

## Notes to Consolidated Financial Statements

### Note: 1

#### Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements are prepared from the consolidated financial statements issued in Japan for domestic reporting purposes. Nintendo Co., Ltd. (the "Company") maintains its accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles and practices in Japan, which are different in certain respects as to application and disclosure requirements of international Accounting Standards. Its foreign subsidiaries maintain their accounts in conformity with those of each country of their domicile.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The presentation of a consolidated statement of cash flows is not required for domestic reporting purposes. It is, however, presented herein for the readers' convenience. In addition, the notes to consolidated financial statements include additional information which is not required under generally accepted accounting principles in Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into United States dollars at the rate of ¥121 = US\$1, the approximate exchange rate on March 31, 1999. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

### Note: 2

#### Significant Accounting Policies

##### A. PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its significant subsidiaries. As of March 31, 1999, the principal companies of consolidated subsidiaries were as follows: Nintendo of America Inc., Nintendo of Canada Ltd., Nintendo France S.A.R.L., Nintendo España S.A., Nintendo of Europe GmbH, Nintendo Netherlands B.V., and Nintendo Australia Pty. Ltd. All significant intercompany transactions and accounts have been eliminated in consolidation.

**B. TRANSLATION OF FOREIGN CURRENCY ITEMS**

Current receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at the balance sheet date, whereas non-current receivables and payables are translated at the exchange rates in effect when acquired or incurred. Deposits, receivables and payables hedged by forward exchange contracts are translated into yen at the contracted exchange rates. Gains or losses arising from transactions in foreign currency receivables and payables are credited or charged to income as incurred.

Financial statements of overseas subsidiaries are translated into Japanese yen at the exchange rates in effect at the balance sheet date for assets and liabilities. The average exchange rates for the fiscal period are used for translation of revenues and expenses. The differences resulting from translation in this manner are shown as "Translation adjustments" in the accompanying consolidated balance sheets all in accordance with Japanese accounting standards.

**C. CASH AND CASH EQUIVALENTS**

In preparing the consolidated balance sheets and statements of cash flows, the Company and its consolidated subsidiaries consider time deposits, certificates of deposit, eurodollar deposits which mature at various dates within one year and commercial paper and loan participation with a maturity of three months or less to be cash equivalents.

**D. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES**

Short-term investments consist of marketable securities and commercial paper with a maturity of three months or more. Quoted marketable securities included in short-term investments and quoted investments in securities are each stated at the lower of cost, determined by the moving average method, or market. Other securities are stated at cost, determined by the moving average method.

**E. INVENTORIES**

Inventories are stated at the lower of cost or market. The Company and its consolidated subsidiaries determine cost by the moving average method.

**F. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is stated at cost. The Company computes depreciation by the declining balance method over the estimated useful lives of the assets. Overseas subsidiaries compute depreciation by the straight line method.

## Notes to Consolidated Financial Statements

### G. INCOME TAXES

The Company computes and records income taxes currently payable based upon taxable income determined in accordance with applicable tax laws. The Company does not recognize deferred income taxes arising from differences in timing of recognizing income and expense for financial statement and income tax purposes. Certain overseas subsidiaries recognize deferred income taxes arising from such timing differences which result in recognition of deferred income taxes.

### H. RETIREMENT AND SEVERANCE BENEFITS AND PENSION PLAN

Employees of the Company are covered by a non-contributory trusted pension plan. Benefits under the plan are generally based on the current rate of base salary, length of service and certain other factors when the termination occurs. During the fiscal year ended March 31, 1999, the Company changed its accounting policy to accrue past service costs relating to the pension plan when they are incurred. They had previously been recorded when paid. With this change, the past service costs of ¥3.7 billion (\$30 million) at the end of Fiscal 1999 was booked in Cost and Expenses – Other.

Employees of an overseas subsidiary are covered by non-contributory defined benefit plans (the “Plans”). Benefits under the Plans are based primarily on years of service and defined compensation levels. Benefits vest ratably over the third to seventh years of service with the subsidiary.

Directors and corporate auditors customarily receive lump-sum payments upon termination of their services subject to shareholders’ approval. The Company provides for the reserve for lump-sum severance benefits for directors and corporate auditors at the estimated amount required if all retired at the fiscal year end.

### I. RESEARCH AND DEVELOPMENT COSTS

Expenses relating to research and development activities are charged to income when incurred.

### J. LEASES

All leases for the Company and certain overseas subsidiaries are accounted for as operating leases. For other overseas subsidiaries, leased property is recorded as property, plant, equipment and other assets on the balance sheet.

### K. NET INCOME PER SHARE

The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each fiscal year.

Note:3

Market Value Information of Securities

The aggregate book value and market value of marketable securities included in current assets and non-current assets at March 31, 1999 and 1998, were as follows:

| ¥ : millions | 1999       |              | 1998       |              |
|--------------|------------|--------------|------------|--------------|
|              | Book Value | Market Value | Book Value | Market Value |
| Current      | ¥ 339      | ¥1,472       | ¥5,358     | ¥6,808       |
| Non-current  | ¥4,209     | ¥9,007       | ¥1,969     | ¥6,784       |

  

| \$US : thousands (note 1) | 1999       |              | 1998       |              |
|---------------------------|------------|--------------|------------|--------------|
|                           | Book Value | Market Value | Book Value | Market Value |
| Current                   | \$ 2,798   | \$12,162     | \$44,283   | \$56,268     |
| Non-current               | \$34,785   | \$74,434     | \$16,274   | \$56,068     |

Note:4

Inventories

Inventories at March 31, 1999 and 1998 consisted of the following:

| Years ended March 31,      | ¥ : millions |         | \$US : thousands (note 1) |           |
|----------------------------|--------------|---------|---------------------------|-----------|
|                            | 1999         | 1998    | 1999                      | 1998      |
| Finished products          | ¥25,627      | ¥27,835 | \$211,792                 | \$230,042 |
| Work in process            | 197          | 858     | 1,627                     | 7,090     |
| Raw materials and supplies | 6,310        | 8,496   | 52,155                    | 70,212    |
|                            | ¥32,134      | ¥37,189 | \$265,574                 | \$307,344 |

## Notes to Consolidated Financial Statements

### Note: 5

#### Income Taxes

The Company is subject to several Japanese taxes based on income, which, in the aggregate, result in a normal statutory tax rate of approximately 48%.

Generally, the effective tax rates in the consolidated statements of income differ from the normal statutory tax rates primarily due to permanent non-deductible expenses for income tax purposes and the effect of temporary differences in the recognition of certain income and expenses for tax and financial reporting purposes.

### Note: 6

#### Shareholders' Equity

Under the Commercial Code, the entire amount of the issue price of new shares is required to be accounted for as common stock although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of new shares as additional paid-in capital. Also, the portion of the issue price of new shares accounted for as common stock in excess of the par value of such new shares and additional paid-in capital may be distributed, by resolution of the Board of Directors, in the form of free share distributions to shareholders.

### Note: 7

#### Litigation

The Company and its consolidated subsidiaries are involved in significant matters of litigation, both as a plaintiff and as a defendant, and are subject to various claims or other contingent obligations, all arising in the ordinary course of business. Such litigation includes assertions relating to patent, copyright and trademark infringement and other matters. While the ultimate outcome of these matters cannot be predicted at this time, it is the opinion of management that the disposition of all matters of litigation in which the Company and its consolidated subsidiaries are presently involved will not have a material adverse effect on the consolidated financial position of the Company.

Note.8

Subsequent Events

Subsequent to March 31, 1999, the Company's Board of Directors declared year-end cash dividends and directors' bonuses, as follows:

|   | ¥ : millions | \$US : thousands (note 1) |
|---|--------------|---------------------------|
| Year-end cash dividends, ¥60 (\$0.50) per share | ¥8,500       | \$70,246                  |
| Directors' bonuses                              | 170          | 1,405                     |

The dividend and directors' bonuses declared above were subject to approval by the shareholders at the annual meeting held on June 29, 1999.

Note.9

Segment Information

A. SEGMENT INFORMATION BY BUSINESS CATEGORIES

Because the Company operates predominantly in one industry segment which accounts for over 90% of total net sales, income from operations and assets, this information is not required.

## Notes to Consolidated Financial Statements

### B. SEGMENT INFORMATION BY SELLER'S LOCATION

¥ : millions

| Year ended March 31, 1999   | Japan    | The Americas | Europe  | Other   |
|---|----------|--------------|---------|---------|
| NET SALES AND INCOME FROM OPERATIONS                              |          |              |         |         |
| Net Sales   |          |              |         |         |
| Sales to third parties  | ¥187,952 | ¥296,669     | ¥75,280 | ¥12,539 |
| Inter segment sales   | 278,751  | 49           | 1       | 16      |
| Total net sales   | 466,703  | 296,718      | 75,281  | 12,555  |
| Cost of sales and selling, general<br>and administrative expenses | 335,227  | 274,716      | 73,026  | 12,086  |
| Income from operations  | 131,476  | 22,002       | 2,255   | 469     |
| Assets  | ¥777,270 | ¥200,437     | ¥45,740 | ¥ 5,480 |

\$US : thousands (note 1)

| Year ended March 31, 1999   | Japan       | The Americas | Europe    | Other     |
|---|-------------|--------------|-----------|-----------|
| NET SALES AND INCOME FROM OPERATIONS                              |             |              |           |           |
| Net Sales   |             |              |           |           |
| Sales to third parties  | \$1,553,322 | \$2,451,806  | \$622,153 | \$103,625 |
| Inter segment sales   | 2,303,730   | 405          | 7         | 138       |
| Total net sales   | 3,857,052   | 2,452,211    | 622,160   | 103,763   |
| Cost of sales and selling, general<br>and administrative expenses | 2,770,471   | 2,270,382    | 603,519   | 99,887    |
| Income from operations  | 1,086,581   | 181,829      | 18,641    | 3,876     |
| Assets  | \$6,423,719 | \$1,656,502  | \$378,018 | \$ 45,287 |

Note: Unallocated assets include translation adjustments. The amount is ¥5,464 million (\$45,152 thousand).

|   | Total      | Eliminations<br>or unallocated<br>assets | Consolidated |
|---|------------|--|--------------|
| ¥ | 572,440    | —  | ¥572,440     |
|   | 278,817    | ¥(278,817)                               | —            |
|   | 851,257    | (278,817)                                | 572,440      |
|   | 695,055    | (278,652)                                | 416,403      |
|   | 156,202    | (165)                                    | 156,037      |
|   | ¥1,028,927 | ¥(135,553)                               | ¥893,374     |

|  | Total       | Eliminations<br>or unallocated<br>assets | Consolidated |
|--|-------------|--|--------------|
|  | \$4,730,906 | —  | \$4,730,906  |
|  | 2,304,280   | \$(2,304,280)                            | —            |
|  | 7,035,186   | (2,304,280)                              | 4,730,906    |
|  | 5,744,259   | (2,302,917)                              | 3,441,342    |
|  | 1,290,927   | (1,363)                                  | 1,289,564    |
|  | \$8,503,526 | \$(1,120,271)                            | \$7,383,255  |

## Notes to Consolidated Financial Statements

### ¥ : millions

| Year ended March 31, 1998   | Japan    | The Americas | Europe  | Other   |
|---|----------|--------------|---------|---------|
| NET SALES AND INCOME FROM OPERATIONS                              |          |              |         |         |
| Net Sales   |          |              |         |         |
| Sales to third parties  | ¥178,619 | ¥269,096     | ¥74,647 | ¥11,963 |
| Inter segment sales   | 252,833  | 47           | 0       | —       |
| Total net sales   | 431,452  | 269,143      | 74,647  | 11,963  |
| Cost of sales and selling, general<br>and administrative expenses | 315,281  | 244,680      | 71,969  | 11,320  |
| Income from operations  | 116,171  | 24,463       | 2,678   | 643     |
| Assets  | ¥745,163 | ¥180,025     | ¥46,423 | ¥ 5,846 |

### \$US : thousands (note 1)

| Year ended March 31, 1998   | Japan       | The Americas | Europe    | Other    |
|---|-------------|--------------|-----------|----------|
| NET SALES AND INCOME FROM OPERATIONS                              |             |              |           |          |
| Net Sales   |             |              |           |          |
| Sales to third parties  | \$1,476,192 | \$2,223,931  | \$616,912 | \$98,873 |
| Inter segment sales   | 2,089,528   | 389          | 2         | —        |
| Total net sales   | 3,565,720   | 2,224,320    | 616,914   | 98,873   |
| Cost of sales and selling, general<br>and administrative expenses | 2,605,627   | 2,022,149    | 594,784   | 93,556   |
| Income from operations  | 960,093     | 202,171      | 22,130    | 5,317    |
| Assets  | \$6,158,374 | \$1,487,810  | \$383,663 | \$48,312 |

| Total    | Eliminations<br>or unallocated<br>assets | Consolidated |
|----------|--|--------------|
| ¥534,325 | —  | ¥534,325     |
| 252,880  | ¥(252,880)                               | —            |
| 787,205  | (252,880)                                | 534,325      |
| 643,250  | (252,672)                                | 390,578      |
| 143,955  | (208)                                    | 143,747      |
| ¥977,457 | ¥(128,850)                               | ¥848,607     |

| Total       | Eliminations<br>or unallocated<br>assets | Consolidated |
|-------------|--|--------------|
| \$4,415,908 | —  | \$4,415,908  |
| 2,089,919   | \$(2,089,919)                            | —            |
| 6,505,827   | (2,089,919)                              | 4,415,908    |
| 5,316,116   | (2,088,199)                              | 3,227,917    |
| 1,189,711   | (1,720)                                  | 1,187,991    |
| \$8,078,159 | \$(1,064,880)                            | \$7,013,279  |

## Notes to Consolidated Financial Statements

### C. SALES FOR OVERSEAS CUSTOMERS

| Year ended March 31, 1999    | ¥ : millions |          |         | Total    |
|------------------------------|--------------|----------|---------|----------|
|                              | The Americas | Europe   | Other   |          |
| Sales for overseas customers | ¥303,822     | ¥114,309 | ¥14,649 | ¥432,780 |
| Consolidated net sales       |              |          |         | 572,440  |

| Year ended March 31, 1999    | \$US : thousands (note 1) |           |           | Total       |
|------------------------------|---------------------------|-----------|-----------|-------------|
|                              | The Americas              | Europe    | Other     |             |
| Sales for overseas customers | \$2,510,927               | \$944,700 | \$121,063 | \$3,576,690 |
| Consolidated net sales       |                           |           |           | 4,730,906   |

| Year ended March 31, 1998    | ¥ : millions |          |         | Total    |
|------------------------------|--------------|----------|---------|----------|
|                              | The Americas | Europe   | Other   |          |
| Sales for overseas customers | ¥274,998     | ¥121,692 | ¥17,966 | ¥414,656 |
| Consolidated net sales       |              |          |         | 534,325  |

| Year ended March 31, 1998    | \$US : thousands (note 1) |             |           | Total       |
|------------------------------|---------------------------|-------------|-----------|-------------|
|                              | The Americas              | Europe      | Other     |             |
| Sales for overseas customers | \$2,272,709               | \$1,005,717 | \$148,484 | \$3,426,910 |
| Consolidated net sales       |                           |             |           | 4,415,908   |

Overseas sales are the Company's total export sales and sales made by overseas subsidiaries, except for inter segment sales.