



Annual Report 2014



# PROFILE

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KOEI TECMO HOLDINGS CO., LTD. is an entity that was born as a result of a merger between two companies, Koei and Tecmo. Both companies have roots in different fields of entertainment, with Koei starting out in PC software development and Tecmo in business related to amusement facilities. Even though both companies have been around for half a century in the same industry, they have cultivated different cultures and different expertise.

By unifying these differences, Koei Tecmo will vigorously continue its work in the spirit of “Creativity and Contribution” to deliver even newer and higher quality entertainment content that is able to enrich the hearts of users world-wide.

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# TOP MESSAGE

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**Chairman**  
**Keiko Erikawa**

**President & CEO**  
**Yoichi Erikawa**

The game industry has shown continuous growth, driven primarily by mobile and digital content. Also, the successful launch of the “PlayStation 4” has brought high expectations for a revitalization of the home video game market.

Under these conditions, our Group has implemented a variety of measures based on our management policy “IP Creation and Expansion”. In terms of IP Creation, the outstanding response for our new hit title, “*Toukiden: The Age of Demons*,” has successfully created a new pillar for our ongoing game business. Under IP Expansion, we have made aggressive and multilateral strides in expanding our existing IPs. In the Game Software segment, “*Nobunaga’s Ambition: Souzou*”, which marks the 30th anniversary of this series, has satisfied not only its existing fan base but has also attracted new users. In our Online & Mobile segment, we have released “*Uncharted Water V*”, the first PC Browser game for that series. Our Media & Rights segment has successfully remained in the black and the Pachislot & Pachinko segment has shown success with the creation of “*CR UFO RUSH*” and its original characters. As a result, we have achieved a profit increase for the fourth consecutive year, the highest profit and the highest dividend ever since the merger of Koei and Tecmo.

For the coming year, we have set our management policy as “Further IP Creation and Expansion”, and aim to achieve comprehensive growth by creating new IP and further expanding our existing IP. We will focus on making big hit titles in the mobile game market, on promoting and succeeding at new and major collaborative titles like “*Hyrule Warriors*”, and on expanding our existing IP through animation like “*Kiniro no Koruda*”.

We thank you for your support and ask for your continued cooperation in our present and future endeavors.

**CONSOLIDATED BALANCE SHEETS**

AS OF MARCH 31

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits (Notes 4 and 6)	¥ 12,192	¥ 13,851	\$ 118,467
Notes and accounts receivable (Note 6)	8,755	9,302	85,072
Marketable securities (Notes 4, 6, and 9)	787	3,818	7,654
Merchandise and Finished goods	183	303	1,784
Work in process	17	143	174
Raw materials	96	107	934
Deferred tax assets (Note 12)	826	923	8,033
Other current assets	2,454	2,997	23,847
Allowance for bad debts (Note 6)	(40)	(32)	(390)
Total current assets	25,274	31,416	245,578
<b>Property and equipment: (Note 5)</b>			
Buildings and structures, net (Notes 7 and 13)	9,857	8,052	95,776
Land (Notes 7 and 13)	5,621	5,621	54,618
Other	566	526	5,507
Total property and equipment	16,045	14,200	155,903
<b>Intangible assets:</b>			
Goodwill	1,090	2,333	10,598
Other	275	388	2,680
Total Intangible assets	1,366	2,722	13,279
<b>Investments and other assets:</b>			
Investment securities (Notes 6 and 9)	56,905	45,339	552,906
Claim in bankruptcy	2	5	23
Lease and guarantee deposits	670	669	6,511
Deferred tax assets (Note 12)	211	493	2,055
Other	148	169	1,438
Allowance for bad debts	(2)	(5)	(23)
Total investments and other assets	57,934	46,671	562,912
<b>Total assets</b>	<b>¥ 100,622</b>	<b>¥ 95,010</b>	<b>\$ 977,673</b>

The accompanying notes are an integral part of these statements.



	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Notes and accounts payable – trade	¥ 1,413	¥ 4,052	\$ 13,730
Accounts payable – other	2,837	2,032	27,571
Income taxes payable	1,956	2,465	19,006
Accrued bonuses to employees	822	733	7,992
Accrued bonuses to directors	191	91	1,863
Allowance for sales returns	45	41	438
Allowance for sales discount	660	314	6,414
Allowance for customer-discount points	16	12	159
Deferred tax liabilities (Note 12)	0	-	3
Other current liabilities	2,179	2,560	21,172
Total current liabilities	10,122	12,303	98,353
<b>Long-term liabilities:</b>			
Reserve for retirement benefits (Note 11)	-	559	-
Liability for retirement benefits (Notes 2 and 11)	193	-	1,878
Deferred tax liabilities (Note 12)	1,037	41	10,079
Other long-term liabilities	480	482	4,665
Total long-term liabilities	1,710	1,084	16,622
<b>Total liabilities</b>	<b>11,833</b>	<b>13,387</b>	<b>114,976</b>
<b>NET ASSETS (Note 14)</b>			
<b>Shareholders' equity:</b>			
Common stock			
Authorized: 350,000,000 shares in 2014 and 2013	15,000	15,000	145,744
Issued : 89,769,479 shares in 2014 and 2013			
Capital surplus	25,699	25,699	249,699
Retained earnings	48,036	43,978	466,740
Treasury stock: 2,834,138 shares at March 31, 2014 and 2,946,156 shares at March 31, 2013	(2,200)	(2,285)	(21,377)
Total shareholders' equity	86,535	82,392	840,807
<b>Accumulated other comprehensive income(loss):</b>			
Unrealized gains or losses on securities (Note 9)	3,322	2,073	32,278
Unrealized losses on revaluation of the land (Note 13)	(3,100)	(3,100)	(30,127)
Foreign currency translation adjustments	1,710	207	16,619
Retirement benefits liability adjustments	267	-	2,597
Total accumulated other comprehensive income(loss)	2,199	(820)	21,367
<b>Share subscription rights (Note 16):</b>	<b>53</b>	<b>50</b>	<b>521</b>
<b>Total net assets</b>	<b>88,788</b>	<b>81,623</b>	<b>862,696</b>
<b>Total liabilities and net assets</b>	<b>¥ 100,622</b>	<b>¥ 95,010</b>	<b>\$ 977,673</b>

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENTS OF INCOME**

FOR THE YEARS ENDED MARCH 31

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Net sales (Note 19)</b>	<b>¥ 37,576</b>	¥ 34,639	<b>\$ 365,100</b>
Cost of sales (Note 10)	21,425	20,699	208,175
<b>Gross profit</b>	<b>16,150</b>	13,939	<b>156,924</b>
Selling, general and administrative expenses (Note 10)	9,010	7,731	87,550
<b>Operating income (Note 19)</b>	<b>7,140</b>	6,208	<b>69,374</b>
<b>Other income (expenses):</b>			
Interest income	1,656	1,701	16,095
Dividend income	1,159	549	11,264
Gain on sales of investment securities (Note 9)	1,870	700	18,176
Loss on valuation of securities	(211)	(276)	(2,055)
Loss on sales of investment securities(Note 9)	(994)	-	(9,658)
Loss on redemption of securities (Note 9)	(571)	(588)	(5,550)
Foreign exchange gain, net	348	277	3,388
Retirement benefit expenses(Note 2 and 11)	(37)	(55)	(365)
Other, net	330	263	3,208
<b>Income before income taxes and minority interests</b>	<b>10,691</b>	8,779	<b>103,879</b>
<b>Income taxes (Note 12):</b>			
Current	3,176	3,114	30,864
Deferred	577	8	5,613
	3,754	3,122	36,477
Income before minority interests	6,936	5,656	67,401
<b>Net income</b>	<b>6,936</b>	5,656	<b>67,401</b>

	Yen		U.S. dollars
	2014	2013	2014
<b>Per share:</b>			
Net income – Basic	¥ 79.86	¥ 65.23	\$ 0.77
– Diluted	79.52	65.18	0.77
Cash dividends	40.00	33.00	0.38

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

FOR THE YEARS ENDED MARCH 31

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Income before minority interests:</b>	<b>¥ 6,936</b>	¥ 5,656	<b>\$ 67,401</b>
Other comprehensive income(Note 18)			
Unrealized gains or losses on securities	1,248	5,950	12,131
Foreign currency translation adjustments	1,503	788	14,607
Total other comprehensive income	2,751	6,738	26,738
<b>Comprehensive Income:</b>	<b>9,688</b>	12,395	<b>94,140</b>
<b>Comprehensive Income attribute to:</b>			
Shareholders of KOEI TECMO HOLDINGS CO.,LTD.	9,688	12,395	94,140

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

FOR THE YEARS ENDED MARCH 31

Millions of yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains or losses on securities	Unrealized losses on revaluation of the land	Foreign currency translation adjustments	Retirement benefits liability adjustments	Share subscription rights	Net assets
<b>Balance at April 1, 2012</b>	¥ 15,000	¥ 24,640	¥ 40,662	(¥ 2,368)	(¥ 3,877)	(¥ 3,100)	(¥ 580)	-	¥ 38	¥ 70,414
Cash dividends paid			(2,341)							(2,341)
Net income			5,656							5,656
Purchase of treasury stock				(1)						(1)
Disposal of treasury stock		(12)		85						72
Adjustment for disposal of treasury stock		1,058								1,058
Transfer to capital surplus from retained earnings		12	(12)							-
Increase due to mergers of consolidated subsidiaries			13							13
Net changes during the year					5,950	-	788	-	11	6,750
<b>Balance at March 31, 2013</b>	¥ 15,000	¥ 25,699	¥ 43,978	(¥ 2,285)	¥ 2,073	(¥ 3,100)	¥ 207	-	¥ 50	¥ 81,623
Cash dividends paid			(2,865)							(2,865)
Net income			6,936							6,936
Purchase of treasury stock				(6)						(6)
Disposal of treasury stock		(13)		91						78
Adjustment for disposal of treasury stock		13	(13)							-
Transfer to capital surplus from retained earnings										-
Increase due to mergers of consolidated subsidiaries										-
Net changes during the year					1,248	-	1,503	267	2	3,022
<b>Balance at March 31, 2014</b>	¥ 15,000	¥ 25,699	¥ 48,036	(¥ 2,200)	¥ 3,322	(¥ 3,100)	¥ 1,710	¥ 267	¥ 53	¥ 88,788

Thousands of U.S. dollars										
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains or losses on securities	Unrealized losses on revaluation of the land	Foreign currency transaction adjustments	Retirement benefits liability adjustments	Share subscription rights	Net assets
<b>Balance at March 31, 2013</b>	\$ 145,744	\$ 249,699	\$ 427,308	(\$ 22,203)	\$ 20,146	(\$ 30,127)	\$ 2,011	-	\$ 492	\$ 793,073
Cash dividends paid			(27,838)							(27,838)
Net income			67,401							67,401
Purchase of treasury stock				(64)						(64)
Disposal of treasury stock		(130)		890						759
Adjustment for disposal of treasury stock		130	(130)							-
Transfer to capital surplus from retained earnings										-
Increase due to mergers of consolidated subsidiaries										-
Net changes during the year					12,131	-	14,607	2,597	28	29,364
<b>Balance at March 31, 2014</b>	\$ 145,744	\$ 249,699	\$ 466,740	(\$ 21,377)	\$ 32,278	(\$ 30,127)	\$ 16,619	\$ 2,597	\$ 521	\$ 862,696

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED MARCH 31

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 10,691	¥ 8,779	\$ 103,879
Adjustments for:			
Depreciation and amortization	894	930	8,689
Amortization of goodwill	1,242	1,405	12,071
Increase (decrease) in allowance for bad debts	3	(183)	32
Increase (decrease) in accrued bonuses to directors	100	(0)	979
Increase in accrued bonuses to employees	73	44	718
Interest and dividend income	(2,815)	(2,250)	(27,360)
Loss on valuation of investment securities	211	276	2,055
Gain on sales of investment securities	(876)	(700)	(8,518)
Loss on redemption of securities	539	588	5,244
Foreign exchange gain, net	(334)	(259)	(3,248)
Decrease in notes and accounts receivable	718	2,583	6,980
Decrease in inventories	273	81	2,656
Increase (decrease) in notes and accounts payable	(2,758)	1,572	(26,805)
Other	(25)	(292)	(244)
Sub total	7,938	12,575	77,131
Interest and dividends income received	2,416	1,735	23,482
Interest paid	(0)	(0)	(0)
Income taxes refund	1,236	924	12,012
Income taxes paid	(4,326)	(3,063)	(42,036)
Net cash provided by operating activities	7,265	12,170	70,589
<b>Cash flows from investing activities:</b>			
Payments into time deposits	(1,043)	(379)	(10,138)
Proceeds from withdrawal of time deposits	597	491	5,804
Purchase of short-term and long-term securities	(25,133)	(14,290)	(244,206)
Proceeds from sales and redemption of short-term and long-term securities	18,766	12,342	182,342
Purchase of property and equipment	(1,750)	(346)	(17,006)
Payments for purchase of intangible fixed assets	(50)	(16)	(488)
Proceeds from collection of guarantee deposits	13	162	126
Other	15	(43)	147
Net cash used in investing activities	(8,585)	(2,079)	(83,418)
<b>Cash flows from financing activities:</b>			
Proceeds from disposal of treasury stock	78	342	759
Purchase of treasury stock	(6)	(2)	(65)
Cash dividends paid	(2,858)	(2,335)	(27,775)
Net cash used in financing activities	(2,787)	(1,994)	(27,081)
Effect of exchange rate changes on cash and cash equivalents	764	440	7,428
Net increase (decrease) in cash and cash equivalents	(3,342)	8,537	(32,481)
Cash and cash equivalents at beginning of year	15,107	6,528	146,793
Increase in cash and cash equivalents resulting from change of scope of consolidation	-	42	-
Cash and cash equivalents at end of year (Note 4)	¥ 11,764	¥ 15,107	\$ 114,311

The accompanying notes are an integral part of these statements.

**1. Summary of significant accounting policies:****(1) Basis of presentation of consolidated financial statements -**

The accompanying consolidated financial statements of KOEI TECMO HOLDINGS CO., LTD. (“the Company”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of consolidated overseas subsidiaries for the years ended March 31, 2014 and 2013 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified five items as applicable. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts. Certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

**(2) Basis of consolidation and investments in affiliated companies -**

The consolidated financial statements include the accounts of the Company and its subsidiaries, including KOEI TECMO GAMES CO., LTD., KOEI TECMO NET CO., LTD., KOEI TECMO WAVE CO., LTD., CWS Brains, LTD., GUST CO., LTD., KOEI TECMO CAPITAL CO., LTD., KOEI TECMO AMERICA Corporation, KOEI TECMO EUROPE LIMITED, KOEI TECMO TAIWAN CO., LTD., TECMO KOEI CANADA Inc., KOEI TECMO TIANJIN SOFTWARE CO., LTD., KOEI TECMO BEIJING SOFTWARE CO., LTD., KOEI TECMO SINGAPORE Pte. Ltd., and KOEI TECMO LIV CO., LTD. Some subsidiaries whose net income would have no material effect on the financial statements have not been consolidated. All significant intercompany transactions and accounts have been eliminated in consolidation.

**(3) Translation of foreign currency -**

All the assets and liabilities of foreign subsidiaries are translated into Japanese yen at the appropriate year-end rate and all income and expense accounts are translated at the average rate of exchange for the year. The translation of net assets is made using historical rates. The resulting translation differences are presented as “Foreign Currency Translation Adjustments” in the accompanying consolidated balance sheets.

Foreign currency receivables and payables are translated at year-end rates and the resulting translation gains and losses are included in income currently.

**(4) Cash equivalents -**

For the purpose of the consolidated statements of cash flows, the Company and its consolidated subsidiaries have classified time deposits and other highly liquid investments as cash equivalents if the original maturities of such investments are three months or less.

**(5) Financial instruments -****(a) Derivatives**

All derivatives are stated at fair value, with changes in fair value being included in the net profit or loss for the period in which they arise.

**(b) Marketable securities and investment securities**

Marketable securities and investment securities held by the Company and its domestic subsidiaries are classified into three categories:

Trading securities, held for the purpose of generating profits on short-term differences in prices, are stated at fair value, with changes in fair value being included in the net profit or loss for the period in which they arise.

Held-to-maturity securities are stated at amortized cost method (straight line method).

Investments in equity securities issued by unconsolidated subsidiaries are stated at cost because the effect of application of the equity method would be immaterial.

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of net assets, net of applicable taxes.

Other securities for which market quotations are not available are stated at cost or at amortized cost, except as stated in the following paragraph:

In cases where the fair value of equity securities issued by unconsolidated subsidiaries, or other securities has declined significantly and such impairment in value is not deemed temporary, those securities are reduced to fair value and the resulting losses are included in the net profit or loss for the period.

The net amount of equity included in the Company’s financial statements from investment partnerships and similar investments, is calculated based on the relevant financial statements for the partnership available as of the reporting date.



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**(6) Inventories -**

Inventories of the Company and its consolidated subsidiaries are stated at the lower of market or cost determined using the moving-average method for merchandise, finished goods and raw materials and the specific identification method for work-in-process (unless market value of inventories declines significantly and is not expected to recover to cost, in such cases costs are reduced to net realizable values).

**(7) Property and equipment -**

The property and equipment of the Company and its domestic subsidiaries is being depreciated using the declining balance method, except for buildings acquired after the year ended March 31, 1998, which are being depreciated by the straight-line method. The property and equipment held by foreign consolidated subsidiaries is being depreciated by the straight-line method, based on the estimated useful lives of the assets.

The range of useful lives for "Buildings and structures" is principally from 3 to 50 years.

**(8) Intangible assets -**

The cost of software for sale, other than that related to R&D activities, is capitalized and amortized in the proportion of revenue for the period to total estimated ultimate revenue. The costs related to R&D activities are expensed as incurred.

Software costs for internal use are capitalized and amortized over their estimated useful lives on a straight-line basis.

Goodwill is amortized over its estimated useful lives on a straight-line basis. When the amounts are immaterial, the goodwill is amortized as incurred.

**(9) Accrued bonuses to employees -**

Accrued bonuses are stated at the estimated amount of the bonuses to be paid to employees based on their services provided during the fiscal year.

**(10) Accrued bonuses to directors -**

Accrued bonuses are stated at the estimated amount of the bonuses to be paid to directors based on their services for the current fiscal year.

The accounting standard requires that directors' bonuses be accounted for as an expense of the accounting period in which such bonuses were accrued.

**(11) Allowance for bad debts -**

An allowance for bad debts is established at an amount considered to be appropriate based primarily on the past credit loss experience of the Company and its consolidated subsidiaries, plus an additional amount deemed necessary to cover possible losses estimated on an individual account basis.

**(12) Allowance for sales returns -**

An allowance for sales returns is provided for losses due to the return of products at an amount calculated based on historical experience.

**(13) Allowance for sales discount -**

An allowance for sales discount is provided for the losses incurred on sales discount of the Company's products.

**(14) Allowance for customer-discount points -**

An allowance for customer-discount points is provided for the accumulation of points granted to online shopping users. The amount of allowance is determined based on the past usage of points.

**(15) Finance leases -**

For finance lease transactions other than those which transfer ownership to the lessee, the straight-line method is adopted with a residual value of zero, with the lease period deemed equal to the service life of the asset. For such transactions originating before the first year of application of Accounting Standard No.13 (Corporate Accounting Standards for Lease Transactions), accounting methods suitable to ordinary lease transactions are applied.

**(16) Income taxes -**

Provision is currently made for the income taxes applicable to all revenue and expense items reported in income tax returns on the basis of when such items are taxable or deductible. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities.

**(17) Retirement benefits -**

Accrued retirement benefits for employees have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, the unrecognized actuarial differences are amortized on a straight-line basis over a certain period of time from 9 to 12 years from the following year in which they arise, and the unrecognized past service cost is amortized on a straight-line basis over a certain period of time from 9 to 12 years from the year in which they arise.

### (18) Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements -

The Company has applied “Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements” (ASBJ Practical Issues Task Force No. 18, February 19, 2010), and necessary modifications have been made for consolidation.

### (19) Net income per share -

Basic net income per share of common stock (“Basic EPS”) is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share of common stock (“Diluted EPS”) further assumes the dilutive effect of warrants.

The basic information for net income per share computations for the years ended March 31, 2014 and 2013 were as follows:

Cash dividends per share represent the actual amount declared as applicable to the respective years.

For the year ended March 31, 2014	Millions of yen	Thousands of U.S. dollars	Thousands of shares	Yen	U.S. dollars
	Net income		Weighted average number of shares	EPS	
<b>Basic EPS</b>					
Income before minority interest	¥ 6,936	\$ 67,401			
Other	-	-			
Net income for common stock shareholders	¥ 6,936	\$ 67,401	86,868	¥ 79.86	\$ 0.77
Effect of Diluted stock shareholders					
Warrants	-	-	369		
<b>Diluted EPS</b>					
Net income for computation	¥ 6,936	\$ 67,401	87,237	¥ 79.52	\$ 0.77

For the year ended March 31, 2013	Millions of yen	Thousands of shares	Yen
	Net income	Weighted average number of shares	EPS
<b>Basic EPS</b>			
Income before minority interest	¥ 5,656		
Other	-		
Net income for common stock shareholders	¥ 5,656	86,724	¥ 65.23
Effect of Diluted stock shareholders			
Warrants	-	64	
<b>Diluted EPS</b>			
Net income for computation	¥ 5,656	86,788	¥ 65.18

## 2. Change in accounting policies:

Effective from the year ended March 31, 2014, the Company and some of its consolidated subsidiaries in Japan have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, “Statement No. 26”)) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, “Guidance No. 25”)) except article 35 of Statement No. 26 and article 67 of Guidance No. 25, and unrecognized actuarial differences and prior service costs have been recognized and the difference between projected benefit obligation and pension plan assets has been recognized as a net defined benefit liability.

In accordance with article 37 of Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result, the Group recorded ¥193 million (\$1,878 thousand) of liability for retirement benefits as of March 31, 2014. Furthermore, accumulated other comprehensive income increased by ¥267 million (\$2,597 thousand) as of March 31, 2014.

Net income per share increased by ¥ 3.07.

## 3. Accounting standards issued but not yet effective:

“Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012)

“Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012)

### (1) Outline

This accounting standard was revised mainly on a processing method of unrecognized actuarial loss and unrecognized prior service cost, a calculation method of retirement benefit obligations and service cost and expansion of the disclosure.

### (2) Scheduled date of adoption

The Company applied the revised accounting standard from the end of the annual period ending on March 31, 2014. However, on the calculation method of retirement benefit obligations and service cost, it expects to apply from the beginning of the annual period ending on March 31, 2015.

### (3) Impact of the adoption of the revised accounting standard

The Company expects this change to have minor impact on the consolidated financial statements.

#### 4. Cash flow information:

Reconciliation of cash and cash equivalents

Cash and time deposits at March 31, 2014 and 2013 reconciled to cash and cash equivalents were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and time deposits	¥ 12,192	¥ 13,851	\$ 118,467
Time deposits with maturity over three months	(677)	(152)	(6,585)
Marketable securities	250	1,408	2,429
Total cash and cash equivalents	¥ 11,764	¥ 15,107	\$ 114,311

#### 5. Accumulated depreciation of property and equipment:

Accumulated depreciation of property and equipment as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Accumulated depreciation of property and equipment	¥ 10,799	¥ 10,186	\$ 104,935

#### 6. Financial instruments:

##### (1) Qualitative information on financial instruments

###### (a) Policies for using financial instruments

The Company and its consolidated subsidiaries procure funds that are required for the planning of capital investment, and short-term operating funds through bank loans. The surplus funds are invested in the compound financial products that build in the stocks, the debenture, and derivatives aiming to operate it by a high yield.

Derivatives that the Company uses are only the compound financial products that build in derivatives.

###### (b) Details of financial instruments used and the exposures to risk and how they arise

Notes and accounts receivable are exposed to the credit risks in relation to customers. Some of them are denominated in foreign currencies, which consequently expose the Company and its subsidiaries to the risks of exchange rate fluctuations.

Securities and investment securities, which are principally equity securities and debt securities, are exposed to the risk of market price fluctuations.

The investments in the compound financial instruments that build in derivatives have the risk of the bond market price and the exchange rate fluctuations.

These investments are executed with credit worthy financial institutions. Given their creditworthiness, management does not expect any counterparty to fail to meet its obligations.

###### (c) Policies and processes for managing the risk

###### ① Credit risk management (counterparty risk)

The Company and its consolidated subsidiaries have established internal procedures for receivables under which the related divisions are primarily responsible for periodically monitoring counterparty status. The department manages amounts and settlement dates by counterparty and works to quickly identify and mitigate payment risk that may result from situations including deterioration of the financial condition of counterparties. Consolidated subsidiaries are subject to the same risk management rules.

###### ② Market risk management (risk of exchange rate and interest rate fluctuations)

Any investments to compound financial instruments that include stocks, bonds, and derivatives as their components are managed with the established policies and within the specified limit on the amounts of investments allowed. In addition, the Company clearly separates its transaction division and management division in their functions with the view to securely managing its assets. The Company's management division confirms transactions, manages its current position, and ensures that all derivative transactions are executed with the established policies so that its internal control functions properly. The Company periodically provides administrative reports on the status of its position, including market value, to the financial director and treasurer.

Regarding marketable securities and investment securities, the Company periodically examines the financial condition of the issuing entities. The company also regularly reviews the status of its holdings of bonds, not including those held to maturity, taking into consideration its relationships with corporate business holders.

###### ③ Management of liquidity risk associated with funds procurement (payment default risk)

The Company and its consolidated subsidiaries manage liquidity risk by creating and updating a capital deployment plan based on reports from each division.

(d) Fair values of financial instruments

Fair values of financial instruments include the values based on market prices, and the values deemed as market prices obtained by the reasonable estimate when the financial instruments do not have market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

(2) Fair values of financial information

Fair values of financial instruments as of March 31, 2014 and 2013 were summarized as follows:

The financial instruments whose fair values were not available were not included below and were summarized in B (b).

(a) Fair values of financial instruments

	Millions of yen		
	March 31, 2014		
	Acquisition Amount	Estimated fair value	Difference
Cash and deposits	¥ 12,192	¥ 12,192	-
Notes and accounts receivable	8,755		
Allowance for bad debts*	(38)		
	8,716	8,716	-
<b>Marketable and investment securities</b>			
Other securities	55,013	55,013	-
Assets Total	¥ 75,923	¥ 75,923	-

	Millions of yen		
	March 31, 2013		
	Acquisition Amount	Estimated fair value	Difference
Cash and deposits	¥ 13,851	¥ 13,851	-
Notes and accounts receivable	9,302		
Allowance for bad debts*	(31)		
	9,271	9,271	-
<b>Marketable and investment securities</b>			
Other securities	47,095	47,095	-
Assets Total	¥ 70,218	¥ 70,218	-

	Thousands of U.S.dollars		
	March 31, 2014		
	Acquisition Amount	Estimated fair value	Difference
Cash and deposits	\$ 118,467	\$ 118,467	-
Notes and accounts receivable	85,072		
Allowance for bad debts*	(377)		
	84,695	84,695	-
<b>Marketable and investment securities</b>			
Other securities	534,530	534,530	-
Assets Total	\$ 737,693	\$ 737,693	-

\* The amounts for probable losses calculated by applying a percentage based on collection experience to the remaining accounts are included.

(Note 1): Fair values of financial instruments, and matters pertaining to securities and derivative transactions

Assets

Cash and deposits and Notes and accounts receivable

The book values approximate the fair values because of short-term maturities of these instruments.

Marketable and investment securities

The fair value is based on the market prices or the prices obtained from financial institutions.

See the Notes on "9. Marketable securities and investment securities".

(b) Financial instruments whose fair values were difficult to measure

The financial instruments for which the fair values were not available as of March 31, 2014 and 2013 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Stocks of subsidiaries and affiliates	¥ 20	¥ 20	\$ 194
Non-listed equity securities	132	132	1,287
Other	2,526	1,910	24,548
Total	¥ 2,679	¥ 2,062	\$ 26,030

It is difficult to measure the fair value of these financial instruments because there is no market price available and it is not efficient to calculate future cash flow. Therefore, these financial instruments were not included in the marketable and investment securities described in B (a).

(c) Maturities of financial instruments

The maturities of the financial instruments at March 31, 2014 and 2013 were as follows:

	Millions of yen			
	At March 31, 2014			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥ 927	-	-	-
Notes and accounts receivable	8,755	-	-	-
Marketable and investment securities				
Other securities				
(1)Government bonds and local government bonds	¥ 540	¥ 1,455	¥ 3,752	¥ 7,119
(2)Bonds	-	3,728	2,217	2,701
(3)Other	-	500	806	-
Total	¥ 10,223	¥ 5,684	¥ 6,777	¥ 9,821

	Millions of yen			
	At March 31, 2013			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥ 1,561	-	-	-
Notes and accounts receivable	9,302	-	-	-
Marketable and investment securities				
Other securities				
(1)Government bonds and local government bonds	¥ 648	¥ 5,664	¥ 2,490	¥ 7,996
(2)Bonds	1,724	2,545	1,238	893
(3)Other	-	453	433	-
Total	¥ 13,236	¥ 8,664	¥ 4,162	¥ 8,890

	Thousands of U.S. dollars			
	At March 31, 2014			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	\$ 9,014	-	-	-
Notes and accounts receivable	85,072	-	-	-
Marketable and investment securities				
Other securities				
(1)Government bonds and local government bonds	\$ 5,248	\$ 14,138	\$ 36,464	\$ 69,177
(2)Bonds	-	36,230	21,546	26,250
(3)Other	-	4,863	7,838	-
Total	\$ 99,335	\$ 55,232	\$ 65,850	\$ 95,428



## 7. Rental property:

The Company and its consolidated subsidiaries own office buildings (including land) for leasing in Kanagawa prefecture, other domestic areas, and foreign countries. The rental income included in net sales was ¥151 million (\$1,472 thousand) and ¥128 million for the years ended March 31, 2014 and March 31, 2013, respectively.

Information about fair value of investment and rental property included in the consolidated financial statement at March 31, 2014 and 2013 were as follows:

	At March 31, 2014			
	Book value (net of depreciation)			Fair value
	March 31, 2013	Increase	March 31, 2014	March 31, 2014
Millions of yen	¥ 4,832	¥ 1,825	¥ 6,658	¥ 6,652
Thousands of U.S dollars	\$ 46,950	\$ 17,741	\$ 64,691	\$ 64,641

	At March 31, 2013			
	Book value (net of depreciation)			Fair value
	March 31, 2012	Decrease	March 31, 2013	March 31, 2013
Millions of yen	¥ 4,913	(¥ 81)	¥ 4,832	¥ 4,711

Book values recorded in the consolidated balance sheet present acquisition cost, net of accumulated depreciation and impairment loss.

Note:

- 1: The amount of increase is mainly attributable to acquisition of buildings in Europe(acquisition price: 1,425 millions of yen/13,852 thousands of U.S. dollars).
- 2: The fair value for domestic rental properties was calculated by the Company and its consolidated subsidiaries based on the Real Estate Appraisal Standard. Locally appraised value was used for the fair value of overseas rental properties.

## 8. Lease:

The future minimum lease receipts for only non-cancelable operating lease contracts as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	¥ 249	¥ 130	\$ 2,428
Due after one year	1,966	1,134	19,103
Total	¥ 2,216	¥ 1,264	\$ 21,532

## 9. Marketable securities and investment securities:

A comparison of the aggregate cost and fair value of "Held-to-maturity securities for which market quotations are available" and "Other securities for which market quotations are available" at March 31, 2014 and 2013 were as follows:

	Millions of yen			
	At March 31, 2014			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other securities for which market quotations are available -				
(1)Equity securities	¥ 22,599	¥ 3,246	¥ 545	¥ 25,299
(2)Debt securities	19,098	1,830	1,854	19,075
(3)Other	8,231	2,676	268	10,639
Total	¥ 49,929	¥ 7,753	¥ 2,668	¥ 55,013

	Millions of yen			
	At March 31, 2013			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other securities for which market quotations are available -				
(1)Equity securities	¥ 11,388	¥ 2,483	¥ 300	¥ 13,572
(2)Debt securities	23,014	1,410	2,132	22,292
(3)Other	9,517	1,928	215	11,230
Total	¥ 43,920	¥ 5,822	¥ 2,647	¥ 47,095

	Thousands of U.S. dollars			
	At March 31, 2014			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other securities for which market quotations are available -				
(1)Equity securities	\$ 219,578	\$ 31,541	\$ 5,303	\$ 245,816
(2)Debt securities	185,571	17,784	18,015	185,340
(3)Other	79,980	26,006	2,613	103,373
Total	\$ 485,130	\$ 75,333	\$ 25,932	\$ 534,530

Impairment loss of ¥198 million (\$1,923 thousand) and ¥276 million was recognised for the years ended March 31, 2014 and 2013, respectively. The redemption loss of ¥11 million (\$127 thousand) on the bonds was stated in the statement of income for the year ended March 31, 2013.

Available-for-sale securities sold for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Sales amount	¥ 14,907	¥ 7,445	\$ 144,841
Gross realized gains	1,870	737	18,176
Gross realized losses	994	2	9,658

## 10. Research and development expenses:

Research and development expenses included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2014 and 2013 was ¥550 million (\$5,351 thousand) and ¥671 million, respectively.

## 11. Retirement benefit plan:

### For the year ended March 31, 2014

#### (1) Outline

The Company and its consolidated domestic subsidiaries have a defined benefit corporate pension plan. One of the foreign consolidated subsidiaries has adopted a defined contribution plan.

In addition, some domestic consolidated subsidiaries transferred to a defined-benefit corporate pension plan from a lump-sum payment plan effective March 31, 2014.

#### (2) Defined benefit plan

(a) The adjustments of defined benefit plans are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligation at the beginning of the period	¥ 3,292	\$ 31,989
Service cost	312	3,040
Interest cost	42	415
Actuarial loss	(105)	(1,025)
Benefits paid	(106)	(1,032)
Adjustment for retirement benefit obligations due to change in accounting method	37	365
Retirement benefit obligation at the end of the period	¥ 3,473	\$ 33,753

(b) The adjustments of Plan assets at fair value are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at fair value at the beginning of the period	¥ 2,650	\$ 25,751
Expected return on plan assets	92	901
Actuarial gain	347	3,376
Contributions by the employer	296	2,876
Retirement benefits paid	(106)	(1,031)
Plan assets at fair value at the end of the period	¥ 3,280	\$ 31,874

(c) The adjustments of related to Retirement benefit obligation and Plan assets at fair value at the end of the period and defined benefit liability and defined asset recorded on the consolidated balance sheets are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligations of the saving plan	¥ 3,473	\$ 33,753
Plan assets at fair value	(3,280)	(31,874)
	193	1,878
Retirement benefit obligations of the non-saving plan	-	-
Net amount of liabilities and assets recognized in the consolidated balance sheets	193	1,878
Liability for retirement benefits	193	1,878
Asset for retirement benefits	-	-
Net amount of liabilities and assets recognized in the consolidated balance sheets	¥ 193	\$ 1,878

(d) Retirement benefit expenses and their breakdown:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 312	\$ 3,040
Interest cost	42	415
Expected return on plan assets	(92)	(901)
Amortization of actuarial differences	33	325
Amortization of prior service costs	10	100
Adjustment for retirement benefit obligations due to change in accounting method	37	365
Retirement benefit expenses	¥ 344	\$ 3,347

(e) The breakdown of prior service cost and actuarial gain recognized in accumulated other comprehensive income before deduction of tax benefit is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service cost	¥ 174	\$ 1,691
Unrecognized actuarial gain	(588)	(5,720)
Total	(¥ 414)	(\$ 4,028)

(f) The breakdown of plan assets by major category is as follows:

	2014
Bonds	30.2%
Equities	66.0
Other	3.8
Total	100.0%

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and long-term rate expected to earn the profit from multiple plan assets at present and in the future.

(g) The assumptions used in accounting for the above plans are as follows:

	2014
Discount rate	1.3%
Expected rates of return on plan assets	3.5%

(3) Defined contribution plan

The required contributions to the defined contribution plans of the some overseas consolidated subsidiaries are ¥2 million (\$22 thousand).

**For the year ended March 31, 2013**

The Company and its consolidated domestic subsidiaries have a defined benefit corporate pension plan and a lump-sum payment plan. One of the foreign consolidated subsidiaries has adopted a defined contribution plan.

The Company and some of its consolidated domestic subsidiaries terminated their tax-qualified pension plan and introduced a defined benefit corporate pension plan on May 1, 2011.

Accounting relating to this shift was applied in accordance with the Guidance on “Accounting for Transfers between Retirement Benefit Plans” (ASBJ Guidance No.1, January 31, 2002).

The Company and certain consolidated domestic subsidiaries integrated and changed its retirement benefit plan as of March 31, 2013. Due to integration of retirement benefit plan, consolidated domestic subsidiaries have changed their calculation method for the projected benefit obligation from the simplified method to the principal method. As a result of this change, the difference between the amount calculated by the simplified method and the principal method is ¥55 million, and is recorded as “Retirement benefit expenses” in other expenses.

The reserve for retirement benefits as of March 31, 2013 was as follows:

	Millions of yen
	<b>2013</b>
Projected benefit obligations	(¥ 3,292)
Plan assets	2,650
	(642)
Unrecognized past service costs	184
Unrecognized actuarial differences	(102)
Reserve for retirement benefits	(¥ 559)

Note: Certain consolidated domestic subsidiaries adopt a simplified method to estimate retirement benefit obligation.

The net pension expenses relating to retirement benefits for the year ended March 31, 2013 were as follows:

	Millions of yen
	<b>2013</b>
Service cost	¥ 229
Interest cost	45
Expected return on plan assets	(66)
Amortization of prior service costs	(26)
Amortization of actuarial differences	60
Adjustment for retirement benefit obligations due to change in accounting method	55
Contributions for defined contribution plans	1
Net pension expenses	¥ 301

Note: Retirement benefit cost for subsidiaries adopting a simplified method are reported in “Service cost”.

The assumptions used in calculation of the above information were as follows:

	<b>2013</b>
Discount rate	1.3%
Expected rate of return on plan assets	0.75~3.5%
Method of attributing the projected benefits to periods of service	Straight - line basis
Amortization of prior service costs	9 years to 12 years from the year in which they arise
Amortization of unrecognized actuarial differences	9 years to 12 years from the year following that in which they arise

## 12. Income taxes:

The income taxes applicable to the Company and its consolidated subsidiaries in Japan include corporation tax, enterprise tax and inhabitant tax which, in aggregate, resulted in a statutory tax rate of approximately 38.0% for the year ended March 31, 2014. The Company's effective tax rates for financial reporting purposes differ from the statutory tax rate due to a number of items, including various tax credits, certain expenses not allowable for income tax purposes, the non-deductibility of the losses of subsidiaries, different tax rates applicable to foreign subsidiaries and dividends income which is not taxable.

The reconciliation of differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2014 and 2013 were as follows:

	2014	2013
Statutory tax rate	38.0%	38.0%
Increase (decrease) in taxes resulting from:		
Amortization of goodwill	4.4	6.1
Special tax credit for research and development expenses and other	(6.0)	(3.4)
Tax rate difference in certain subsidiaries	(0.8)	(0.6)
Valuation allowance	0.5	(6.1)
Adjustment on deferred tax assets due to change in income tax rate	0.6	-
Other, net	(1.6)	1.6
Effective tax rate	35.1%	35.6%

The significant components of deferred tax assets and liabilities included in the balance sheets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax :			
(1) Current assets			
Deficit amount	¥ 20	¥ 1	\$ 199
Accrued bonuses	265	257	2,583
Unrealized loss on inventory valuation	68	114	665
Provision for enterprise tax	114	95	1,110
Allowance for sales discount	219	113	2,134
Unrealized gains or losses on securities	-	193	-
Other	186	169	1,812
Valuation allowance	-	(20)	-
Offset to deferred tax liabilities (current)	(48)	-	(472)
Net deferred tax current assets	¥ 826	¥ 923	\$ 8,033
(2) Non-current assets			
Loss on investment securities	¥ 499	¥ 594	\$ 4,851
Deficit amount	493	508	4,798
Software development expense depreciation denial	254	392	2,474
Impairment loss on fixed assets	119	126	1,164
Unrealized loss on investment securities	4	6	39
Reserve for retirement benefit	-	191	-
Net defined benefit liability	79	-	772
Other	203	593	1,977
Valuation allowance	(642)	(563)	(6,243)
Offset to deferred tax liabilities (non-current)	(800)	(1,358)	(7,779)
Net deferred tax non-current assets	¥ 211	¥ 493	\$ 2,055

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax :			
(1) Current liabilities			
Unrealized gains or losses on securities	(¥ 49)	-	(\$ 476)
Offset to deferred tax assets (current)	48	-	472
Net deferred tax current liabilities	(¥ 0)	-	(\$ 3)
(2) Non-current liabilities			
Unrealized gain on investment securities	(¥ 1,734)	(¥ 1,295)	(\$ 16,849)
Other	(103)	(104)	(1,009)
Offset to deferred tax assets (non-current)	800	1,358	7,779
Net deferred tax non-current liabilities	(¥ 1,037)	(¥ 41)	(\$ 10,082)



Note:

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 38.0% to 35.6% for temporary differences expected to be realized after April 1, 2014.

The resulting effect on profit and loss is minor.

### 13. Assets pledged and revaluation of the land:

(1) Assets pledged	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings and structures	¥ 270	¥ 276	\$ 2,627
Land	306	306	2,973
Total	¥ 576	¥ 582	\$ 5,600

#### (2) Revaluation of the land

The Company revalued land for its business in accordance with the Land Revaluation Law. The Company recorded the entire difference between the carrying amount and revalued amount as unrealized losses on revaluation of the land as a separate component of net assets.

Revaluation of land was performed by making a reasonable adjustment to the land based on the market value estimated in accordance with relevant provisions of the Land Revaluation Law.

Date of revaluation: March 31, 2000.

Fair value of the revalued land as of March 31, 2014 is ¥422 million (\$4,107 thousand) less than the book value as of March 31, 2014.

### 14. Net assets:

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law (the "Law"), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earning reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting held on June 25, 2014, the shareholders resolved cash dividends amounting to ¥3,477 million (\$33,787 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014. Such appropriations will be recognized in the period when they are resolved.

### 15. Derivative instruments:

Information regarding the derivative instruments, refer to "Marketable securities and investment securities" in Note 9.

## 16. Share Subscription Rights:

The summarized contents of share subscription rights as of March 31, 2014 are as follows:

	Share subscription rights #4	Share subscription rights #5	Share subscription rights #6
Date of the annual shareholders' meeting	January 26, 2009	June 23, 2010	June 26, 2012
Position and number of grantee	8 employees of the Company and 227 executive officer or employees of the subsidiaries	4 directors and 19 employees of the Company and 283 executive officer or employees of the subsidiaries	6 directors and 24 employees of the Company and 349 executive officer or employees of the subsidiaries
Date of grant	April 1, 2009	October 25, 2010	October 22, 2012
Class and number of stock	Common Stock 209,880	Common Stock 485,400	Common Stock 726,300
Exercised period	From April 1, 2011 to March 31, 2014	From October 26, 2012 to October 23, 2015	From October 23, 2014 to October 20, 2017

The following table summarizes scale and movement of share subscription rights as of March 31, 2014

	Share subscription rights #4	Share subscription rights #5	Share subscription rights #6
<b>Non-exercisable (number of shares)</b>			
Outstanding at April 1, 2013	-	-	721,500
Granted	-	-	-
Forfeited	-	-	20,600
Vested	-	-	-
Outstanding at March 31, 2014	-	-	700,900
<b>Exercisable (number of shares)</b>			
Outstanding at April 1, 2013	153,180	318,300	-
Vested	-	-	-
Exercised	-	117,900	-
Forfeited	153,180	2,900	-
Outstanding at March 31, 2014	-	197,500	-
Exercise price	¥ 1,223 \$ 11.88	¥ 578 \$ 5.61	¥ 656 \$ 6.37
Average stock price at exercise	-	¥ 1,135 \$ 11.02	-
Fair value price at grant date	¥ 82 \$ 0.79	¥ 83 \$ 0.80	¥ 74 \$ 0.71

## 17. Asset retirement obligations:

(1) Summary of applicable asset retirement obligations include the duty of restoration arising from contractual requirements set forth in real estate leases for amusement facility arcades.

(2) Instead of posting liabilities for asset retirement obligations, the Group of the Company uses the method of estimating the reasonable amount that cannot be finally recovered from the deposit related to a real estate lease contract and posting the part of that amount belonging to the current term under costs.

(3) Changes to aggregate asset retirement obligations applicable to the fiscal years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Beginning balance (See note)	¥ 85	¥ 97	\$ 832
Expense belonging to the burden of this consolidated fiscal year	3	4	33
Decrease due to fulfillment of asset retirement obligations	(5)	(16)	(48)
Ending balance	¥ 84	¥ 85	\$ 817

## 18. Comprehensive income:

The components of other comprehensive income including reclassification adjustments and income tax effect were as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized gains on securities:			
Increase during the year	¥ 1,904	¥ 7,272	\$ 18,500
Reclassification adjustments to profit or loss	(138)	98	(1,349)
Amount before income tax effect	1,765	7,370	17,151
Income tax effect	(516)	(1,420)	(5,020)
Total unrealized gains on securities	1,248	5,950	12,131
Foreign currency translation adjustments:			
Increase during the year	1,503	788	14,607
Total other comprehensive income	¥ 2,751	¥ 6,738	\$ 26,738

## 19. Segment information:

### (1) Outline of business segment reported

The business segments the Company reports are the business unit for which the Company is able to obtain individual financial information separately in order for the board of directors to conduct periodic investigation to determine the distribution of management resource and evaluate their business performance.

The Company operates principally in the following business segments:

- (a) Game Software: Design, development, manufacture and sale of game software for personal computers (PCs) and home video game systems.
- (b) Online & Mobile: Design, development, and management of software for online game and mobile phone.
- (c) Media & Rights: Design, development, manufacture and sale of game software related products such as books, music CDs and picture Blue-Ray & DVDs and management of game software product licenses.
- (d) SP: Entrusted development of commercial amusement.
- (e) Amusement Facilities Operation: management of amusement arcade.
- (f) Other: Real estate management, venture capital.

### (2) Method of calculating sales and income (loss), and other items by business segment reported

Income of the reporting segments is operating income. Transfers among segments are based on market prices.

### (3) Information on sales and income (loss) and other items by business segment reported

	Millions of yen							
	For the year ended March 31, 2014							
	Business segment reported							Other
Game Software	Online& Mobile	Media& Rights	SP	Amusement Facilities	Sub Total			
<b>I. Net sales and operating income:</b>								
Net sales								
(1) Net sales to outside customers	¥ 24,980	¥ 6,112	¥ 2,063	¥ 2,268	¥ 1,796	¥ 37,221	¥ 354	¥ 37,576
(2) Inter-segment net sales	460	310	8	10	-	790	94	884
Total	25,441	6,423	2,071	2,278	1,796	38,011	448	38,460
Segment income	¥ 6,017	¥ 1,073	¥ 202	¥ 923	¥ 90	¥ 8,306	¥ 76	¥ 8,382
<b>II. Other items:</b>								
Depreciation and amortization	¥ 285	¥ 176	¥ 5	¥ 6	¥ 172	¥ 646	¥ 248	¥ 894

	Millions of yen							
	For the year ended March 31, 2013							
	Business segment reported							Other
Game Software	Online& Mobile	Media& Rights	SP	Amusement Facilities	Sub Total			
<b>I. Net sales and operating income:</b>								
Net sales								
(1) Net sales to outside customers	¥ 23,268	¥ 5,326	¥ 1,735	¥ 2,190	¥ 1,932	¥ 34,454	¥ 184	¥ 34,639
(2) Inter-segment net sales	450	154	5	4	-	614	49	664
Total	23,718	5,480	1,741	2,195	1,932	35,069	234	35,303
Segment income(loss)	¥ 6,229	¥ 549	(¥ 17)	¥ 642	¥ 157	¥ 7,561	¥ 52	¥ 7,614
<b>II. Other items:</b>								
Depreciation and amortization	¥ 378	¥ 203	¥ 7	¥ 6	¥ 167	¥ 763	¥ 167	¥ 930

Thousands of U.S. dollars								
For the year ended March 31, 2014								
Business segment reported								
	Game Software	Online & Mobile	Media & Rights	SP	Amusement Facilities	Sub Total	Other	Total
<b>I. Net sales and operating income:</b>								
Net sales								
(1) Net sales to outside customers	\$ 242,719	\$ 59,389	\$ 20,050	\$ 22,044	\$ 17,453	\$ 361,657	\$ 3,443	\$ 365,100
(2) Inter-segment net sales	4,476	3,020	80	98	-	7,676	913	8,589
Total	247,196	62,409	20,131	22,142	17,453	369,333	4,356	373,690
Segment income	\$ 58,465	\$ 10,426	\$ 1,966	\$ 8,971	\$ 877	\$ 80,706	\$ 738	\$ 81,445
<b>II. Other items:</b>								
Depreciation and amortization	\$ 2,777	\$ 1,713	\$ 57	\$ 58	\$ 1,671	\$ 6,277	\$ 2,411	\$ 8,689

Note: The Company's administrative expenses for the Company's indirect departments which do not belong to the reporting segment are allocated to each reporting segment in accordance with reasonable allocation standards.

(4) The adjustment for segment information above and the reconciliations between net sales and segment income (loss) in the consolidated statements of income were as follows:

(a) Reconciliation of net sales	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Business segment reported Total	¥ 38,011	¥ 35,069	\$ 369,333
Sales of Other segment	448	234	4,356
Elimination of intersegment transactions	(884)	(664)	(8,589)
Total	¥ 37,576	¥ 34,639	\$ 365,100

(b) Reconciliation of segment income (loss)	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Business segment reported Total	¥ 8,306	¥ 7,561	\$ 80,706
Profit of Other segment	76	52	738
Amortization of goodwill	(1,242)	(1,405)	(12,071)
Total	¥ 7,140	¥ 6,208	\$ 69,374

Note: For management reporting purposes, goodwill and assets are not allocated to the segments.

### (Segment related information)

#### Information by country or region

The following tables present sales and assets information by geographic area for the years ended March 31, 2014 and 2013.

#### (1) Sales

	Millions of yen				
	For the year ended March 31, 2014				
	Japan	North America	Europe	Others	Consolidated Total
Net sales to outside customers:	¥ 31,309	¥ 2,610	¥ 1,726	¥ 1,929	¥ 37,576

	Millions of yen				
	For the year ended March 31, 2013				
	Japan	North America	Europe	Others	Consolidated Total
Net sales to outside customers:	¥ 28,940	¥ 2,585	¥ 1,664	¥ 1,448	¥ 34,639

	Thousands of U.S. dollars				
	For the year ended March 31, 2014				
	Japan	North America	Europe	Others	Consolidated Total
Net sales to outside customers:	\$ 304,213	\$ 25,361	\$ 16,775	\$ 18,749	\$ 365,100

Note: The sales amounts are classified by country or region where customers are located.



(2) Tangible fixed assets

Millions of yen				
For the year ended March 31, 2014				
Japan	Asia	UK	Other	Consolidated Total
<b>¥ 10,782</b>	<b>¥ 1,659</b>	<b>¥ 3,598</b>	<b>¥ 5</b>	<b>¥ 16,045</b>

Millions of yen				
For the year ended March 31, 2013				
Japan	Asia	UK	Other	Consolidated Total
¥ 11,012	¥ 1,359	¥ 1,790	¥ 38	¥ 14,200

Thousands of U.S. dollars				
For the year ended March 31, 2014				
Japan	Asia	UK	Other	Consolidated Total
<b>\$ 104,767</b>	<b>\$ 16,122</b>	<b>\$ 34,961</b>	<b>\$ 51</b>	<b>\$ 155,903</b>

**20.Subsequent events:**

Not applicable



## **Independent Auditor's Report**

To the Board of Directors of KOEI TECMO HOLDINGS CO., LTD.:

We have audited the accompanying consolidated financial statements of KOEI TECMO HOLDINGS CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KOEI TECMO HOLDINGS CO., LTD. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

September 9, 2014  
Tokyo, Japan

## BOARD OF DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

Chairman

**Keiko Erikawa\***

President & CEO

**Yoichi Erikawa\***

Director

**Hisashi Koinuma**

Director

**Kazuyoshi Sakaguchi**

Director

**Shintaro Kobayashi**

Director & Advisor

**Yasuharu Kakihara**

Director(Outside)

**Masao Tejima**

AUDIT & SUPERVISORY BOARD MEMBER(Full-time)

**Satoru Morishima**

AUDIT & SUPERVISORY BOARD MEMBER(Full-time, Outside)

**Masaki Kimura**

AUDIT & SUPERVISORY BOARD MEMBER(Outside)

**Chiomi Yamamoto**

AUDIT & SUPERVISORY BOARD MEMBER(Outside)

**Toshikazu Kitamura**

Senior Executive Officer & CFO

**Kenjiro Asano**

Executive Officers

**Takeshi Hara**

**Masatoshi Hosaka**

**Hidenori Taniguchi**

\*Representative Director

(As of June 25, 2014)

## CORPORATE DATA

### **KOEI TECMO HOLDINGS CO., LTD.**

#### **Head Office**

1-18-12 Minowa-cho, Kouhoku-ku,  
Yokohama, Kanagawa 223-8503 Japan  
Tel : +81-45-562-8111  
<http://www.koeitecmo.co.jp/>

#### **Date Established :**

April 1, 2009

#### **Paid-in Capital :**

¥15 Billion ( As of March 31, 2014)

#### **Number of Employees :**

1,455(As of March 31, 2014: Consolidated Basis)

#### **Account Settlement :**

March 31

#### **Transfer Agent of Common Stock :**

Sumitomo Mitsui Trust Bank, Limited  
1-4-1, Marunouchi, Chiyoda-ku, Tokyo  
100-8233 Japan

#### **Independent Auditor :**

KPMG AZSA LLC

### **MAJOR SUBSIDIARIES**

#### **KOEI TECMO GAMES CO., LTD.**

1-18-12 Minowa-cho, Kouhoku-ku,  
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Tel : +81-45-561-6888

#### **KOEI TECMO WAVE CO., LTD.**

KUDANMEIZENDO Bldg.  
4-1-34 Kudankita, Chiyoda-ku,  
Tokyo 102-0073 Japan  
Tel : +81-3-3222-8333

#### **KOEI TECMO NET CO., LTD.**

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Yokohama, Kanagawa 223-8527 Japan  
Tel : +81-45-565-3123

#### **CWS Brains, LTD.**

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#### **KOEI TECMO**

#### **AMERICA Corporation**

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#### **KOEI TECMO EUROPE LIMITED**

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<http://www.koeitecmoeurope.com/>

#### **KOEI TECMO TAIWAN CO., LTD.**

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<http://www.gamecity.com.tw/>

#### **KOEI TECMO BEIJING SOFTWARE CO., LTD.**

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#### **KOEI TECMO TIANJIN SOFTWARE CO., LTD.**

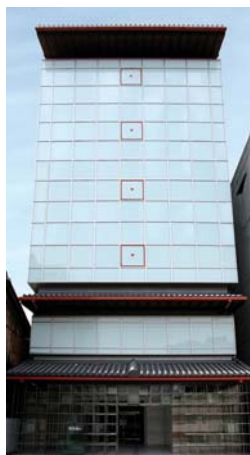
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#### **KOEI TECMO SINGAPORE Pte. Ltd.**

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#### **KOEI TECMO SOFTWARE VIETNAM CO., LTD.**

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Street, Lieu Giai Ward, Ba Dinh District,  
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Tel : +84-4-3232-1287





**KOEI TECMO HOLDINGS CO., LTD.**

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