative expenses	**52,613**	50,951	42,341	44,538	47,441	47,825	**559,419**
Operating income	**2,547**	10,186	10,327	10,456	5,006	6,097	**27,083**
Ordinary income	**2,622**	9,823	10,143	10,382	5,436	5,498	**27,880**
Income before income (loss) taxes and minority interests	**(4,766)**	7,976	7,837	8,673	1,077	5,700	**(50,677)**
Net income (loss)	**(7,097)**	3,679	8,929	8,978	1,377	5,748	**(75,467)**
EBITDA *1	**10,087**	16,854	14,601	14,512	8,970	9,356	**107,253**
Depreciation and amortization	**7,539**	6,667	4,274	4,055	3,964	3,259	**80,170**
Net cash provided by operating activities	**6,701**	16,046	8,486	16,857	5,577	13,174	**71,257**
Net cash provided by (used in) investing activities	**(3,414)**	(38,048)	1,169	(3,033)	(2,886)	(2,592)	**(36,306)**
Net cash provided by (used in) financing activities	**(8,494)**	29,718	(6,767)	(8,538)	(2,634)	(12,034)	**(90,315)**
Net increase (decrease) in cash and cash equivalents	**(3,939)**	7,484	2,543	5,165	(363)	(2,068)	**(41,883)**
Cash and cash equivalents at end of period	**32,583**	36,522	29,038	26,638	21,492	21,896	**346,449**
(As of March 31)							
Total assets	**152,812**	156,654	94,597	95,880	91,600	98,251	**1,624,802**
Net assets	**49,772**	51,805	48,744	42,062	30,666	35,820	**529,218**
Interest-bearing debt	**66,293**	68,815	21,270	25,270	33,997	31,329	**704,876**
Per Share Data (Yen)							
Net income (loss)	**(75.40)**	39.09	94.85	96.60	14.95	60.22	**(0.80)**
Dividend	**10.00**	14.00	14.00	12.00	10.00	8.75	**0.11**
Net assets	**507.21**	525.46	501.54	432.90	329.41	350.44	**5.39**
Major Financial Indices							
Operating margin (%)	**1.4**	5.4	6.5	5.9	2.8	3.2	**1.4**
Overseas sales ratio (%)	**30.6**	36.2	19.7	17.4	17.9	20.8	**30.6**
SG&A to sales ratio (%)	**29.4**	27.2	26.5	24.9	26.3	24.9	**29.4**
Return on equity (ROE) (%) *2	**-**	7.6	20.3	25.5	4.4	17.8	**-**
Return on assets (ROA) (%) *3	**1.7**	7.8	10.7	11.1	5.7	5.7	**1.7**
Equity ratio (%)	**31.2**	31.6	49.9	42.5	32.3	34.0	**31.2**
Debt-to-equity ratio (%) *4	**133.2**	132.8	43.6	60.1	110.9	87.5	**133.2**
Stock Data							
Stock price at year-end (Yen)	**478**	605	630	728	382	739	**5.08**
Market capitalization (Millions of yen)	**44,996**	56,952	59,306	68,534	34,261	70,553	**478,431**
PER (Times)	**-**	15.5	6.6	7.5	25.6	12.3	**-**
Number of shares outstanding (Thousand shares) *5	**94,134**	94,136	94,138	94,140	89,689	95,472	**94,134**

*1 EBITDA=Operating income+Depreciation and amortization
*2 Return on equity=Net income÷(Net assets–Subscription rights to shares–Minority interests)
*3 Return on assets=Ordinary income÷Total assets
*4 Debt to equity ratio=Interest-bearing debt÷Net assets
*5 Treasury stock has been excluded from these figures.
*6 U.S. dollar amounts have been translated at the rate of ¥94.05=US$1, the approximate current exchange rate at March 31, 2013.

II. Financial Review

1. Operating Results

In the Japanese economy during the fiscal year ended March 31, 2013, the outlook has become brighter with business sentiment strengthening in line with the dramatic swing toward yen depreciation and rallying stock prices amid expectation of fiscal easing measures after the start of Japan's new LDP government and the appointment of a new Bank of Japan governor. However, the situation continued to be uncertain due to various circumstances in the overseas economy such as the European debt crisis heating up again over the Cyprus financial crisis and the slowing of growth in the Chinese economy, despite a mild recovery being observed in the U.S.
In this environment, the TOMY Group constructed a new global structure through the integration with the TOMY International group (hereafter “the TI Group”), which was acquired in the previous fiscal year. While reinforcing and expanding key product categories, the TOMY Group is striving to enhance and streamline its production bases and strengthen the Group's core toy business. Furthermore, to deal with a difficult toy market in Japan and struggling overseas sales, the TOMY Group is working on structural reforms to respond to a changing business environment by implementing the following measures from the second half of the fiscal year:

- Introduce additional new products
- Strengthen the “capability to create products” by deploying a region-based planning structure on a global level
- Strengthen the “capability to maximize sales of products” by integrating domestic toy sales departments that perform some of the same functions inside the TOMY Group
- Streamline personnel within the TOMY Group
- Rigorously cut expenses

Consolidated net sales for the fiscal year declined 4.4% year on year to ¥179,042 million. Sales of long-standing products Tomica and Plarail were solid, products such as the next-generation battle hobby game BattroBorg 20, the next-generation electronic plush toy Furby, and amusement machines including Pokémon Tretta attracted popularity, and the video game wholesaling volume also increased. On the other hand, sales of Metal Fight Beyblade and Transformers declined after enjoying a boom in demand overseas and in Japan in the previous fiscal year, and overseas subsidiaries experienced struggling sales. Operating income fell 75.0% to ¥2,547 million and ordinary income fell 73.3% to ¥2,622 million. These declines reflected a fall in gross profits following a decrease in net sales and a decline in profits in the apparel business, despite a reduction in selling, general and administrative expenses. As for the bottom line, a net loss of ¥7,097 million was recorded, compared with a net income of ¥3,679 million in the previous fiscal year. Affecting the bottom line was ¥7,939 million in extraordinary losses that included an impairment loss on certain intangible assets of overseas subsidiaries and the cost associated with solicitation for voluntary retirement.

Overview of Reportable Segment

In the previous fiscal year, the reportable segments were classified as “Japan,” “North America,” “Europe,” and “Asia and Oceania (other than Japan).” From the current fiscal year, these segments have been reclassified as “Japan,” “North America, Europe and Oceania,” and “Asia (other than Japan).” For more details, please refer to “Segment Information etc.”

(Millions of yen)

	Net sales			Operating income (loss)		
	2013	2012	Change	**2013**	2012	Change
Japan	**138,141**	145,870	(7,729)	**7,037**	12,795	(5,757)
North America, Europe and Oceania	**36,104**	37,490	(1,385)	**(1,637)**	(2)	(1,634)
Asia (other than Japan)	**28,970**	34,602	(5,632)	**1,445**	1,508	(63)
Total	**203,216**	217,963	(14,747)	**6,846**	14,302	(7,455)
Eliminations and corporate	**(24,173)**	(30,698)	6,525	**(4,299)**	(4,116)	(183)
Consolidated	**179,042**	187,265	(8,222)	**2,547**	10,186	(7,638)

Japan

Net sales in Japan for the fiscal year was ¥138,141 million (down 5.3% year on year) while operating income was ¥7,037 million (down 45.0%).

In the long-standing product Plarail, sales continued strongly for the Plarail Advance series. In Tomica, to improve variation in existing products and broaden the target customers, a new lineup of sales began with the Dream Tomica series, which is a collaboration with popular content. Strong sales were realized for the Keitai Wanko (lit. mobile phone puppy) interactive plush toy for girls, and the motion interactive robots BattroBorg 20, which were launched in the previous summer, as well as for the next-generation electronic pet plush toy with smartphone connectivity called Furby that was released in October. Amusement machines such as Pokémon Tretta and Pretty Rhythm also continued to attract popularity. However, although there was also an increase in video game wholesaling volume, a decrease in net sales occurred as the above was insufficient to cover the significant drop in the export sales of Metal Fight Beyblade and Transformers, which sold strongly in Japan and overseas in the previous fiscal year, and the sluggish sales for Duel Masters reflecting a shrinking of the trading card market. The decrease in operating income reflected a decline in gross profits following the decrease in net sales and a decline in profits in the apparel business.

North America, Europe and Oceania

Net sales in North America, Europe and Oceania was ¥36,104 million (down 3.7% year on year), while operating loss was ¥1,637 million, compared with operating loss of ¥2 million in the previous fiscal year.
In the TI Group, sales of related products for "Pokémon," for which a global licensing agreement was concluded, started at full scale from January 2013. Although sales were solid for toys based on vehicles made by global agriculture machinery maker John Deere in each region, toy sales were sluggish in Europe and baby product sales struggled in North America. The operating loss occurred as a result of a decline in gross profits following the decrease in net sales, development expenses related to cancellation of new product launches, an increase in mold costs, and a deterioration in the cost of sales ratio.

Asia (other than Japan)

Net sales in Asia (other than Japan) was ¥28,970 million (down 16.3% year on year) while operating income was ¥1,445 million (down 4.2%).

In China, sales expansion was pursued for related products for the Kibao Chinese-company-created TV animation characters by setting the retail price of the products in line with local price levels. The baby products of the TI Group called The First Years were launched in Thailand and Vietnam in addition to their sales in China. The decrease in net sales occurred in reaction to the results of the previous fiscal year when there was a high shipment volume of products related to Metal Fight Beyblade and Transformers at manufacturing subsidiary TOMY (Hong Kong) Ltd.

Outlook for the Fiscal Year Ending March 31, 2014

In considering the economic environment expected to surround the TOMY Group, although we are increasingly expecting Japan's economy to grow and escape deflation and also the US economy shows moderate recovery, it continues to be difficult to predict future economic conditions because of risk factors such as the protracted European financial crisis and the slowdown in the Chinese economy.
Facing such an environment, the TOMY Group has formulated the "TOMY Group Revitalization Plan" at the end of the fiscal year ended March 31, 2012, and it shall use its combined strengths to recover profitability and achieve more streamlined corporate management under the three 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

Regarding the full-year consolidated operating results for the fiscal year ending March 31, 2014, the TOMY Group forecasts net sales of ¥183,000 million (up 2.2%), operating income of ¥5,000 million (up 96.3%), ordinary income of ¥4,400 million (up 67.8%), and net income of ¥2,200 million (a net loss of ¥7,097 million for the fiscal year ended March 31, 2013).

Financial Position

Assets

At the end of the fiscal year ended March 31, 2013, current assets stood at ¥86,222 million, down ¥681 million from the end of the previous fiscal year ended March 31, 2012. This is mainly attributable to decreases in cash and deposits, and deferred tax assets, offsetting an increase in merchandise and finished goods.

Noncurrent assets stood at ¥66,552 million, down ¥3,137 million from the end of the previous fiscal year. This is mainly attributable to a decrease in right of using trademark offsetting an increase in lease assets.

Liabilities

At the end of the fiscal year ended March 31, 2013, current liabilities stood at ¥39,376 million, up ¥4,150 million from the end of the previous fiscal year. This is mainly attributable to increases in short-term loans payable and accounts payable-other.

Noncurrent liabilities stood at ¥63,663 million, down ¥5,959 million from the end of the previous fiscal year. This is mainly attributable to decreases in long-term loans payable and deferred tax liabilities.

Net assets

At the end of the fiscal year ended March 31, 2013, total net assets were ¥49,772 million, down ¥2,032 million from the end of the previous fiscal year. This is mainly attributable to an increase in foreign currency translation adjustment offsetting a reduction in retained earnings due to recording of a net loss.

Cash flows

Cash and cash equivalents (hereafter “cash”) at the end of the fiscal year ended March 31, 2013 was ¥32,583 million, an increase of ¥3,939 million compared with the end of the previous fiscal year ended March 31, 2012.

Net cash provided by operating activities was ¥6,701 million, compared with ¥16,046 million provided in the previous fiscal year. Cash was mainly provided by loss before income taxes of ¥4,766 million, depreciation and amortization of ¥6,275 million, an impairment loss of ¥6,233 million, and amortization of goodwill of ¥1,424 million.

Net cash used in investing activities was ¥3,414 million, compared with ¥38,048 million used in the previous fiscal year. Cash was mainly used for purchase of property, plant and equipment of ¥2,457 million, and purchase of intangible assets of ¥920 million.

Net cash used in financing activities was ¥8,494 million, compared with ¥29,718 million provided in the previous fiscal year. Cash was mainly used in repayment of long-term loans payable of ¥5,522 million, repayment of finance lease obligations of ¥2,430 million, cash dividends paid of ¥1,313 million, and redemption of bonds payable of ¥1,050 million.

III. Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of yen)

As of March 31,	2012	**2013**
Assets		
Current assets		
Cash and deposits	37,684	**33,764**
Notes and accounts receivable-trade	23,597	**23,972**
Securities	264	**64**
Merchandise and finished goods	15,850	**19,214**
Work in process	328	**368**
Raw materials and supplies	845	**759**
Deferred tax assets	3,165	**2,057**
Other	5,388	**6,178**
Allowance for doubtful accounts	(221)	**(158)**
Total current assets	86,904	**86,222**
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	13,223	**13,634**
Accumulated depreciation	(7,515)	**(7,935)**
Accumulated impairment loss	(353)	**(456)**
Buildings and structures, net	5,355	**5,242**
Machinery, equipment and vehicles	1,750	**2,038**
Accumulated depreciation	(865)	**(1,117)**
Accumulated impairment loss	(0)	**(0)**
Machinery, equipment and vehicles, net	884	**920**
Tools, furniture and fixtures	25,192	**25,608**
Accumulated depreciation	(22,461)	**(22,491)**
Accumulated impairment loss	(83)	**(273)**
Tools, furniture and fixtures, net	2,647	**2,843**
Land	4,861	**4,729**
Lease assets	2,994	**5,374**
Accumulated depreciation	(1,432)	**(2,182)**
Lease assets, net	1,562	**3,192**
Construction in progress	185	**243**
Total property, plant and equipment	15,498	**17,172**
Intangible assets		
Goodwill	23,388	**25,174**
Right of using trademark	14,067	**9,674**
Other	7,023	**7,532**
Total intangible assets	44,478	**42,382**
Investments and other assets		
Investment securities	2,574	**3,056**
Deferred tax assets	2,774	**517**
Other	4,663	**3,699**
Allowance for doubtful accounts	(299)	**(276)**
Total investments and other assets	9,713	**6,998**
Total noncurrent assets	69,689	**66,552**

(Millions of yen)

As of March 31,	2012	**2013**
Deferred assets		
Bond issuance cost	60	**37**
Total deferred assets	60	**37**
Total assets	156,654	**152,812**
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,374	**10,708**
Short-term loans payable	3,798	**5,971**
Current portion of long-term loans payable	5,510	**5,497**
Current portion of bonds	1,050	**990**
Lease obligations	1,213	**1,935**
Accounts payable-other	4,864	**6,479**
Accrued expenses	5,627	**5,439**
Income taxes payable	579	**478**
Provision for sales returns	253	**375**
Allowance for recall	84	**57**
Provision for directors’ bonuses	269	**418**
Other	601	**1,023**
Total current liabilities	35,226	**39,376**
Noncurrent liabilities		
Bonds payable	990	**–**
Bonds with subscription rights to shares	12,300	**12,300**
Long-term loans payable	45,166	**41,534**
Lease obligations	506	**1,186**
Deferred tax liabilities	4,992	**2,800**
Deferred tax liabilities for land revaluation	553	**551**
Provision for retirement benefits	2,947	**2,982**
Provision for directors’ retirement benefits	245	**228**
Allowance for investment loss	10	**10**
Other	1,910	**2,069**
Total noncurrent liabilities	69,623	**63,663**
Total liabilities	104,849	**103,039**

(Millions of yen)

As of March 31,	2012	**2013**
Net assets		
Shareholders' equity		
Capital stock	3,459	**3,459**
Capital surplus	6,744	**6,744**
Retained earnings	44,336	**35,916**
Treasury stock	(1,321)	**(1,322)**
Total shareholders' equity	53,219	**44,798**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	222	**529**
Deferred gains or losses on hedges	41	**828**
Revaluation reserve for land	63	**68**
Foreign currency translation adjustment	(4,081)	**1,522**
Total accumulated other comprehensive income	(3,754)	**2,948**
Subscription rights to shares	594	**729**
Minority interests	1,745	**1,296**
Total net assets	51,805	**49,772**
Total liabilities and net assets	156,654	**152,812**

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

(Millions of yen)

Years ended March 31,	2012	**2013**
Net sales	187,265	**179,042**
Cost of sales	126,127	**123,882**
Gross profit	61,137	**55,160**
Selling, general and administrative expenses		
Packing and transportation expenses	2,692	**2,877**
Warehousing expenses	3,667	**4,213**
Advertising expenses	8,918	**9,600**
Directors' compensations	807	**821**
Salaries, allowances and bonuses	14,952	**14,146**
Provision for directors' bonuses	168	**236**
Retirement benefit expenses	1,089	**1,220**
Provision for directors' retirement benefits	63	**77**
Depreciation	2,491	**2,609**
Research and development expenses	2,540	**2,709**
Commission fee	2,665	**2,578**
Provision of allowance for doubtful accounts	(167)	**(25)**
Other	11,062	**11,545**
Total selling, general and administrative expenses	50,951	**52,613**
Operating income	10,186	**2,547**
Non-operating income		
Interest and dividends income	107	**130**
Amortization of negative goodwill	390	**58**
Rent income	170	**195**
Purchase discounts	66	**90**
Foreign exchange gains	–	**358**
Other	153	**304**
Total non-operating income	889	**1,136**
Non-operating expenses		
Interest expenses	734	**830**
Sales discounts	8	**9**
Amortization of bond issuance cost	27	**22**
Foreign exchange losses	246	**–**
Other	236	**199**
Total non-operating expenses	1,253	**1,061**
Ordinary income	9,823	**2,622**

(Millions of yen)

Years ended March 31,	2012	**2013**
Extraordinary income		
Gain on sales of noncurrent assets	124	**6**
Gain on sales of investment securities	14	**–**
Insurance income	669	**197**
Gain on bargain purchase	–	**318**
Other	2	**29**
Total extraordinary income	811	**551**
Extraordinary loss		
Loss on sales of noncurrent assets	60	**2**
Loss on retirement of noncurrent assets	103	**114**
Loss on sales of investment securities	52	**–**
Loss on valuation of investment securities	482	**9**
Impairment loss	130	**6,233**
Loss on disaster	1,259	**–**
Business structure improvement expenses	569	**487**
Special extra retirement payments	–	**860**
Other	–	**232**
Total extraordinary losses	2,658	**7,939**
Income (loss) before income taxes and minority interests	7,976	**(4,766)**
Income taxes-current	859	**503**
Refund of income taxes	(872)	**(7)**
Income taxes-deferred	4,273	**1,764**
Total income taxes	4,260	**2,259**
Income (loss) before minority interests	3,715	**(7,026)**
Minority interests in income	36	**71**
Net income (loss)	3,679	**(7,097)**

(Consolidated statements of comprehensive income)

(Millions of yen)

Years ended March 31,	2012	**2013**
Income (loss) before minority interests	3,715	**(7,026)**
Other comprehensive income		
Valuation difference on available-for-sale securities	250	**307**
Deferred gains or losses on hedges	413	**787**
Revaluation reserve for land	75	**–**
Foreign currency translation adjustment	(848)	**5,603**
Total other comprehensive income	(108)	**6,698**
Comprehensive income	3,607	**(327)**
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	3,569	**(399)**
Comprehensive income attributable to minority interests	37	**72**

Consolidated Statements of Changes in Net Assets

(Millions of yen)

Years ended March 31,	2012	**2013**
Shareholders' equity		
Capital stock		
Balance at the beginning of current period	3,459	**3,459**
Balance at the end of current period	3,459	**3,459**
Capital surplus		
Balance at the beginning of current period	6,744	**6,744**
Changes of items during the period		
Disposal of treasury stock	(0)	**(0)**
Total changes of items during the period	(0)	**(0)**
Balance at the end of current period	6,744	**6,744**
Retained earnings		
Balance at the beginning of current period	41,970	**44,336**
Changes of items during the period		
Dividends from surplus	(1,317)	**(1,317)**
Net income (loss)	3,679	**(7,097)**
Reversal of revaluation reserve for land	4	**(4)**
Total changes of items during the period	2,366	**(8,420)**
Balance at the end of current period	44,336	**35,916**
Treasury stock		
Balance at the beginning of current period	(1,320)	**(1,321)**
Changes of items during the period		
Purchase of treasury stock	(1)	**(1)**
Disposal of treasury stock	0	**0**
Total changes of items during the period	(0)	**(0)**
Balance at the end of current period	(1,321)	**(1,322)**
Total shareholders' equity		
Balance at the beginning of current period	50,854	**53,219**
Changes of items during the period		
Dividends from surplus	(1,317)	**(1,317)**
Net income (loss)	3,679	**(7,097)**
Purchase of treasury stock	(1)	**(1)**
Disposal of treasury stock	0	**0**
Reversal of revaluation reserve for land	4	**(4)**
Total changes of items during the period	2,365	**(8,420)**
Balance at the end of current period	53,219	**44,798**

(Millions of yen)

Years ended March 31,	2012	**2013**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance at the beginning of current period	(27)	**222**
Changes of items during the period		
Net changes of items other than shareholders' equity	249	**306**
Total changes of items during the period	249	**306**
Balance at the end of current period	222	**529**
Deferred gains or losses on hedges		
Balance at the beginning of current period	(372)	**41**
Changes of items during the period		
Net changes of items other than shareholders' equity	413	**787**
Total changes of items during the period	413	**787**
Balance at the end of current period	41	**828**
Revaluation reserve for land		
Balance at the beginning of current period	(7)	**63**
Changes of items during the period		
Net changes of items other than shareholders' equity	71	**4**
Total changes of items during the period	71	**4**
Balance at the end of current period	63	**68**
Foreign currency translation adjustment		
Balance at the beginning of current period	(3,233)	**(4,081)**
Changes of items during the period		
Net changes of items other than shareholders' equity	(848)	**5,603**
Total changes of items during the period	(848)	**5,603**
Balance at the end of current period	(4,081)	**1,522**
Total accumulated other comprehensive income		
Balance at the beginning of current period	(3,639)	**(3,754)**
Changes of items during the period		
Net changes of items other than shareholders' equity	(114)	**6,702**
Total changes of items during the period	(114)	**6,702**
Balance at the end of current period	(3,754)	**2,948**
Subscription rights to shares		
Balance at the beginning of current period	409	**594**
Changes of items during the period		
Net changes of items other than shareholders' equity	185	**135**
Total changes of items during the period	185	**135**
Balance at the end of current period	594	**729**
Minority interests		
Balance at the beginning of current period	1,120	**1,745**
Changes of items during the period		
Net changes of items other than shareholders' equity	624	**(448)**
Total changes of items during the period	624	**(448)**
Balance at the end of current period	1,745	**1,296**

(Millions of yen)

Years ended March 31,	2012	**2013**
Total net assets		
Balance at the beginning of current period	48,744	**51,805**
Changes of items during the period		
Dividends from surplus	(1,317)	**(1,317)**
Net income (loss)	3,679	**(7,097)**
Purchase of treasury stock	(1)	**(1)**
Disposal of treasury stock	0	**0**
Reversal of revaluation reserve for land	4	**(4)**
Net changes of items other than shareholders' equity	695	**6,388**
Total changes of items during the period	3,060	**(2,032)**
Balance at the end of current period	51,805	**49,772**

Consolidated Statements of Cash Flows

(Millions of yen)

Years ended March 31,	2012	**2013**
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	7,976	**(4,766)**
Depreciation and amortization	5,692	**6,275**
Impairment loss	130	**6,233**
Loss on disaster	1,259	**–**
Loss (gain) on valuation of investment securities	482	**9**
Amortization of goodwill	1,266	**1,424**
Amortization of negative goodwill	(390)	**(58)**
Gain on bargain purchase	–	**(318)**
Increase (decrease) in allowance for doubtful accounts	(207)	**(104)**
Increase (decrease) in provision for retirement benefits	52	**17**
Interest and dividends income	(107)	**(130)**
Interest expenses	734	**830**
Loss (gain) on sales of property, plant and equipment	(64)	**(3)**
Decrease (increase) in notes and accounts receivable-trade	1,113	**755**
Decrease (increase) in inventories	2,791	**(2,029)**
Decrease (increase) in accounts receivable-other	(424)	**527**
Increase (decrease) in notes and accounts payable-trade	(293)	**(1,160)**
Increase (decrease) in accounts payable-other	(2,617)	**1,277**
Increase (decrease) in accrued expenses	(1,182)	**(663)**
Other, net	1,308	**26**
Subtotal	17,518	**8,142**
Interest and dividends income received	103	**114**
Interest expenses paid	(720)	**(794)**
Income taxes paid	(854)	**(761)**
Net cash provided by (used in) operating activities	16,046	**6,701**
Net cash provided by (used in) investing activities		
Payments into time deposits	(847)	**(111)**
Purchase of property, plant and equipment	(2,531)	**(2,457)**
Proceeds from sales of property, plant and equipment	825	**155**
Purchase of intangible assets	(773)	**(920)**
Purchase of investment securities	(7)	**(12)**
Proceeds from sales of investment securities	206	**2**
Purchase of investments in subsidiaries	(33,579)	**(8)**
Purchase of treasury stock of subsidiaries in consolidation	–	**(280)**
Other, net	(1,340)	**217**
Net cash provided by (used in) investing activities	(38,048)	**(3,414)**

(Millions of yen)

Years ended March 31,	2012	**2013**
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(669)	**1,827**
Proceeds from long-term loans payable	35,259	**–**
Repayment of long-term loans payable	(870)	**(5,522)**
Redemption of bonds	(1,250)	**(1,050)**
Cash dividends paid	(1,318)	**(1,313)**
Repayments of finance lease obligations	(1,425)	**(2,430)**
Other, net	(6)	**(5)**
Net cash provided by (used in) financing activities	29,718	**(8,494)**
Effect of exchange rate change on cash and cash equivalents	(232)	**1,267**
Net increase (decrease) in cash and cash equivalents	7,484	**(3,939)**
Cash and cash equivalents at beginning of period	29,038	**36,522**
Cash and cash equivalents at end of period	36,522	**32,583**

IV. Notes to Consolidated Financial Statements

TOMY Company, Ltd. and its consolidated subsidiaries
For the fiscal year ended March 31, 2013

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, 2013 include the accounts of the Company and 41 significant subsidiaries (together, the "Group").

(1) Number of consolidated subsidiaries: 41

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.; TOYS UNION Co., Ltd.; TOMY Holdings, Inc.; TOMY International, Inc.; TOMY (Hong Kong) Ltd.

In the fiscal year ended March 31, 2013, the TOMY Group included one newly established company in the scope of consolidation. Also, during the fiscal year ended March 31, 2012, the TOMY Group excluded a total of five subsidiaries from the scope of consolidation, among which two companies were excluded due to mergers and other three as they have been liquidated.

In the fiscal year ended March 31, 2013, the TOMY Group included one newly established company in the scope of consolidation. Also, during the fiscal year ended March 31, 2012, the TOMY Group excluded a total of five subsidiaries from the scope of consolidation, among which two companies were excluded due to mergers and three other as they have been liquidated.

(2) Number of unconsolidated subsidiaries: 4

(3) Number of affiliates which are accounted for by the equity method: None

(4) Number of affiliates which are not accounted for by the equity method: 7

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.

In addition, equity investments in business investment and other associations are based on the most recent financial statements available to management with adjustments made to investment securities for gains or losses from investment in anonymous associations attributable to the Company and net unrealized gains or losses in available-for-sale securities included in gains or losses in business investment and other association and unrealized gains or losses of other securities.

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. Finance leases that do not involve the transfer of ownership of leased property to the lessee and for which the commencement date of the lease transaction is prior to March 31, 2008 are accounted for in the same manner as ordinary rental transactions.

(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 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.

c. Provision for retirement benefits
The Company provides for retirement benefits for employees based on the calculated amount of retirement benefit obligations and accrued pension assets as of the end of the consolidated fiscal year. Prior service costs are amortized in the consolidated fiscal year in which they occur by the straight-line method over the periods which are shorter than the average remaining years of service (five years) of eligible employees. Actuarial gains or losses are amortized in the consolidated fiscal year following the consolidated fiscal year in which the gain or loss is recognized primarily by the straight-line method over the periods which are shorter than the average remaining years of service (five years) of the eligible employees.

d. 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.

e. 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.

f. Allowance for 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.

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.

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

(6) 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.

(7) 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.

(8) 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.

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

(10) Changes of accounting policies that are difficult to distinguish from changes of accounting estimates
From the fiscal year ended March 31, 2013, pursuant to revisions made to the Corporation Tax Law, the TOMY Group and its domestic consolidated subsidiaries have changed the method of depreciating property, plant and equipment acquired on or after April 1, 2012 to the method of depreciating prescribed in the revised Corporation Tax Law.

As a result, in the fiscal year ended March 31, 2013, as compared with calculations made using the former method, depreciation and amortization decreased by ¥21 million, operating income and ordinary income both increased by ¥21 million, and loss before income taxes decreased by ¥21 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

The fair value of land used for business activities after revaluation as of the end of the period was below the book value of land used for business activities after revaluation by ¥814 million in 2013 and ¥743 million in 2012 respectively.

(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	
	2013	2012
Time deposits	¥92	¥102
Buildings and structures	58	100
Land	270	334
Investment securities	154	184
Total	¥ 576	¥722

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

	Millions of yen	
	2013	2012
Notes and accounts payable—trade	¥ 1,611	¥1,874
Current portion of long-term loans payable	2	87
Accounts payable—other	0	0
Total	¥1,614	¥1,962

(3) Assets relating to unconsolidated subsidiaries and affiliated companies

	Millions of yen	
	2013	2012
Investment securities (shares)	¥52	¥57

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

	Millions of yen	
	2013	2012
Goodwill	¥25,192	¥23,465
Negative goodwill	(18)	(76)
After offset	¥25,174	¥23,388

(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	
	2013	2012
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	
	2013	2012
	¥2,978	¥ 2,722

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

	Millions of yen	
	2013	2012
Buildings and structures	¥4	¥ 17
Machinery, equipment and vehicles	1	10
Tools, furniture and fixtures	0	55
Land	—	41
Total	¥6	¥124

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

	Millions of yen	
	2013	2012
Buildings and structures	—	¥14
Machinery, equipment and vehicles	0	2
Tools, furniture and fixtures	0	44
Land	2	—
Total	¥2	¥60

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

	Millions of yen	
	2013	2012
Buildings and structures	¥ 9	¥ 34
Machinery, equipment and vehicles	1	447
Tools, furniture and fixtures	34	66
Intangible assets	69	7
Total	¥114	¥556

The effect of losses on retirement of fixed assets suffered by flood damage in Thailand is included, which is presented in “loss on disaster” for the year ended March 31, 2012 in the consolidated statements of income.

(5) Impairment loss

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

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, 2013)

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.

2012 — Millions of yen

Application	Type	Location	Impairment loss
Assets for business	Software	Chiyoda-ku, Tokyo	¥83
Retail stores included in assets used in business activities	Building and structures; tools, furniture and fixtures; other	Hirakata City, Osaka Fukuoka City, Fukuoka Kyoto City, Kyoto	¥37
Idle assets	Land	Shimotsuga-gun, Tochigi	¥ 8

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 ¥121 million in 2012 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.

(6) Inventories

The balance of inventories is the amount after writing down the book value in line with the decline in profitability. The loss on valuation of inventories amounting to ¥1,093 million in 2013 and gain on reversal of valuation loss amounting to ¥449 million in 2012 are included in cost of sales.

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	
	2013	2012
Net unrealized gains and losses on securities:		
Amount arising during the year	¥477	¥(93)
Reclassification adjustments for gains and losses realized in net income	—	430
Before-tax amount	477	337
Tax (expense) or benefit	(170)	(86)
Net-of-tax amount	307	250
Net gains and losses on derivative instruments:		
Amount arising during the year	1,383	(344)
Reclassification adjustments for gains and losses realized in net income	(26)	973
Before-tax amount	1,357	629
Tax (expense) or benefit	(570)	(215)
Net-of-tax amount	787	413
Land revaluation:		
Amount arising during the year	—	—
Reclassification adjustments for gains and losses realized in net income	—	—
Before-tax amount	—	—
Tax (expense) or benefit	—	75
Net-of-tax amount	—	75
Foreign currency translation adjustments:		
Amount arising during the year	5,603	(848)
Reclassification adjustments for gains and losses realized in net income	—	—
Before-tax amount	5,603	(848)
Tax (expense) or benefit	—	—
Net-of-tax amount	5,603	(848)
Total other comprehensive loss	6,698	(108)

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

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

2012				Millions of yen
	Type	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	(1) Stock	¥1,478	¥1,072	¥406
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥1,478	¥1,072	¥406
Securities whose carrying value does not exceed their acquisition cost	(1) Stock	¥ 276	¥ 364	¥ (87)
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥ 276	¥ 364	¥ (87)
	Total	¥1,755	¥1,436	¥318

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	
	2013	2012
Carrying value		
Unlisted stocks	¥761	¥762

(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) in 2013 and ¥482 million (representing ¥468 million of marketable stock and ¥13 million of non-marketable stock applicable to available-for-sale securities) in 2012.

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.

10. Derivative Transactions

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

Not applicable

(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

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: Buy: USD	Foreign currency denominated claims and obligation (accounts payable, other)	¥11,596	¥1,354	¥ 1,740

2012					Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value
Appropriation treatment	Forward foreign exchange contracts: Buy: USD	Foreign currency denominated claims and obligation (accounts payable, other)	¥10,495	¥1,183	¥ 151

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

b. Interest-related transactions

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)
Deferred hedge accounting	Pay fixed / receive floating	Long-term loans payable	¥13,545	¥12,040	¥(168)

2012					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	Current portion of long-term loans payable	¥ 75	—	(Note)
Deferred hedge accounting	Pay fixed / receive floating	Long-term loans payable	¥7,336	¥6,602	¥(79)

Note: The fair value of interest rate swaps which are accounted for using the special treatment is included in that of the corresponding hedged long-term loans payable.

11. Retirement Benefits

(1) Overview of retirement benefit plans adopted

The Company and its certain domestic consolidated subsidiaries maintain employees' pension fund and retirement lump sum plans as defined benefit plans.

Certain consolidated subsidiaries have adopted defined contribution pension plans.

(2) Amounts of retirement benefit obligation

	Millions of yen	
	2013	2012
Retirement benefit obligation	¥(5,467)	¥(5,001)
Pension assets	1952	1,526
Unfunded retirement benefit obligation	(3,515)	(3,474)
Unrecognized actuarial gain or loss	345	276
Unrealized prior service cost	187	250
Provision for retirement benefits	(2,982)	(2,947)

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.

(3) Matters relating to multiple business proprietor plans
a. Matters relating to the status of overall plan reserves

2013			Millions of yen
	Tokyo Jitsugyo Kosei Nenkin Kikin	EAST JAPAN PLASTIC INDUSTRY Pension Fund	Other
Pension assets	¥120,257	¥ 71,696	¥168,835
Amount of calculated pension financing benefit obligation	184,825	109,282	203,955
Difference	(64,568)	(37,586)	(35,120)

2012			Millions of yen
	Tokyo Jitsugyo Kosei Nenkin Kikin	EAST JAPAN PLASTIC INDUSTRY Pension Fund	Other
Pension assets	¥126,402	¥ 74,859	¥169,594
Amount of calculated pension financing benefit obligation	187,829	109,730	201,770
Difference	(61,427)	(34,870)	(32,176)

b. The Group's premium contribution ratio as a proportion of the overall plan

	2013	2012
Tokyo Jitsugyo Kosei Nenkin Kikin	4.99%	4.90%
EAST JAPAN PLASTIC INDUSTRY Pension Fund	1.73%	1.82%
Other	0.31%	0.29%

(4) Retirement benefit expense

		Millions of yen
	2013	2012
Retirement benefit expense	¥833	¥644
Service cost	643	497
Interest cost	117	107
Expected return on plan assets	(81)	(78)
Amortization of actuarial gain or loss	91	55
Amortization of unrealized prior service cost	62	62

Note: Employee pension fund is not included. Retirement benefit expenses of consolidated subsidiaries that have adopted the simplified method are recorded as service cost.

(5) Assumptions used in accounting for retirement benefit obligations
Attribution of retirement benefit obligation: the straight-line method over the estimated years of service of the eligible employee.

	2013	2012
Discount rate	2.0–4.35%	2.0–4.96%
Expected rate of return on plan assets	2.5–6.93%	2.5–6.61%
Amortization period of actuarial gain or loss	5 years	5 years
Amortization period of unrecognized prior Service cost	5 years	5 years

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	
	2013	2012
Selling, general and administrative expenses	¥164	¥187

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

	Millions of yen	
	2013	2012
Extraordinary income	¥29	¥2

13. Income Taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen	
	2013	2012
Deferred tax assets:		
Loss on valuation of inventories	¥ 805	¥ 565
Allowance for doubtful accounts	234	446
Income taxes payable	31	32
Accrued bonuses	103	537
Provision for retirement benefits	987	1,063
Provision for directors' retirement benefits	76	91
Retirement of unrealized inventory profit	622	276
Loss carryforwards	7,783	5,929
Depreciation and amortization	144	406
Loss on valuation of investment securities	1,497	1,764
Impairment loss	126	140
Other	1,426	1,023
Total gross deferred tax assets	13,839	12,279
Valuation allowance	(9,413)	(5,473)
Total deferred tax assets	¥4,426	¥ 6,805

	Millions of yen	
	2013	2012
Deferred tax liabilities:		
Reserve for advanced depreciation of noncurrent assets	¥ (121)	¥ (121)
Valuation difference on available-for-sale securities	(11)	(113)
Intangible noncurrent assets	(3,534)	(4,802)
Other	(1,000)	(820)
Deferred tax liabilities for land revaluation	551	(553)
Total deferred tax liabilities	(5,219)	(6,411)
Net deferred tax assets	¥(793)	¥ 393

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

	Millions of yen	
	2013	2012
Current assets — Deferred tax assets	¥ 2,057	¥3,165
Noncurrent assets — Deferred tax assets	517	2,774
Current liabilities — Other	(17)	—
Noncurrent liabilities — Deferred tax liabilities	(2,800)	(4,992)
Noncurrent liabilities — Deferred tax liabilities for land revaluation	¥ (551)	¥ (553)

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

	2013	2012
Statutory tax rate of the Company	—	40.5 %
(Reconciliation)		
Permanent nondeductible expenses such as entertainment expenses	—	5.2 %
Nondeductible income such as dividends received	—	(3.4)%
Increase (decrease) in valuation allowance	—	15.9 %
Inhabitants' tax lump-sum payments	—	0.2 %
Effect of enacted changes in tax laws and rates on Japanese tax	—	(4.2)%
Other	—	(0.8)%
Effective tax rates after adoption of tax-effect accounting	—	53.4 %

(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

2013 Millions of yen

	Japan	North America, Europe and Oceania	Asia (other than Japan)	Total
Net sales				
Sales to outside customers	¥137,403	¥36,062	¥5,577	¥179,042
Intersegment sales and transfers	737	42	23,392	24,173
Total	138,141	36,104	28,970	203,216
Segment income (loss)	7,037	(1,637)	1,445	6,846
Segment assets	55,460	44,291	10,189	109,942
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) Amounts of segment liabilities are not periodically provided or used by the supreme decision-making organization of the Company.

2012				Millions of yen
	Japan	North America, Europe and Oceania	Asia (other than Japan)	Total
Net sales				
Sales to outside customers	¥144,665	¥37,403	¥5,196	¥187,265
Intersegment sales and transfers	1,205	87	29,405	30,698
Total	145,870	37,490	34,602	217,963
Segment income (loss)	12,795	(2)	1,508	14,302
Segment assets	52,047	47,451	8,948	108,448
Other items				
Depreciation and amortization	3,404	1,852	164	5,421
Amortization of goodwill	190	37	-	228
Increase in property, plant and equipment and intangible assets	¥1,729	¥913	¥626	¥3,269

(Notes)
1. Amounts of segment liabilities are not periodically provided or used by the supreme decision-making organization of the Company.
2. During the fiscal year ended March 31, 2012, the TOMY Group made the TI Group a wholly owned subsidiary effective April 29, 2011.

(2) Net sales by market

			Millions of yen	
	Japan	North America	Other	Total
2013	¥124,209	¥31,512	¥23,320	¥179,042
2012	¥119,515	¥37,605	¥30,144	¥187,265

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	2013	2012
Net assets per share	¥507.21	¥525.46
Earnings per share	(75.40)	39.09
Earnings per diluted share	—	32.27

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

		Millions of yen
The fiscal year ended March 31	2013	2012
Earnings per share		
Net income	¥(7,097)	¥3,679
Amount not applicable to shareholders of common stock	—	—
Net income applicable to common stock	¥(7,097)	¥3,679
Average number of shares for the period (thousand shares)	94,135	94,137
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)	—	20,009
(Of which is the number of bond with warrants (thousand shares)	—	(20,009)
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)	14	10
Bond with warrants (number of different issues)	3	
Number of diluted stock (thousand shares)	27,810	6,262

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

VI. Anti-Takeover Measures

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

Outline of this Policy

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

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

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

Special features of this Policy

The special features of this Policy are as follows.

1. Reflection of shareholders' will
   The contents of this Policy reflect the intention of shareholders.
   - o A resolution by Shareholders Meeting is required for introduction and renewals of this Policy.
   - o 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.
   - o This Policy can be abolished by resolution of Shareholders Meeting.
   - o 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.