# Consolidated Financial Summary for the Year Ended March 31, 2018
# (Japanese Accounting Standards)

May 10, 2018

Avex Group Holdings Inc. — Tokyo Stock Exchange, First Section
Code No: 7860 — (URL https://avex.com)
Representative: Masato Matsuura, Representative Director, CEO
Contact: Seiichi Hatamoto, Corporate Executive, Chief Director of Group Administration — TEL: (03) 6447-5366
Ordinary General Meeting of Shareholders: scheduled for June 22, 2018
Scheduled date for commencement of dividend payments: June 25, 2018
Securities report: to be filed on June 25, 2018
Supplementary documents for financial results: Yes
Financial results briefing: Yes (for institutional investors and securities analysts)

Note: All amounts are rounded down to the nearest million yen.

## 1. Consolidated operating results for the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

### (1) Consolidated sales and income

Note: Figures in percentages denote the year-on-year change.

| | Net sales | | Operating income | | Ordinary income | | Profit (loss) attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|
| Year ended | million yen | % | million yen | % | million yen | % | million yen | % |
| March 31, 2018 | 163,375 | 1.1 | 6,939 | 21.1 | 6,582 | 46.9 | 2,601 | – |
| March 31, 2017 | 161,592 | 4.8 | 5,728 | (21.3) | 4,479 | (26.0) | 118 | (97.2) |

(Note) Comprehensive income
Year ended March 31, 2018 ¥3,486 million (123.8%)
Year ended March 31, 2017 ¥1,557 million (-60.0%)

| | Net income per share | Diluted net income per share | Ratio of net income to shareholders' equity | Ratio of ordinary income to total assets | Ratio of operating income to net sales |
|---|---|---|---|---|---|
| Year ended | yen | yen | % | % | % |
| March 31, 2018 | 60.41 | 60.11 | 5.4 | 5.2 | 4.2 |
| March 31, 2017 | 2.75 | 2.74 | 0.2 | 3.9 | 3.5 |

(Reference) Equity in earnings of affiliates
Year ended March 31, 2018: ¥ (538) million
Year ended March 31, 2017: ¥ (1,198) million

### (2) Consolidated financial position

| | Total assets | Net assets | Shareholders' equity ratio | Net assets per share |
|---|---|---|---|---|
| As of | million yen | million yen | % | yen |
| March 31, 2018 | 132,887 | 52,460 | 36.6 | 1,128.89 |
| March 31, 2017 | 118,399 | 51,849 | 40.6 | 1,114.63 |

(Reference) Shareholders' equity
As of March 31, 2018: ¥48,639 million
As of March 31, 2017: ¥48,049 million

### (3) Consolidated statement of cash flows

| | Cash flow from operating activities | Cash flow from investing activities | Cash flow from financing activities | Cash and cash equivalents at end of period |
|---|---|---|---|---|
| Year ended | million yen | million yen | million yen | million yen |
| March 31, 2018 | 13,429 | (12,919) | 3,476 | 28,184 |
| March 31, 2017 | 8,219 | (11,845) | 6,792 | 24,298 |

## 2. Status of dividend payments

| | Annual dividends | | | | | Total dividend payment (annual) | Payout ratio (consolidated) | Dividend on equity (consolidated) |
|---|---|---|---|---|---|---|---|---|
| (Record date) | End of first quarter | End of second quarter | End of third quarter | End of year | Annual | | | |
| Year ended | yen | yen | yen | yen | yen | million yen | % | % |
| March 31, 2017 | – | 25.00 | – | 25.00 | 50.00 | 2,153 | – | 4.4 |
| March 31, 2018 | – | 25.00 | – | 25.00 | 50.00 | 2,160 | 82.8 | 4.5 |
| Year ending March 31, 2019 (forecast) | – | 25.00 | – | 25.00 | 50.00 | | 82.8 | |

## 3. Forecasts for consolidated sales and income for the year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

Note: Figures in percentages denote the year-on-year change.

| | Operating income | | Profit (loss) attributable to owners of parent | | Net income per share |
|---|---|---|---|---|---|
| | million yen | % | million yen | % | Yen |
| Year ending March 31, 2019 | 7,000 | 0.9 | 2,650 | 1.9 | 61.53 |

* Notes
(1) Changes in significant subsidiaries during the term (changes in specified subsidiaries in conjunction with changes in the scope of consolidation): Yes
New: – companies (Company name) Excluded: 1 company (Company name: UULA Inc.)

(2) Changes in accounting policies and changes in or restatement of accounting estimates
1. Changes in accounting policies in conjunction with revisions to accounting standards: None
2. Changes in accounting policies other than 1: None
3. Changes in accounting estimates: None
4. Restatement: None

(3) Outstanding shares (ordinary shares)
a. Shares outstanding at end of term (including treasury stock)
As of March 31, 2018: 45,062,600 shares
As of March 31, 2017: 45,000,000 shares
b. Treasury stock at end of term
As of March 31, 2018: 1,976,286 shares
As of March 31, 2017: 1,892,448 shares
c. Average number of share during term
Year ended March 31, 2018: 43,070,474 shares
Year ended March 31, 2017: 43,017,267 shares

(Reference) Overview of non-consolidated operating results
1. Non-consolidated operating results for the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(1) Non-consolidated sales and income

Note: Figures in percentages denote the year-on-year change.

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| Year ended | million yen | % | million yen | % | million yen | % | million yen | % |
| March 31, 2018 | 15,706 | 4.5 | 1,525 | 1.9 | 529 | (63.2) | 866 | (57.7) |
| March 31, 2017 | 15,028 | (17.4) | 1,496 | (71.1) | 1,439 | (72.5) | 2,046 | (61.7) |

| | Net income per share | Diluted net income per share |
|---|---|---|
| Year ended | yen | yen |
| March 31, 2018 | 20.12 | 20.02 |
| March 31, 2017 | 47.57 | 47.37 |

(2) Non-consolidated financial position

| | Total assets | Net assets | Shareholders’ equity ratio | Net assets per share |
|---|---|---|---|---|
| Year ended | million yen | million yen | % | yen |
| March 31, 2018 | 101,157 | 37,669 | 36.5 | 856.28 |
| March 31, 2017 | 94,345 | 39,030 | 40.6 | 887.78 |

(Reference) Shareholders’ equity Year ended March 31, 2018: ¥36,894 million
Year ended March 31, 2017: ¥38,269 million

* This summary of financial statements is outside the scope of audit procedures by certified public accountants and audit firm.

* Explanation for forecasts of operations and other notes
The forecasts for operating results and others contained in this release are based on data and information that the Group has obtained so far and specific assumptions that the Group judges to be reasonable. Please note, therefore, that the actual results and others may greatly differ from the forecasts due to various factors.

## 1. Operating results

(1) Breakdown of operating results

(Unit: million yen)

| | Fiscal year ended March 31, 2014 | Fiscal year ended March 31, 2015 | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|---|---|---|
| Net sales | 156,935 | 169,256 | 154,122 | 161,592 | 163,375 |
| Cost of sales | 105,531 | 118,503 | 107,867 | 116,043 | 114,967 |
| Gross profit | 51,403 | 50,752 | 46,255 | 45,549 | 48,408 |
| Gross profit margin | 32.8% | 30.0% | 30.0% | 28.2% | 29.6% |
| Personnel expenses | 13,219 | 12,816 | 12,253 | 13,694 | 13,232 |
| Sales promotion and advertising expenses | 12,036 | 11,028 | 11,477 | 9,938 | 9,848 |
| General expenses | 15,720 | 18,232 | 15,247 | 16,187 | 18,388 |
| Total SG&A expenses | 40,976 | 42,077 | 38,978 | 39,820 | 41,469 |
| Operating income | 10,427 | 8,675 | 7,277 | 5,728 | 6,939 |
| Operating margin | 6.6% | 5.1% | 4.7% | 3.5% | 4.2% |

During the consolidated fiscal year under review, the Japanese economy continued its modest recovery backed by improvement in corporate capital expenditure, employment and income, and other factors. Looking ahead, the economy is expected to continue its moderate growth based on a positive cycle from income to spending in both the corporate and the household sectors.

In the environment surrounding the entertainment industry, to which the Group belongs, the production of music software, including music videos, was down 5.5% year on year, to 232,048 million yen (January to December 2017; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 8.3% year on year, to 57,297 million yen (January to December 2017; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 8.3% year on year, to 187,670 million yen (January to December 2017; according to a survey by the Japan Video Software Association). The digital video distribution market, on the other hand, increased in scale by 13% year on year, to 185,000 million yen (January to December 2017; according to an estimate by the Digital Content Association of Japan), and is expected to continue increasing in the future. The market size of the live entertainment business expanded 7.2% year on year, to 332,448 million yen (January to December 2017; according to a survey by the All Japan Concert & Live Entertainment Promoter’s Conference), due to the trend of the rising average ticket price.

In the midst of this business environment, the Group is celebrating its 30th anniversary while implementing group-wide reforms such as business restructuring based primarily on cross-sectional Group reorganization, active investment in offering new entertainment experiences, creating successful works, etc. and the development of an environment for growing energetic human resources with the aim of achieving medium- to long-term growth based on “Avex Group Growth Strategy 2020 - Towards an Innovative Future of Entertainment” announced in May 2016.

Specifically, the Group has defined its core business domains as the Music, Anime, and Digital Businesses and has been making efforts such as the development of intra-Group projects and alliances with promising startups and other players, the flattening of the organization, and work-style reforms through the company-wide introduction of the flextime system and hot-desking in the offices.

Consequently, the Group’s consolidated net sales totaled 163,375 million yen (up 1.1% year on year), operating income came to 6,939 million yen (up 21.1% year on year), and profit attributable to owners of parent stood at 2,601 million yen (compared to 118 million yen in the previous fiscal year), which was attributable mainly to a rise in attendance at live performances and strong related businesses and the creation of hit music software products.

The results in the major business segments are as follows.
Beginning in the fiscal year under review, the Group has changed its business segments shown as reportable segments, and the comparisons and analysis in the fiscal year under review are based on the classification after the change.

a) Music Business

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 | Change |
|---|---|---|---|
| Net sales | 119,220 | 129,197 | 9,976 |
| Cost of sales | 83,695 | 90,770 | 7,074 |
| Gross profit | 35,525 | 38,427 | 2,901 |
| Gross profit margin | 29.8% | 29.7% | (0.1%) |
| Total SG&A expenses | 31,787 | 32,104 | 317 |
| Operating income | 3,738 | 6,322 | 2,584 |
| Operating margin | 3.1% | 4.9% | 1.8% |
| Sales to external customers | 117,547 | 128,181 | 10,633 |

Net sales reached 129,197 million yen (up 8.4% year on year) and operating income came to 6,322 million yen (up 69.1% year on year), which was primarily attributable to a rise in attendance at live performances and strong sales in related businesses and the creation of hit music software products.

b) Anime Business

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 | Change |
|---|---|---|---|
| Net sales | 17,336 | 14,265 | (3,071) |
| Cost of sales | 10,904 | 9,665 | (1,238) |
| Gross profit | 6,432 | 4,600 | (1,832) |
| Gross profit margin | 37.1% | 32.2% | (4.9%) |
| Total SG&A expenses | 3,111 | 3,193 | 82 |
| Operating income | 3,321 | 1,407 | (1,914) |
| Operating margin | 19.2% | 9.9% | (9.3%) |
| Sales to external customers | 13,886 | 11,033 | (2,852) |

Net sales totaled 14,265 million yen (down 17.7% year on year) and operating income came to 1,407 million yen (down 57.6% year on year) as a result of factors such as a decrease in sales of video software products.

c) Digital Business

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 | Change |
|---|---|---|---|
| Net sales | 29,206 | 22,771 | (6,435) |
| Cost of sales | 25,065 | 17,150 | (7,915) |
| Gross profit | 4,141 | 5,621 | 1,479 |
| Gross profit margin | 14.2% | 24.7% | 10.5% |
| Total SG&A expenses | 5,137 | 3,862 | (1,274) |
| Operating income | (995) | 1,758 | 2,753 |
| Operating margin | – | 7.7% | – |
| Sales to external customers | 28,969 | 22,674 | (6,294) |

Due partly to a decrease in the number of subscribers to digital video distribution services, net sales fell 22.0%, to 22,771 million yen. Meanwhile, operating income reached 1,758 million yen (compared to an operating loss of 995 million yen in the previous fiscal year), thanks chiefly to a decrease in the cost of sales.

d) Overseas Business

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 | Change |
|---|---|---|---|
| Net sales | 1,533 | 2,050 | 516 |
| Cost of sales | 804 | 1,063 | 258 |
| Gross profit | 728 | 986 | 257 |
| Gross profit margin | 47.5% | 48.1% | 0.6% |
| Total SG&A expenses | 975 | 2,432 | 1,456 |
| Operating income (loss) | (246) | (1,445) | (1,199) |
| Operating margin | – | – | – |
| Sales to external customers | 1,157 | 1,397 | 240 |

Factors such as prior investment in the US business resulted in net sales of 2,050 million yen (up 33.7% year on year) and operating loss of 1,445 million yen (compared to an operating loss of 246 million yen in the previous fiscal year).

e) Others

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 | Change |
|---|---|---|---|
| Net sales | 31 | 573 | 541 |
| Cost of sales | 2 | 170 | 168 |
| Gross profit | 29 | 402 | 372 |
| Gross profit margin | 93.6% | 70.2% | (23.4%) |
| Total SG&A expenses | 73 | 246 | 172 |
| Operating income (loss) | (43) | 156 | 200 |
| Operating margin | – | 27.2% | – |
| Sales to external customers | 31 | 88 | 56 |

In Others, net sales amounted to 573 million yen (compared to net sales of 31 million yen in the previous fiscal year) and operating income came to 156 million yen (compared to an operating loss of 43 million yen in the previous fiscal year).

(2) Breakdown of financial position

a) Status of consolidated assets, liabilities, and net assets

At the end of the consolidated fiscal year under review, total assets had increased by 14,487 million yen compared to the end of the previous consolidated fiscal year, to 132,887 million yen. This was mainly due to increases of 14,791 million yen in buildings and structures (net), 3,885 million yen in cash and deposits, and 3,204 million yen in "other" of current assets, which offset a decrease of 8,179 in construction in progress.

Liabilities increased by 13,877 million yen compared to the end of the previous consolidated fiscal year, to 80,427 million yen. This was mainly the result of increases of 9,663 million yen in accounts payable-other and 5,750 million yen in long-term loans payable (including the current portion).

Net assets rose by 610 million yen compared to the end of the previous consolidated fiscal year, to 52,460 million yen. This was mainly due to increases of 393 million yen in retained earnings and 218 million yen in foreign currency translation adjustment.

b) Consolidated cash flows

The balance of cash and cash equivalents (hereinafter "cash") at the end of the consolidated fiscal year under review was 28,184 million yen (24,298 million yen at the end of the previous fiscal year).

Net cash provided by operating activities stood at 13,429 million yen (8,219 million yen a year earlier). This was mainly attributable to the factors that increased net cash, including 9,644 million yen in accounts payable-other, 6,445 million yen in income before income taxes, and 4,109 million yen in depreciation and amortization, which offset a decrease in income taxes paid of 4,877 million yen, the factor that decreased net cash.

Net cash used in investing activities was 12,919 million yen (11,845 million yen a year earlier). This was mainly due to the factors that decreased net cash, including 9,376 million yen for the purchase of property, plant and equipment and 2,534 million yen for the purchase of intangible assets.

Net cash provided by financing activities stood at 3,476 million yen (6,792 million yen a year earlier). This chiefly reflected the factors that increased net cash, including 7,290 million yen in proceeds from long-term loans payable, which offset the factors that decreased net cash, including 2,158 million yen in cash dividends paid and 715 million yen in dividends paid to non-controlling interests.

(Reference) Trends in cash flow indices

| | Year ended March 31, 2014 | Year ended March 31, 2015 | Year ended March 31, 2016 | Year ended March 31, 2017 | Year ended March 31, 2018 |
|---|---|---|---|---|---|
| Shareholders' equity ratio (%) | 42.4 | 41.9 | 44.2 | 40.6 | 36.6 |
| Shareholders' equity ratio at market value (%) | 66.8 | 71.1 | 56.6 | 58.6 | 48.5 |
| Debt to cash flow ratio (%) | 1.8 | 0.9 | 1.1 | 2.3 | 1.9 |
| Interest coverage ratio | 43.6 | 149.6 | 197.2 | 283.2 | 177.2 |

Shareholders' equity ratio: Shareholders' equity/Total assets
Shareholders' equity ratio at market base: Market capitalization/Total assets
Debt to cash flow ratio: Interest-bearing liabilities/Operating cash flows
Interest coverage ratio: Operating cash flow/Interest payments
Note:
1. All indices are calculated based on consolidated figures.
2. Market capitalization = Closing share price at fiscal year-end X Outstanding shares at fiscal year-end (after deducting treasury stock)
3. Operating cash flow: Cash flow from operating activities in the consolidated cash flow statement
4. Interest-bearing liabilities: All interest-bearing liabilities that are booked on the consolidated balance sheet and for which interest has been paid
5. Interest payments: Interest payments from the consolidated cash flow statement

(3) Future outlook

The Group expects that consolidated operating income will be 7,000 million yen and profit attributable to owners of parent will be 2,650 million yen in the fiscal year ending March 31, 2019.

(4) Basic profit distribution policy and dividend payout for the period under review and the period following

One of our most important management tasks is to ensure comprehensive, long-lasting profit distribution to our shareholders. In determining the amount of dividends, we thoroughly evaluate factors such as consolidated performance, cash flows, and future funding requirements. The level of performance-linked dividends is a dividend ratio of 35% on a consolidated basis or more. The minimum level of the annual dividend per share is 50 yen.

Based on our basic policy to achieve a dividend ratio of at least 35% on a consolidated basis, the Company plans to pay a year-end dividend of 25 yen per share for the fiscal year ended March 31, 2018. Combined with the interim dividend of 25 yen per share, the annual dividend will be 50 yen per share.

We plan to pay an annual dividend of 50 yen per share for the next fiscal year. If the results forecasts are revised, we will review the annual dividend.

(5) Business and other risks

a) Trends in major titles, artists and talents

The Group utilizes the rights that it holds as a content holder in its various businesses. Consequently, the Group's business performance can be affected by whether or not the Group has any hit artists and hit content, and by the popularity of major artists and talents, contract duration, and growth of new artists and talent.

b) Operations in overseas markets

The major markets for our overseas businesses are in Southeast Asia where significant growth is expected in the future.

In the event that an unexpected incident occurs in any of the overseas markets due to a change in political or economic conditions or legal or regulatory elements, disadvantageous taxes, or social disorder caused by terrorist attack, war, or the like, it is possible that our overseas operations and performance may be affected.

c) Impairment loss

When market values of the assets held by the Group decrease significantly, or business profitability deteriorates, an impairment loss in noncurrent assets may be recorded by applying impairment accounting, which would affect the Group's businesses and financial position.

d) Fundraising

The Group raises some of the funds used to acquire real estate through borrowings from financial institutions. If interest rates change, the Group's performance may be affected.

In addition, part of the borrowings has a financial restriction clause. Infringement on the clause may affect the business performance and financial position of the Group. For example, the borrowing interest rate will be raised, and/or the benefit of time will be forfeited, etc.

e) Business in the digital domain

The Group is actively expanding business in the digital domain, but there is the undeniable possibility of risks arising in the process of execution of this business due to a sudden change in the business environment, such as technical innovation and emergence of competitions, or an unforeseeable problem which materializes afterwards, and this may affect the Group's performance.

f) Dependency on the specific corporate manager

Representative Director, CEO Masato Matsuura, one of the founders of Avex, has been playing the core role in formulating and determining Group management strategies and concluding contracts with important business partners and artists. In the event that Mr. Matsuura leaves the Group for any reason, the performance of the Group may be affected.

## 2. Corporate structure

The Group comprises a total of 28 companies, including Avex Group Holdings Inc., 18 consolidated subsidiaries, and 9 equity-method affiliates. The Music Business, Anime Business, Digital Business, Overseas Business, and other businesses are operated under the Group. The primary operations of each business segment and positioning of primary consolidated subsidiaries and their businesses are as follows.

| Business segment | Primary operations | Primary consolidated subsidiaries |
|---|---|---|
| Music Business | Planning, production and sales of music content, digital distribution, music publishing, management of artists and talent, merchandising, fan club operation, concert and event planning, production and operation | Avex Entertainment Inc.<br>Avex Management Inc.<br>Avex Music Publishing Inc.<br>Avex Travel Creative Inc.<br>Avex Classics International Inc. |
| Anime Business | Planning, production and sales of video content, digital video distribution, and film distribution | Avex Pictures Inc.<br>The Anime Times Company |
| Digital Business | Planning, production, sales and distribution of digital content | Avex Digital Inc.<br>Avex Broadcasting & Communications Inc. |
| Overseas Business | Planning, production and sales of entertainment content | Avex Taiwan Inc.<br>Avex Shanghai Co., Ltd.<br>Avex International Inc.<br>Avex China Inc.<br>Avex Hong Kong Limited |
| Other Businesses | Investment in venture businesses | Avex Ventures Inc. |

## 3. Management policies

(1) Basic management policy

The Group has established the new corporate philosophy “Really! Mad + Pure” and aims to become a company that continues to provide surprises and sensation to the world by always striving to find new challenges through ideas that defy convention.

(2) Targeted management index

The Group will implement the strategies set out in Avex Group Growth Strategy 2020 - Towards an innovative future of entertainment and work to achieve consolidated net sales of 250 billion yen or more and operating income of 20 billion yen or more, which have been set as the numerical management targets for the fiscal year ending March 2021.

(3) Medium- and long-term business strategy

The Group will enhance its businesses primarily in the music, anime and digital fields with the aim of becoming a future-oriented entertainment company. It will also commit itself to expanding the business and improving corporate value through the reinforcement of group-wide optimization in order to promote synergy between businesses and through positive endeavors to create new hits and businesses.

(4) Pending tasks

The Group intends to focus on the following seven areas, which it regards as important management issues, in order to further improve its business performance and create sustainable corporate value based on its new tag line (corporate philosophy) “Really! Mad + Pure.”

a) Creation of hit content

The Avex Group is cognizant that our biggest proposition is the creation of hit content as a content owner within a changing market environment where increasingly diverse consumption behavior is anticipated. Through the establishment of an integrated system encompassing every process from discovery and training to management, the Group will concentrate management resources for the creation of hits and promote new initiatives for the creation of hit content in line with an increasingly diverse range of users’ needs.

b) Proposing new ways to enjoy entertainment content

The Avex Group aims to create new exciting experiences by quickly responding to changes in the communications environment and in consumption behavior brought about by the development of digital technology. In addition to expansion of our service and enhancement of our own platform, by collaborating with outside platforms and developing services to meet potential needs, we will propose new methods of enjoying entertainment.

c) Pursuing the Group’s potential in new business fields

Through the selection and concentration of existing businesses and the pursuit of business opportunities in advanced digital technologies based on the concept of “entertainment plus tech,” the Group will proactively enter new business fields and increase the chance of success and the pace of growth by creating alliances with prominent companies and partners in Japan and abroad.

d) Reinforcing coordination between businesses

Amidst continued expansion into new areas, reinforcing coordination between businesses is a key priority. In recognition of this fact, the Group is working to maximize synergy throughout by establishing systems and mechanisms to share and utilize resources and best practices between businesses.

e) Strengthening human resource development

The Group recognizes that it is essential to strengthen human resource development in order to respond to the changing business environment and expansion of its operations and to achieve further growth. As well as promoting systematic career development through training systems and enhanced human resource rotation, the Group will work to foster next-generation management members by positively promoting energetic employees regardless of their age and other attributes, and to develop employees who can promote business using ideas that defy convention.

f) Promotion of work style reform

The Group recognizes that it is an important issue to go back to the basics of "People are our valuable assets" and to develop an environment that allows employees to work positively. We aim to become a company in which all employees work smart, by means such as developing an environment that allows diverse working styles, including the introduction of new offices with hot-desking and a company-wide flextime system, to increase productivity.

g) Fostering a corporate culture

The Group feels that it needs to foster a corporate culture that infinitely pursues the founding spirit, aimed at surprising and inspiring people around the world through entertainment. To create a set of shared values between management and employees under its new tag line "Really! Mad + Pure" and manifesto, the Group is working to improve and promote internal communication so as to provide customers with even greater value.

## 4. Basic Approach to the Selection of Accounting Standards

The Group's policy is to prepare its consolidated financial statements in accordance with Japanese accounting standards for the time being, to facilitate comparisons between periods and comparisons between companies. The Group will address the issue of adoption of International Financial Reporting Standards (IFRS) as appropriate, taking into consideration conditions both inside and outside of Japan.

## 5. Consolidated Financial Statements and Key Notes

(1) Consolidated Balance Sheets

(Unit: million yen)

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| (Assets) | | |
| Current assets | | |
| Cash and deposits | 24,298 | 28,184 |
| Notes and accounts receivable-trade | 20,122 | 19,963 |
| Merchandise and finished goods | 1,333 | 1,582 |
| Programs and works in progress | 3,736 | 3,676 |
| Raw materials and supplies | 381 | 420 |
| Advance payments-trade | 1,616 | 1,246 |
| Prepaid expenses | 1,169 | 1,579 |
| Advance royalty payments | 3,889 | 4,120 |
| Deferred tax assets | 4,732 | 4,317 |
| Other current assets | 2,618 | 5,823 |
| Allowance for doubtful accounts | (204) | (187) |
| Total current assets | 63,693 | 70,727 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 1,001 | 15,792 |
| Land | 29,770 | 29,770 |
| Construction in progress | 8,179 | – |
| Other property, plant and equipment, net | 658 | 1,409 |
| Total property, plant and equipment | 39,609 | 46,972 |
| Intangible assets | 4,599 | 5,117 |
| Investments and other assets | | |
| Investment securities | 5,819 | 7,085 |
| Long-term prepaid expenses | 42 | 490 |
| Deferred tax assets | 2,016 | 1,228 |
| Other investments and other assets | 2,940 | 1,564 |
| Allowance for doubtful accounts | (323) | (299) |
| Total investments and other assets | 10,496 | 10,069 |
| Total noncurrent assets | 54,705 | 62,159 |
| Total assets | 118,399 | 132,887 |

(Unit: million yen)

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| (Liabilities) | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 2,198 | 1,716 |
| Short-term loans payable | 10,500 | 11,500 |
| Current portion of long-term loans payable | 800 | 3,058 |
| Accounts payable-other | 19,926 | 29,590 |
| Accrued royalties | 8,139 | 9,058 |
| Income taxes payable | 2,231 | 1,100 |
| Provision for bonuses | 725 | 932 |
| Allowance for returned goods | 4,328 | 4,337 |
| Provision for point card certificates | 45 | 50 |
| Valuation reserve for inventory purchase commitments | 763 | – |
| Provision for loss on business liquidation | 126 | – |
| Other current liabilities | 7,243 | 6,724 |
| Total current liabilities | 57,029 | 68,070 |
| Noncurrent liabilities | | |
| Bonds payable | 7,200 | 10,692 |
| Liabilities for retirement benefits | 1,313 | 540 |
| Other noncurrent liabilities | 1,006 | 1,124 |
| Total noncurrent liabilities | 9,520 | 12,357 |
| Total liabilities | 66,550 | 80,427 |
| (Net assets) | | |
| Shareholders' equity | | |
| Capital stock | 4,229 | 4,275 |
| Capital surplus | 4,999 | 5,045 |
| Retained earnings | 42,827 | 43,220 |
| Treasury stock | (3,705) | (3,798) |
| Total shareholders' equity | 48,350 | 48,742 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 48 | 33 |
| Deferred gains or losses on hedges | (0) | (0) |
| Foreign currency translation adjustments | (175) | 42 |
| Total of accumulated retirement benefits | (174) | (178) |
| Total of accumulated other comprehensive income | (301) | (102) |
| Subscription rights to shares | 760 | 775 |
| Non-controlling interests | 3,039 | 3,044 |
| Total net assets | 51,849 | 52,460 |
| Total liabilities and net assets | 118,399 | 132,887 |

## (2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

### (Consolidated statements of income)

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| Net sales | 161,592 | 163,375 |
| Cost of sales | 116,043 | 114,967 |
| Gross profit | 45,549 | 48,408 |
| Selling, general and administrative expenses | | |
| Advertising expenses | 8,199 | 7,573 |
| Promotion expenses | 1,738 | 2,274 |
| Provision of allowance for doubtful accounts | 240 | (23) |
| Employee salaries and bonuses | 7,525 | 8,024 |
| Provision for bonus payments | 724 | 933 |
| Retirement benefit cost | 1,150 | 219 |
| Depreciation | 1,598 | 2,334 |
| Commission fee | 5,475 | 6,311 |
| Other selling, general and administrative expenses | 13,166 | 13,821 |
| Total selling, general and administrative expenses | 39,820 | 41,469 |
| Operating income | 5,728 | 6,939 |
| Non-operating income | | |
| Interest income | 10 | 11 |
| Dividend income | 15 | 9 |
| Gain on investments in partnership | – | 339 |
| Exchange gain | 71 | – |
| Other non-operating income | 30 | 100 |
| Total non-operating income | 127 | 461 |
| Non-operating expenses | | |
| Interest expenses | 28 | 72 |
| Equity in losses of affiliates | 1,198 | 538 |
| Foreign exchange losses | – | 201 |
| Commission fee | 9 | 3 |
| Loss on investments in partnership | 23 | – |
| Other non-operating expenses | 116 | 1 |
| Total non-operating expenses | 1,375 | 818 |
| Ordinary income | 4,479 | 6,582 |
| Extraordinary income | | |
| Gain on reversal of subscription rights to shares | 14 | 88 |
| Compensation income | 51 | – |
| Total extraordinary income | 66 | 88 |

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| Extraordinary loss | | |
| Impairment loss | 649 | – |
| Reversal of foreign currency translation adjustment | – | 179 |
| Loss on retirement of fixed assets | 24 | 28 |
| Loss on valuation of investment securities | 105 | 17 |
| Provision for loss on business liquidation | 126 | – |
| Total extraordinary loss | 906 | 225 |
| Income before income taxes | 3,640 | 6,445 |
| Income taxes-current | 4,044 | 1,940 |
| Income taxes-deferred | (1,320) | 1,218 |
| Total income and other taxes | 2,724 | 3,158 |
| Net income | 915 | 3,287 |
| Profit attributable to non-controlling interests | 797 | 685 |
| Profit attributable to owners of parent | 118 | 2,601 |

(Consolidated statements of comprehensive income)

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| Net income (loss) | 915 | 3,287 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (3) | (32) |
| Deferred gains or losses on hedges | 1 | – |
| Foreign currency translation adjustments | 22 | 232 |
| Adjustment for retirement benefits | 675 | (7) |
| Share of other comprehensive income of associates accounted for using equity method | (54) | 6 |
| Total other comprehensive income | 641 | 199 |
| Comprehensive income | 1,557 | 3,486 |
| (Comprehensive income attributable to) | | |
| Comprehensive income attributable to owners of parent | 760 | 2,801 |
| Comprehensive income attributable to non-controlling interests | 797 | 685 |

(3) Consolidated statements of changes in shareholders' equity

Fiscal year ended March 31, 2017

(Unit: million yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of the fiscal year | 4,229 | 4,999 | 44,906 | (4,033) | 50,102 |
| Changes of items during the period | | | | | |
| Issuance of new shares | | | | | – |
| Dividends from surplus | | | (2,149) | | (2,149) |
| Profit (loss) attributable to owners of parent | | | 118 | | 118 |
| Purchase of treasury stock | | | | (0) | (0) |
| Disposal of treasury stock | | (48) | | 327 | 279 |
| Transfer to capital surplus from retained earnings | | 48 | (48) | | – |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | – | – | (2,079) | 327 | (1,751) |
| Balance at end of the fiscal year | 4,229 | 4,999 | 42,827 | (3,705) | 48,350 |

| | Accumulated other comprehensive income | | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Total of accumulated retirement benefits | Total of accumulated other comprehensive income | | | |
| Balance at beginning of the fiscal year | 55 | (1) | (139) | (857) | (943) | 643 | 2,589 | 52,392 |
| Changes of items during the period | | | | | | | | |
| Issuance of new shares | | | | | | | | – |
| Dividends from surplus | | | | | | | | (2,149) |
| Profit (loss) attributable to owners of parent | | | | | | | | 118 |
| Purchase of treasury stock | | | | | | | | (0) |
| Disposal of treasury stock | | | | | | | | 279 |
| Transfer to capital surplus from retained earnings | | | | | | | | – |
| Net changes of items other than shareholders' equity | (6) | 1 | (36) | 683 | 641 | 116 | 450 | 1,208 |
| Total changes of items during the period | (6) | 1 | (36) | 683 | 641 | 116 | 450 | (542) |
| Balance at end of the fiscal year | 48 | (0) | (175) | (174) | (301) | 760 | 3,039 | 51,849 |

Fiscal year ended March 31, 2018

(Unit: million yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of the fiscal year | 4,229 | 4,999 | 42,827 | (3,705) | 48,350 |
| Changes of items during the period | | | | | |
| Issuance of new shares | 45 | 45 | | | 91 |
| Dividends from surplus | | | (2,156) | | (2,156) |
| Profit (loss) attributable to owners of parent | | | 2,601 | | 2,601 |
| Purchase of treasury stock | | | | (289) | (289) |
| Disposal of treasury stock | | (51) | | 196 | 144 |
| Transfer to capital surplus from retained earnings | | 51 | (51) | | – |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | 45 | 45 | 393 | (93) | 391 |
| Balance at end of the fiscal year | 4,275 | 5,045 | 43,220 | (3,798) | 48,742 |

| | Accumulated other comprehensive income | | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Total of accumulated retirement benefits | Total of accumulated other comprehensive income | | | |
| Balance at beginning of the fiscal year | 48 | (0) | (175) | (174) | (301) | 760 | 3,039 | 51,849 |
| Changes of items during the period | | | | | | | | |
| Issuance of new shares | | | | | | | | 91 |
| Dividends from surplus | | | | | | | | (2,156) |
| Profit (loss) attributable to owners of parent | | | | | | | | 2,601 |
| Purchase of treasury stock | | | | | | | | (289) |
| Disposal of treasury stock | | | | | | | | 144 |
| Transfer to capital surplus from retained earnings | | | | | | | | – |
| Net changes of items other than shareholders' equity | (15) | (0) | 218 | (3) | 199 | 14 | 4 | 218 |
| Total changes of items during the period | (15) | (0) | 218 | (3) | 199 | 14 | 4 | 610 |
| Balance at end of the fiscal year | 33 | (0) | 42 | (178) | (102) | 775 | 3,044 | 52,460 |

## (4) Consolidated statements of cash flows

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| Net cash provided by (used in) operating activities | | |
| Income (loss) before income taxes | 3,640 | 6,445 |
| Depreciation and amortization | 3,623 | 4,109 |
| Impairment loss | 649 | – |
| Increase (decrease) in provision for bonuses | (341) | 207 |
| Increase (decrease) in allowance for returned goods | 165 | 9 |
| Net increase (decrease) in valuation reserve for inventory purchase commitments | 763 | (763) |
| Increase (decrease) in provision for loss on business liquidation | 126 | (126) |
| Increase (decrease) in provision for point card certificates | 45 | 4 |
| Increase (decrease) in net defined benefit liability | 129 | (782) |
| Interest and dividend income | (25) | (21) |
| Interest expenses | 28 | 72 |
| Loss (gain) on investments in partnership | 23 | (339) |
| Equity in (earnings) losses of affiliates | 1,198 | 538 |
| Gain on reversal of subscription rights to shares | (14) | (88) |
| Loss (gain) on valuation of investment securities | 105 | 17 |
| Share-based compensation expenses | 298 | 269 |
| Compensation income | (51) | – |
| Decrease (increase) in notes and accounts receivable-trade | 1,150 | 239 |
| Decrease (increase) in inventories | 3,076 | (187) |
| Decrease (increase) in advance payments | (424) | (80) |
| Decrease (increase) in advance royalty payments | (1,826) | (319) |
| Increase (decrease) in notes and accounts payable-trade | 174 | (489) |
| Increase (decrease) in accounts payable-other | (4,524) | 9,644 |
| Increase (decrease) in accrued royalties | (663) | 922 |
| Other | 2,313 | (1,037) |
| Subtotal | 9,641 | 18,246 |
| Interest and dividends income received | 149 | 73 |
| Interest expenses paid | (29) | (75) |
| Proceeds from compensation | 51 | – |
| Income taxes refund | 1,218 | 62 |
| Income taxes paid | (2,812) | (4,877) |
| Net cash provided by (used in) operating activities | 8,219 | 13,429 |

(Unit: million yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| Net cash provided by (used in) investing activities | | |
| Purchase of property, plant and equipment | (8,201) | (9,376) |
| Purchase of intangible assets | (2,550) | (2,534) |
| Proceeds from redemption of securities | 1,000 | – |
| Purchase of investment securities | (888) | (519) |
| Payments of loans receivable | (900) | (900) |
| Proceeds from collection of loans receivable | 0 | – |
| Payments for lease and guarantee deposits | (266) | (77) |
| Proceeds from collection of lease and guarantee deposit | 39 | 1,163 |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | – | (443) |
| Other-net | (78) | (231) |
| Net cash provided by (used in) investing activities | (11,845) | (12,919) |
| Net cash provided by (used in) financing activities | | |
| Net increase (decrease) in short-term loans payable | 2,000 | 1,000 |
| Proceeds from long-term loans payable | 8,000 | 7,290 |
| Repayment of long-term loans payable | – | (1,604) |
| Repayment of lease obligations | (98) | (92) |
| Redemption of bonds | (720) | – |
| Purchase of treasury stock | (0) | (290) |
| Proceeds from disposal of treasury stock | 112 | 48 |
| Cash dividends paid | (2,153) | (2,158) |
| Dividends paid to non-controlling interests | (347) | (715) |
| Net cash provided by (used in) financing activities | 6,792 | 3,476 |
| Effect of exchange rate change on cash and cash equivalents | 26 | (101) |
| Net increase (decrease) in cash and cash equivalents | 3,191 | 3,885 |
| Cash and cash equivalents at beginning of period | 21,107 | 24,298 |
| Cash and cash equivalents at end of period | 24,298 | 28,184 |