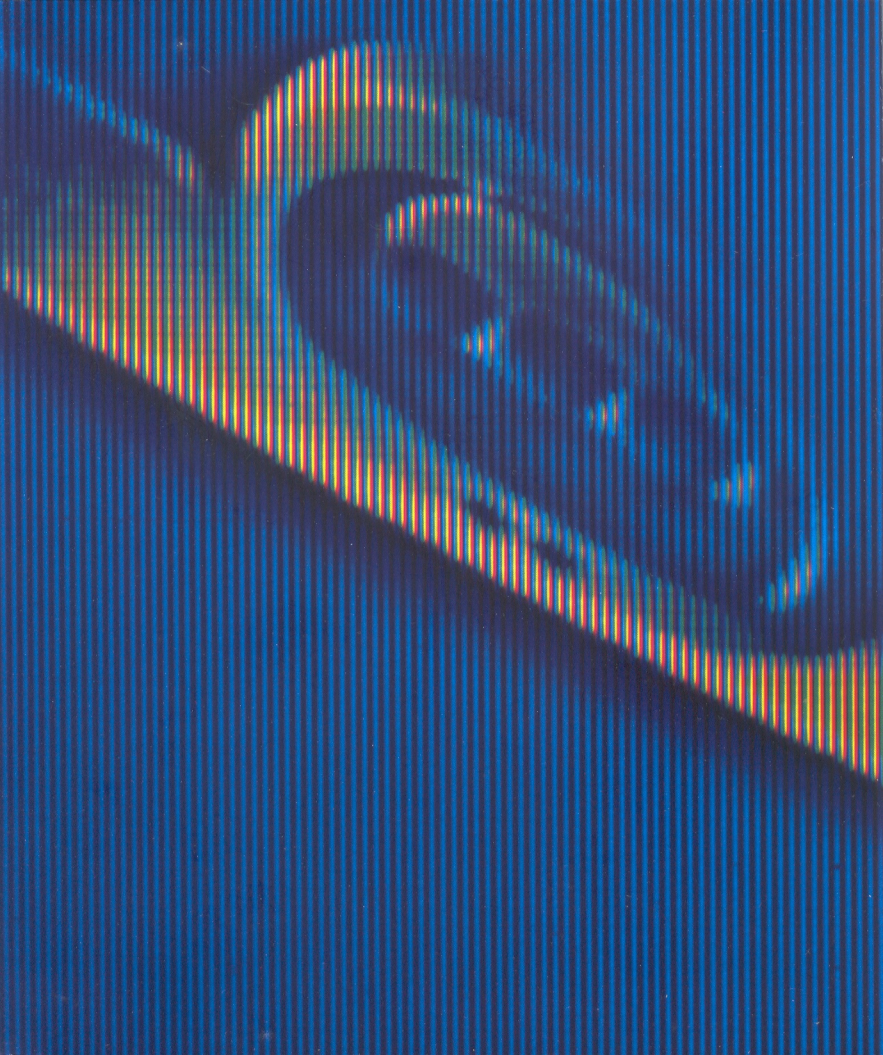




nintendo 96





## FINANCIAL HIGHLIGHTS

Years ended March 31, 1996 and 1995	Yen in Millions		U.S. Dollars in Thousands <sup>(A)</sup>	
	1996	1995	1996	1995
Net sales	¥353,753	¥415,240	\$3,337,300	\$3,917,360
Net income	59,870	41,660	564,817	393,027
Total assets	649,840	578,662	6,130,571	5,459,077
Shareholders' equity	512,524	464,784	4,835,134	4,384,755
	Yen		U.S. Dollars <sup>(A)</sup>	
	1996	1995	1996	1995
AMOUNTS PER SHARE				
Net income <sup>(B)</sup>	¥ 422.61	¥ 294.08	\$ 3.98	\$ 2.77
Cash dividends	100	70	0.94	0.66

## PRESIDENT'S MESSAGE

A) THE AMOUNTS 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 ¥106 = US\$1, THE APPROXIMATE EXCHANGE RATE ON MARCH 31, 1996. B) SEE NOTE 21 TO CONSOLIDATED FINANCIAL STATEMENTS. THE AMOUNTS PRESENTED HEREIN ARE ROUNDED DOWN.

LESS START. These are familiar worlds **nintendo 96** to video game players around the world. They appear on the screen every time players embark on a new journey of interactivity, not only challenging them to reach a goal, but inviting them to choose the path and manner by which they proceed.

## P R E S I D E N T ' S   M E S S A G E

PRESS START. These are familiar words to video game players around the world. They appear on the screen every time players embark on a new journey of interactivity, not only challenging them to reach a goal, but inviting them to choose the path and manner by which they proceed.



"IN BODY AND IN MIND, MAN IS THE EXPLORER...

HE IS NOT A FIGURE IN THE LANDSCAPE—

HE IS A SHAPER

OF THE LANDSCAPE."

PRODUCTS

JACOB BRONOWSKI



These words promise excitement, involvement and reward. And it's this challenge, this adventure, this bond of humanity and play which is at the heart of every aspect of our industry.

#### INDUSTRY PERFORMANCE

We cannot deny, however, that there are people in the video game industry who have ignored this essential connection, believing their businesses could thrive by putting technology, graphical display or advertising before the need for a truly superior game experience. After all, it's easier to operate that way – compelling games are the most difficult commodity to produce, the most valuable asset to possess. But players are impossible to fool. Those who've tried again are suffering the consequences.

It has been more than 10 years since our industry first discovered the danger of flooding the market with substandard product. Now, history is repeating itself.

Many companies have come to believe that consumers might pay good money for a bad game.

But our consumers have taught us, once again, that they will not.

Yet, some still conclude that the recent demise of some platforms, and the struggles of many software developers, indicates a reduction in the desire for video game entertainment.

Nothing could be further from the truth. Players haven't turned away from video games; they've simply moved to the side until they see something that immediately improves on what they were playing a year, three years, even



five years ago. It has been our intention at Nintendo to provide them with that obvious improvement.

#### NINTENDO 64 DEVELOPMENT

We've devoted more than four years of planning, research and creativity...as well as the reputation of our company...to develop games for the new Nintendo 64 system, and produce a new start for our entire industry. It's the platform, we believe, that will make video games fun again, the same way they were when Mario first magically danced across the TV screen. It's the new tool with which the world's top video game craftsmen can fashion more immersive, more compelling, and more interactive adventures for our players. It's a platform which exceeds our initial expectations.

Some wish it had arrived sooner. But what is the advantage if the games it plays do not fully meet our consumers' expectations?

Some wish it played from CD ROM instead of cartridge, but what's the advantage if those discs hinder, rather than improve the quality of game play?

Many wish the machine could be brought to market with hundreds of games. But what is the advantage if the vast majority of new games are no better than what has been available for the Super Nintendo Entertainment System for some time? Even internally, we've continued to raise our own standards of excellence, in marketing games like the *Donkey Kong Country* series, whose appearance and game play mechanics not only exceeded anything else on the market, but simultaneously put far higher demands on those involved in the

early stages of creating the first 64-bit games. We believe our greatest bond with Nintendo purchasers is their trust that games which are released for play on our systems uniformly will meet or exceed their expectations. To do that, we've invested heavily not only in game development within Nintendo, but as a venture capitalist of sorts for those talented development firms around the world who we believe hold the greatest promise for helping generate these outstanding games.

Creating interactivity in three dimensions rather than two is a daunting challenge for designers; not everyone who can drive an automobile can successfully learn to fly an airplane. It will take time for even talented creators to master new programming techniques for the Z axis, made possible by the incomparable power of our machine. We believe that for the foreseeable future, release of four or five top quality games per month for Nintendo 64 is the proper approach, both for our game players, and the company's continued financial success.

#### FOCUSED ON FUN

One other area where we will not deviate from our traditional company focus is the core target for our products. Just as the Nintendo Entertainment System, Game Boy and the Super Nintendo Entertainment System established themselves first with the core user group of young boys around the world, so will this new machine begin its market penetration among these same game players – and build strongly from this starting point. There is an intense amount of loyalty to Nintendo among these players,





"TOUCHING...A LIFE...  
WAS AND STILL IS  
AND ALWAYS WILL BE  
THE TRUE REVOLUTION."

NIKKI GIOVANNI

PLAYERS

largely because we've remained loyal and committed to them.

Last year we recorded our seventh consecutive year of multi-million unit sales for Game Boy, and we expect another in the year ahead. We've seen success in marketing Game Boy with colored plastic housings; and this year success will come in a smaller housing called Game Boy pocket, with a screen featuring higher contrast and clarity.

And we expect, too, to continue to reap the benefits of the worldwide installed base of more than 40 million Super Nintendo Entertainment System users. This coming year America's most popular baseball player, Ken Griffey, Jr., will star in a new 16-bit game. Mario appears in his first-ever role playing game. And the *Donkey Kong Country* franchise will return not with a simple second sequel, but in an entirely new adventure which improves on the look and enjoyment of the first two revolutionary games.

Our focus on fun, our loyalty to our customers, and our concentration on the same core audience which always drives the video game market is evident in the fact that in 1995 we sold our one billionth video game, a record which no other company approaches. Our future success will come not from changing our formula, but from obeying it even more fervently.

#### COMPANY PERFORMANCE

In fiscal 1996 we believe Nintendo fared quite well, finalizing hardware and software development for Nintendo 64 while continuing strong sales of Super NES and Game Boy products.



Overall revenues declined to \$3.3 billion from \$3.9 billion, but we remained clearly the largest home video game company in the world. And at the same time, owing largely to a more favorable balance between the dollar and the yen, net income rose 44% to \$564 million.

With the introduction of Nintendo 64 around the world in the year ahead, we will realize the first dividends from our years of investment in technology and game development, bringing to Nintendo and the industry the clearly evident leap in performance and entertainment which the world has awaited. Once again, the promise of PRESS START will be fulfilled.

SINCERELY,

A handwritten signature in white ink, reading "Hiroshi Yamauchi". The signature is fluid and cursive, with the first name "Hiroshi" and last name "Yamauchi" clearly distinguishable.

HIROSHI YAMAUCHI

PRESIDENT

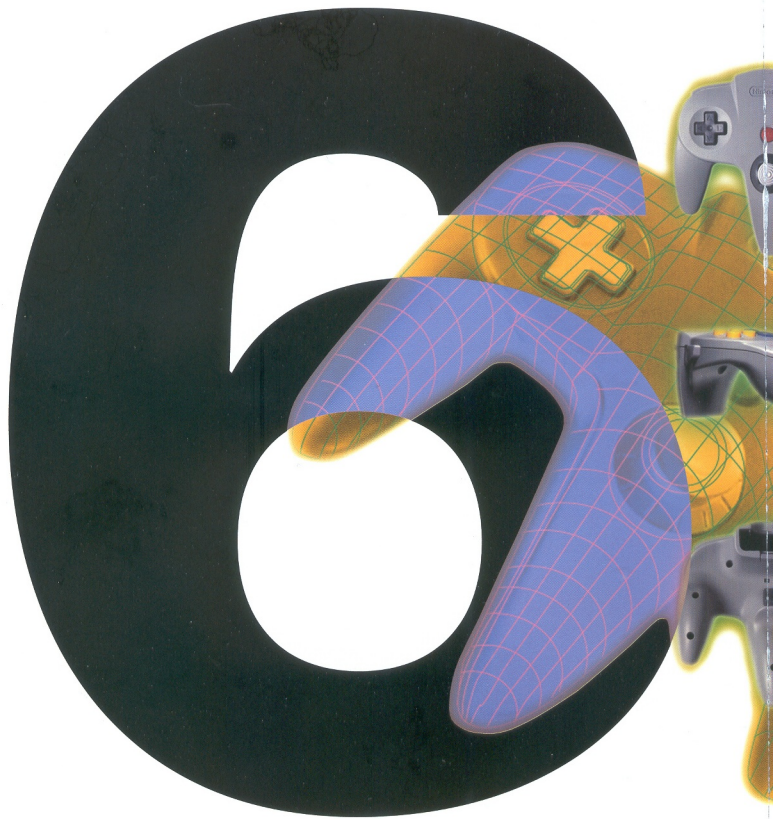
NINTENDO CO., LTD.



START



N I N T



**E N D O**







---

## T H E   F U N   M A C H I N E

---



---

Little more than a decade ago, a tiny, mustachioed, Italian-looking sprite scampered electronically from a stand-alone electronic device onto the world's television screens, and a revolution in home entertainment leaped to life. By remote control, game players guided Mario's quest against the evil Koopas, propelling him over barriers, guiding him through confusion and danger. Mario grew to symbolize interactive entertainment; but more importantly, he created a brand new kind of fun.

But even as he captured the imaginations of millions, one longing remained. What if instead of controlling Mario, you could become Mario? See the world through his eyes? Walk a mile in those oversized shoes? What if someone could build a machine that could do just that?...

do stuff  
*no other* home  
system can



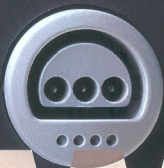
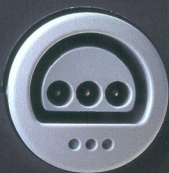
*There are seasons...of inward and outward revolution, when new depths seem to be broken...  
when new wants are unfolded...periods when to dare is the highest wisdom.*

It's the tool of our revolution. The machine to unshackle players from two dimensions, and liberate them into three. It is fulfillment of the vow to shrink all the graphical power of a \$100,000 computer workstation into a home device available for one four-hundredth of that price. And, for the first time, to drape dream worlds around us.

To some, it's a triumph of technology. For them, it's a clock speed that pulses at three times its nearest rival...the mathematical union of electron and vision onto a thumbnail layer of silicon that blinks like an eye and beats like a heart.

But these are just the few. For the many, it matters not what goes into the machine. The revolution is in what comes out of it...

ENDO<sup>64</sup>



Hardware





T A K E   C O N T R O L



Freedom at your fingertips. Tip toe, if you like. Saunter. Step lively. Break into a jog – then sprint full out! Careen in mad circles as the world carousels around you. Heads up. Don't look down! Bound the steps, and leap right through a plasmatic wall. Turn left. Spin right. Pivot fast to see what's gaining on you. Watch me go! Plummeting 500 feet to a narrow ledge. Hand over hand suspended from the wire grid. Skidding down an endless, icy slide with a huge penguin in chase.

Just another day in the life of the world's favorite plumber. But now, with the first-ever integrated analog joystick, it's not just his world anymore – it's your world.

take you  
*places* you've  
never been

*To few men comes the gift of excellence.*

The ingredients of our time are the bits and the bytes. They're plentiful – the bounty of our electronic garden. But they offer no flavor. At the software table, these fruits of knowledge, labor and communication are hearty but tasteless nourishments; they are what we need – but not what we crave.

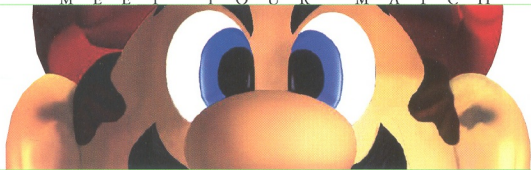
To sweeten, to lighten, to savor, we feast on video games – they are our just desserts. And their recipes are known to few: around the world, only a handful understand the spice of interactivity, the glaze of true fun. These are the master chefs of Nintendo technology. And we've gathered them in the same kitchen, and provided them with the same challenge: don't give us the most – give us the best. Create a menu of memories for Nintendo 64.

with *amazing* 





M E E T   Y O U R   M A T C H



In the 30's, the stars gathered in downtown L.A. at the Biltmore. In the 50's, on the Vegas Strip. In the 70's, on the Grammy stage.

And here in the 90's, the top names cyber-mingle at Club Nintendo. Han Solo and Mario share war stories. Griffey and Gretzky talk conditioning. James Bond offers Link a few pointers, while Dixie and B Orchid compare dance steps. Cinder says he's overheated and Glacius goes for more ice. And Diddy and Donkey Kong order yet another banana split.

Nothing succeeds like success. Life is good at the top.

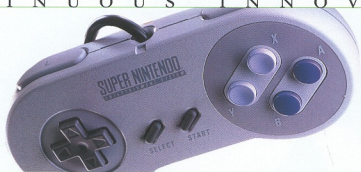
*lots* of **Peers**







C O N T I N U O U S   I N N O V A T I O N



"Envelope, please. And the award for the world's best selling video game system goes – once again – to the Super NES!" More than five years after stealing the hearts of the video gaming public, the stalwart Super NES is still the biggest name in the business. But success hasn't gone to our heads. Refusing to rest on our laurels, Nintendo's box office star has never looked better. After dazzling the critics with the stunning computer rendered graphics of *Donkey Kong Country*, the same makeover was built into new 16-bit releases for two of Nintendo's biggest names, Mario the Plumber, and Ken Griffey, Jr. After all, more than 40 million satisfied owners expect nothing less. This is a public that must be served.

16<sup>BIT</sup> still *going*



OFF • • ON

Nintendo®

GAME BOY pocket

Nintendo

A

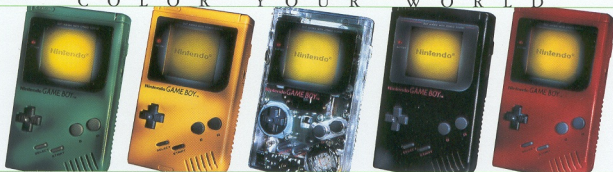
B

SELECT START

Letter



C O L O R Y O U R W O R L D



The world knows him as Game Boy. We call him Little Big Man. Proof that good things do come in small – and even smaller – packages. Say hello to Game Boy pocket, the latest wrinkle for the in-store superhero who will not be stopped. While the big, 32-bit bullies brag when they approach one million units in yearly sales, Game Boy smiles, knowing he's exceeded that eight years in a row – satisfying nearly 50 million happy customers around the world. He's small, he's portable, he's quiet – and he rules!

than *ever*

# NET SALES

U.S. Dollars in Billions

9 2	9 3	9 4	9 5	9 6
\$5.3	\$6.0	\$4.6	\$3.9	\$3.3

# RETURN ON EQUITY

Percent

9 2	9 3	9 4	9 5	9 6
30.1	24.2	12.4	9.2	12.2

# SHAREHOLDERS' EQUITY

U.S. Dollars in Billions

9 2	9 3	9 4	9 5	9 6
\$3.1	\$3.8	\$4.2	\$4.4	\$4.8

# NET INCOME

Percent of Sales

9 2	9 3	9 4	9 5	9 6
15.5	14.0	10.8	10.0	16.9





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### FIVE-YEAR SUMMARY



## COMMON STOCK INFORMATION

Years ended March 31, 1996 and 1995	Yen			
	1996		1995	
QUARTER	HIGH	LOW	HIGH	LOW
First	¥5,600	¥4,470	¥7,170	¥6,270
Second	7,340	4,810	7,320	5,700
Third	8,510	7,050	5,890	5,010
Fourth	8,700	6,200	5,550	4,940

Years ended March 31, 1996 and 1995	U.S. Dollars <sup>(A)</sup>			
	1996		1995	
QUARTER	HIGH	LOW	HIGH	LOW
First	\$52.83	\$42.16	\$67.64	\$59.15
Second	69.24	45.37	69.05	53.77
Third	80.28	66.50	55.56	47.26
Fourth	82.07	58.49	52.35	46.60

The preceding table sets forth the high and low sale prices during fiscal 1996 and 1995 for Nintendo Co., Ltd. common stock, as reported on the Osaka Stock Exchange, Section 1. Nintendo's stock is also traded on the Tokyo Stock Exchange, Section 1 and the Kyoto Stock Exchange.

- <sup>(A)</sup> The amounts 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 ¥106 = US \$1, the approximate exchange rate on March 31, 1996.

## INTRODUCTION

These consolidated financial statements include the accounts of Nintendo Co., Ltd. ("the Company") and its consolidated subsidiaries. As of March 31, 1996, eight principal companies were included in the consolidation: Nintendo of America Inc., Nintendo of Canada Ltd., Nintendo France S.A.R.L., Nintendo España S.A., Nintendo of Europe GmbH, Nintendo Belgium S.P.R.L., Nintendo Netherlands B.V., and Nintendo Australia Pty, Ltd.

Nintendo U.K. Ltd., which formerly was a consolidated subsidiary, was liquidated in March, 1996.

## OVERVIEW

Fiscal 1996 can best be characterized as a year of final preparation for the launch of Nintendo's new hardware system, N64. As the launch of this next generation system moved closer, the Company experienced a decline in net sales of approximately 15%, to ¥353.7 billion (\$3.3 billion).

During fiscal 1996, the Company significantly improved its profitability in overseas markets, managed inventories held by its subsidiaries to reflect market conditions, and improved operating efficiencies in order to be poised for continuing change in the industry. During fiscal 1996 the value of the yen decreased by 19% against the U.S. dollar and by 14% against the German mark. Although income from operations decreased, net income increased by 44%, to ¥59.8 billion (\$564 million), primarily due to the depreciation in the yen.

During fiscal 1996 the Company continued to expand its overseas manufacturing in China and Mexico.

Fiscal 1996 net income was 17% of sales, compared to 10% in fiscal 1995. The Company's financial position is exceptionally strong: at March 31, 1996, the Company had cash and cash equivalents of over ¥483.1 billion (\$4.5 billion), no debt, and total liabilities of ¥137.3 billion (\$1.2 billion). The Company's liabilities-to-equity ratio was 0.27 at the end of fiscal 1996. This strong financial position provides the Company with sufficient resources to continue to compete very aggressively, both in new product development and marketing.

## COMMON STOCK ACTIVITY

The Company's stock price increased by 29% during fiscal 1996, ending the year at ¥6,840 (\$64.52). The Company increased the annual dividend from ¥70 (\$0.66) in fiscal 1995 to ¥100 (\$0.94) in fiscal 1996. In both years, the dividend payout ratio was about 24%. At the end of June, 1996 the stock price had increased to ¥8,160 (\$76.98).

#### REVENUES AND EXPENSES

In virtually all markets worldwide, sales of Super Famicom and Game Boy performed relatively well in this year of transition. Sales in Japan declined 18%, while overseas sales declined by somewhat less (11%) due to the decline in the exchange rate used to convert overseas sales into Japanese yen. Net sales in Japan accounted for 51% of total sales in fiscal 1996, compared to 53% in the previous year. Sales of the Company's Virtual Boy system did not meet expectations.

The Company introduced several very successful new 16-bit software titles, particularly *Donkey Kong Country II* (called *Super Donkey Kong 2* in Japan) and *Yoshi's Island*. However, shortages of semiconductors caused sales of these and other new titles to be less than would otherwise have been possible.

The Company's gross margin improved from 42% in fiscal 1995 to 44% in fiscal 1996, as a result of a higher percentage of more-profitable first-party software sales, improved inventory management, and a reduction in costs (due to overseas manufacturing and other factors). Selling, general and administrative expenses increased to 19% of net sales in fiscal 1996 from 16% in fiscal 1995, due to the decline in net sales, and expenses related to the development of Nintendo 64 which did not contribute to revenues in the current year.

Interest and other income increased in fiscal 1996 by ¥2.5 billion (\$24 million), because of the increase in funds generated by operations, and higher interest rates received on deposits denominated in foreign currency.

The Company's effective income tax rate was about 51% in both fiscal years.

#### FINANCIAL POSITION AND CASH FLOW

Total cash and cash equivalents increased by ¥86.5 billion (\$816 million), primarily as a result of net income. The total of cash and cash equivalents at the end of fiscal 1996 is 3.5 times greater than total liabilities. At the end of fiscal 1996, the current ratio was 4.21.

Other than payment of dividends, there were no significant financing or investing activities.

# CONSOLIDATED BALANCE SHEETS

ASSETS	Yen in Millions		U.S. Dollars in Thousands (Note 1)	
	1996	1995	1996	1995
March 31, 1996 and 1995				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	¥483,196	¥396,678	\$4,558,453	\$3,742,251
Receivables-				
Trade notes and accounts	33,976	42,512	320,537	401,064
Allowance for doubtful accounts	(816)	(836)	(7,703)	(7,894)
Inventories (Note 4)	37,172	39,415	350,681	371,843
Deferred income taxes	4,926	4,848	46,478	45,736
Other current assets (Note 3)	12,649	15,827	119,336	149,314
Total current assets	571,105	498,445	5,387,783	4,702,315
<b>PROPERTY, PLANT AND EQUIPMENT</b>				
Land	35,382	38,801	333,797	366,051
Buildings and structures	28,610	30,052	269,911	283,513
Machinery and equipment	22,396	23,521	211,286	221,898
Construction in progress	3	2,750	29	25,949
	86,392	95,125	815,025	897,413
Accumulated depreciation	(26,316)	(25,618)	(248,272)	(241,684)
	60,075	69,507	566,753	655,729
<b>INVESTMENTS AND OTHER ASSETS</b>				
Investments in securities (Note 3)	9,451	8,543	89,167	80,598
Other assets	4,854	2,166	45,799	20,434
	14,306	10,709	134,967	101,033
<b>TRANSLATION ADJUSTMENTS</b>	4,353	—	41,066	—
	¥649,840	¥578,662	\$6,130,571	\$5,459,077

See notes to consolidated financial statements.



# CONSOLIDATED BALANCE SHEETS

## LIABILITIES AND SHAREHOLDERS' EQUITY March 31, 1996 and 1995

Yen in Millions  
1996 1995

U.S. Dollars  
in Thousands (Note 1)  
1996 1995

### CURRENT LIABILITIES

Trade notes and accounts payable	¥ 74,111	¥ 64,192	\$ 699,161	\$ 605,592
Accrued income taxes	47,217	27,443	445,452	258,897
Accrued expenses	11,135	8,484	105,051	80,038
Other current liabilities	3,104	7,734	29,284	72,969
Total current liabilities	135,568	107,854	1,278,950	1,017,497

### LONG-TERM LIABILITIES

Retirement and severance benefits	1,494	1,714	14,101	16,176
Deferred income taxes	252	227	2,385	2,142
Total long-term liabilities	1,747	1,941	16,486	18,318

### TRANSLATION ADJUSTMENTS

Contingencies (Note 7)	—	4,081	—	38,506
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### SHAREHOLDERS' EQUITY (NOTE 5)

Common stock, par value ¥50

(\$0.47) per share

Authorized - 400,000,000 shares

Issued - 141,669,000 shares

	10,065	10,065	94,956	94,956
--	--------	--------	--------	--------

Additional paid-in capital	11,584	11,584	109,285	109,285
----------------------------	--------	--------	---------	---------

Legal reserve	2,516	2,516	23,739	23,739
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Retained earnings	488,384	440,675	4,607,405	4,157,318
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	512,550	464,841	4,835,386	4,385,299
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Treasury stock, at cost	(26)	(57)	(251)	(543)
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Total shareholders' equity	512,524	464,784	4,835,134	4,384,755
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	¥649,840	¥578,662	\$6,130,571	\$5,459,077
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See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 1996 and 1995	Yen in Millions		U.S. Dollars in Thousands (Note 1)	
	1996	1995	1996	1995
<b>REVENUES</b>				
Net sales	¥353,753	¥415,240	\$3,337,300	\$3,917,360
Interest income and other	16,742	14,187	157,945	133,846
Foreign exchange gain, net	30,211	—	285,014	—
	400,707	429,427	3,780,260	4,051,206
<b>COST AND EXPENSES</b>				
Cost of sales	199,579	241,023	1,882,826	2,273,805
Selling, general and administrative expenses	66,537	67,020	627,714	632,271
Foreign exchange loss, net	—	35,386	—	333,831
Other	1,307	293	12,333	2,767
	267,424	343,723	2,522,874	3,242,676
Income before income taxes, equity earning and translation adjustments	133,282	85,704	1,257,385	808,530
<b>INCOME TAXES (NOTE 6)</b>				
Current	73,253	52,525	691,067	495,522
Deferred	250	(2,126)	2,359	(20,064)
	73,503	50,398	693,426	475,457
Equity in earning of an unconsolidated subsidiary	91	20	859	197
Translation adjustments	—	6,334	—	59,758
Net income	¥ 59,870	¥ 41,660	\$ 564,817	\$ 393,027
<b>PER SHARE OF COMMON STOCK</b>				
Net income (Note 2i)	¥ 422.61	¥ 294.08	\$ 3.98	\$ 2.77
Cash dividends paid	100	70	0.94	0.66

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of common shares in thousands	Common stock	Yen in Millions Additional paid-in capital	Legal reserve	Retained earnings	Treasury stock at cost
Years ended March 31, 1996 and 1995						
Balance, March 31, 1994	141,669	¥10,065	¥11,584	¥2,516	¥420,083	¥(56)
Net income					41,660	
Cash dividends paid					(9,916)	
Directors' bonuses					(120)	
Consolidation of an additional subsidiary					(9,698)	
Translation adjustments					(1,332)	
Net change in treasury stock						(1)
Balance, March 31, 1995	141,669	10,065	11,584	2,516	440,675	(57)
Net income					59,870	
Cash dividends paid					(12,041)	
Directors' bonuses					(120)	
Net change in treasury stock						30
Balance, March 31, 1996	141,669	¥10,065	¥11,584	¥2,516	¥488,384	¥(26)

	Common stock	U.S. Dollars in Thousands (Note 1) Additional paid-in capital	Legal reserve	Retained earnings	Treasury stock at cost
Years ended March 31, 1996 and 1995					
Balance, March 31, 1994	\$94,956	\$109,285	\$23,739	\$3,963,050	\$(530)
Net income				393,027	
Cash dividends paid				(93,553)	
Directors' bonuses				(1,132)	
Consolidation of an additional subsidiary				(91,499)	
Translation adjustments				(12,574)	
Net change in treasury stock					(13)
Balance, March 31, 1995	94,956	109,285	23,739	4,157,318	(543)
Net income				564,817	
Cash dividends paid				(113,598)	
Directors' bonuses				(1,132)	
Net change in treasury stock					292
Balance, March 31, 1996	\$94,956	\$109,285	\$23,739	\$4,607,405	\$(251)

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS Years ended March 31, 1996 and 1995	Yen in Millions		U.S. Dollars in Thousands (Note 1)	
	1996	1995	1996	1995
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	¥369,438	¥427,966	\$3,485,265	\$4,037,423
Cash paid to suppliers and employees	(244,397)	(279,660)	(2,305,632)	(2,638,309)
Interest and dividends received	15,584	13,231	147,026	124,827
Income taxes paid	(53,160)	(57,985)	(501,513)	(547,028)
Other	6,803	(5,493)	64,183	(51,821)
Net cash provided by operating activities	94,268	98,059	889,329	925,092
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales of property	1,045	113	9,860	1,068
Payments for purchase of property	(4,207)	(9,401)	(39,689)	(88,691)
Payments for purchase of securities	(1,068)	(4,836)	(10,084)	(45,622)
Other, net	(1,266)	(1,233)	(11,948)	(11,634)
Net cash used in investing activities	(5,497)	(15,357)	(51,862)	(144,880)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Cash dividends paid	(12,017)	(9,895)	(113,373)	(93,357)
Decrease (increase) in treasury stock, net	30	(1)	292	(13)
Net cash used in financing activities	(11,986)	(9,897)	(113,081)	(93,370)
Translation adjustments	(4,315)	4,187	(40,711)	39,508
Effect of exchange rate changes on cash and cash equivalents	14,047	(23,786)	132,527	(224,401)
Net increase in cash and cash equivalents	86,517	53,206	816,202	501,949
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning of the year	396,678	343,472	3,742,251	3,240,301
End of the year	¥483,196	¥396,678	\$4,558,453	\$3,742,251

See notes to consolidated financial statements.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 1996 and 1995	Yen in Millions		U.S. Dollars in Thousands (Note 1)	
	1996	1995	1996	1995
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net income	¥59,870	¥41,660	\$564,817	\$393,027
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Depreciation and amortization	4,989	4,557	47,068	42,999
Decrease in retirement and severance benefits	(219)	(116)	(2,074)	(1,095)
Deferred income taxes	(52)	(1,873)	(498)	(17,675)
Decrease in receivables	8,535	28,007	80,527	264,223
Decrease in inventories	2,243	49,422	21,161	466,254
Increase (Decrease) in payables	10,084	(25,327)	95,138	(238,935)
Increase (Decrease) in accrued income taxes	19,774	(5,405)	186,554	(50,996)
Other, net	(10,956)	7,132	(103,365)	67,289
Total adjustments	34,398	56,398	324,511	532,064
Net cash provided by operating activities	¥94,268	¥98,059	\$889,329	\$925,092

See notes to consolidated financial statements.

YEARS ENDED MARCH 31, 1996 AND 1995

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**I** BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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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 in Japan. 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 financial statements presented herein are rounded down and expressed in Japanese yen and, solely for the convenience of the readers, have been translated into United States dollars at the rate of ¥106 = US \$1, the approximate exchange rate on March 31, 1996. 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. As accompanying financial statements are rounded down, the financial statements for fiscal 1995 are different from those in Annual Report 95.

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**2** SIGNIFICANT ACCOUNTING POLICIES

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- a. *Principles of Consolidation* These consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.
- b. *Inventories* Inventories are stated at the lower of cost or market. The Company determines cost by the moving average method.
- c. *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.
- d. *Marketable Securities and Investments in Securities* Quoted marketable securities included in other current assets and investments in securities are stated at the lower of cost, determined by the moving average method, or market.

- e. *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 results in recognition of deferred income taxes.
- f. *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.

The balance of the liability for lump-sum severance benefits at the time when the Company changed the pension plan is being reversed over 5 years to match the amortization of past service liabilities.

Employees of an overseas subsidiary are covered by a non-contributory defined benefit plan (the "Plan"). Benefits under the Plan 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 liability for lump-sum severance benefits for directors and corporate auditors at the estimated amount required if all retired at the balance sheet date.

- g. *Translation of Foreign Currency Items* Financial statements for the year ended March 31, 1996 are translated into Japanese yen in accordance with the Financial Accounting Standard on Foreign Currency Transaction in Japan, revised in 1995 effective this fiscal year.

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. 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.

In fiscal 1995, financial statements of overseas subsidiaries are translated into Japanese yen at the exchange rates in effect at the balance sheet date for current monetary assets and liabilities and retained earnings, and at historical rates for inventories and other balance sheet accounts. The average exchange rates for the fiscal period are used for translation of revenues and expenses, except that certain costs and expenses relating mainly to inventories and depreciable assets are translated at historical rates and net income is translated at the exchange rates in effect at the balance sheet date. The differences resulted from translation in this manner are shown as "Translation adjustments" in the accompanying consolidated financial statements as set forth in Japanese accounting standard.

In fiscal 1996, 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 resulted from translation in this manner are shown as "Translation adjustments" in the accompanying consolidated balance sheets as set forth in Japanese accounting standard.

In case of applying this revised Standard to the financial statements for fiscal 1995, "Income before income taxes, equity earning and translation adjustments" would have increased by ¥6,624 million (\$62,498 thousand).

- h. *Research and Development Costs* Expenses relating to research and development activities are charged to income when incurred.
- i. *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.
- j. *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, bankers' acceptances and Euroyen and Eurodollars deposits to be cash equivalents.



### 3 MARKET VALUE INFORMATION OF SECURITIES

The aggregate book value and market value of marketable equity included in current assets and non-current assets at March 31, 1996 and 1995, were as follows:

	Yen in Millions			
	1996		1995	
	Book value	Market value	Book value	Market value
Current	¥ 564	¥ 3,204	¥ 510	¥ 2,294
Non-current	¥ 2,163	¥ 9,047	¥ 2,029	¥ 7,889

	U.S. Dollars in Thousands (Note 1)			
	1996		1995	
	Book value	Market value	Book value	Market value
Current	\$ 5,323	\$30,233	\$ 4,812	\$21,641
Non-current	\$20,406	\$85,356	\$19,145	\$74,428

### 4 INVENTORIES

Inventories at March 31, 1996 and 1995 consisted of the following:

	Yen in Millions		U.S. Dollars in Thousands (Note 1)	
	1996	1995	1996	1995
Finished products	¥27,530	¥31,299	\$259,722	\$295,273
Work in process	460	681	4,341	6,425
Raw materials and supplies	9,181	7,435	86,618	70,144
	¥37,172	¥39,415	\$350,681	\$371,843

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## 5 SHAREHOLDERS' EQUITY

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The Japanese Commercial Code requires that a portion of retained earnings in an amount equal to at least 10% of cash dividends paid and directors' bonuses in each financial period be appropriated as a legal reserve until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be capitalized by resolution of the Board of Directors or may be used to reduce a deficit by approval of shareholders.

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.

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## 6 INCOME TAXES

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The Company is subject to several Japanese taxes based on income, which, in the aggregate, result in a statutory effective tax rate of approximately 51%.

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

## 7 LITIGATION

The Company and its consolidated subsidiaries are involved in significant matters of litigation, both as a plaintiff and as a defendant, all arising in the ordinary course of business. Such litigation includes assertions relating to patent, copyright and trademark infringement, collection actions, and antitrust matters. During 1994, a jury awarded approximately \$208 million plus interest to the plaintiff in a patent infringement lawsuit against the Company and its subsidiary. This decision is currently under appeal. 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.

## 8 SUBSEQUENT EVENTS

Subsequent to March 31, 1996, the Company's Board of Directors declared year-end cash dividends and directors' bonuses, as follows:

	Yen in Millions	U.S. Dollars in Thousands (Note 1)
Year-end cash dividends, 50 yen (\$0.47) per share	¥7,083	\$66,823
Directors' bonuses	140	1,320

The dividend and directors' bonuses declared above were subject to approval by the shareholders at the annual meeting held on June 27, 1996.

## 9 SEGMENT INFORMATION

a. *Segment Information by Business Categories* Because the Company operates predominantly in one industry segment which is accounted for over 90% of total sales, income from operations and assets, this information is not required.

b. *Segment Information by Seller's Location*

	Domestic	Overseas	Yen in Millions Total	Eliminations	Consolidated
Year ended March 31, 1995					
Net sales and income from operations					
NET SALES					
Sales to third parties	¥243,378	¥171,861	¥415,240	—	¥415,240
Inter-segment sales	106,848	95	106,943	¥(106,943)	—
Total net sales	350,227	171,956	522,183	(106,943)	415,240
Cost of sales and S. G. & A. expenses	220,825	200,421	421,247	(113,203)	308,044
Income (loss) from operations	129,401	(28,465)	100,936	6,259	107,195

	Domestic	Overseas	U.S. Dollars in Thousands (Note 1) Total	Eliminations	Consolidated
Year ended March 31, 1995					
Net sales and income from operations					
NET SALES					
Sales to third parties	\$2,296,027	\$1,621,333	\$3,917,360	—	\$3,917,360
Inter segment sales	1,008,003	899	1,008,902	\$(1,008,902)	—
Total net sales	3,304,030	1,622,232	4,926,263	(1,008,902)	3,917,360
Cost of sales and S. G. & A. expenses	2,083,262	1,890,772	3,974,035	(1,067,957)	2,906,077
Income (loss) from operations	1,220,767	(268,539)	952,227	59,054	1,011,282



Year ended March 31, 1996	Yen in Millions			Eliminations or unallocated assets	Consolidated
	Domestic	Overseas	Total		
Net sales and income from operations					
NET SALES					
Sales to third parties	¥199,283	¥154,470	¥353,753	—	¥353,753
Inter segment sales	100,746	407	101,154	¥(101,154)	—
Total net sales	300,030	154,877	454,908	(101,154)	353,753
Cost of sales and S. G. & A. expenses	214,285	153,921	368,206	(102,089)	266,117
Income from operations	85,744	956	86,701	935	87,636
Assets	¥622,838	¥ 85,679	¥708,517	¥ (58,677)	¥649,840

	U.S. Dollars in Thousands (Note 1)				
	Domestic	Overseas	Total	Eliminations or unallocated assets	Consolidated
Year ended March 31, 1996					
Net sales and income from operations					
NET SALES					
Sales to third parties	\$1,880,035	\$1,457,264	\$3,337,300	—	\$3,337,300
Inter segment sales	950,437	3,847	954,284	\$(954,284)	—
Total net sales	2,830,473	1,461,112	4,291,585	(954,284)	3,337,300
Cost of sales and S. G. & A. expenses	2,021,564	1,452,085	3,473,650	(963,108)	2,510,541
Income from operations	808,908	9,027	817,935	8,823	826,759
Assets	\$5,875,834	\$ 808,297	\$6,684,132	\$(553,560)	\$6,130,571

Note: Unallocated assets include translation adjustments, and the amount is ¥4,353 million (\$41,066 thousand).

### c. Sales for Overseas Customers

Year ended March 31, 1996 and 1995	Yen in Millions		U.S. Dollars in Thousands (Note 1)	
	1996	1995	1996	1995
Sales for overseas customers	¥173,402	¥195,020	\$1,635,873	\$1,839,819

Overseas sales are total sales of Nintendo's export sales and sales made by overseas subsidiaries. (Except inter segment sales)

To the Board of Directors  
Nintendo Co., Ltd.

We have audited the consolidated balance sheets of Nintendo Co., Ltd. and its consolidated subsidiaries as of March 31, 1996 and 1995, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nintendo Co., Ltd. and its consolidated subsidiaries as of March 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

*Chuo Audit Corporation*

Kyoto, Japan  
June 26, 1996

# FIVE-YEAR SUMMARY

Years ended March 31,

Yen in Millions

1996, 1995, 1994, 1993, and 1992

## FOR THE PERIOD

	1996	1995	1994	1993	1992
Net sales	¥ 353,753	¥ 415,240	¥ 485,611	¥ 634,669	¥ 561,843
Income before income taxes, equity earning and translation adjustments	133,282	85,704	104,411	187,799	180,833
Net income	59,870	41,660	52,653	88,608	87,104

## AT THE PERIOD-END

	1996	1995	1994	1993	1992
Total assets	649,840	578,662	591,227	608,769	517,205
Property, plant and equipment-net	60,075	69,507	61,856	58,167	53,496
Shareholders' equity	512,524	464,784	444,193	404,291	328,548

Yen

## AMOUNTS PER SHARE

	1996	1995	1994	1993	1992
Net income (Note 2i)	¥ 422.61	¥ 294.08	¥ 371.72	¥ 625.77	¥ 615.18
Cash dividends	100	70	70	70	60

U.S. Dollars in Thousands (Note 1)

## FOR THE PERIOD

	1996	1995	1994	1993	1992
Net sales	\$3,337,300	\$3,917,360	\$4,581,241	\$5,987,447	\$5,300,406
Income before income taxes, equity earning and translation adjustments	1,257,385	808,530	985,011	1,771,695	1,705,971
Net income	564,817	393,027	496,730	835,933	821,737

## AT THE PERIOD-END

	1996	1995	1994	1993	1992
Total assets	6,130,571	5,459,077	5,577,615	5,743,107	4,879,292
Property, plant and equipment-net	566,753	655,729	583,550	548,754	504,679
Shareholders' equity	4,835,134	4,384,755	4,190,501	3,814,073	3,099,510

U.S. Dollars (Note 1)

## AMOUNTS PER SHARE

	1996	1995	1994	1993	1992
Net income (Note 2i)	\$ 3.98	\$ 2.77	\$ 3.50	\$ 5.90	\$ 5.80
Cash dividends	0.94	0.66	0.66	0.66	0.56

As the amounts presented herein are rounded down, those of fiscal 1994, 1993, and 1992 are different from the annual reports issued before.

## BOARD OF DIRECTORS

Hiroshi Yamauchi  
President

Katsunori Tanimoto  
Akio Tsuji  
Senior Managing Directors

Hirofumi Fukuda  
Yasuhiro Onishi  
Minoru Arakawa  
Hiroshi Imanishi  
Kimio Mariko  
Masaharu Matsumoto  
Howard Lincoln  
Yoshihiro Mori  
Shinji Hatano  
Directors

Yoshiaki Kondo  
Tokio Sotani  
Minoru Inaba  
Seinosuke Kono  
Corporate Auditors

## OFFICES AND FACILITIES

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Fax: (0774) 24-1325

Uji Ogura Plant  
56 Kaguraden, Ogura-cho,  
Uji-city, Kyoto 611, Japan  
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## OVERSEAS SUBSIDIARIES

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Fax: 61-3-9265-9922

Nintendo of Canada Ltd.  
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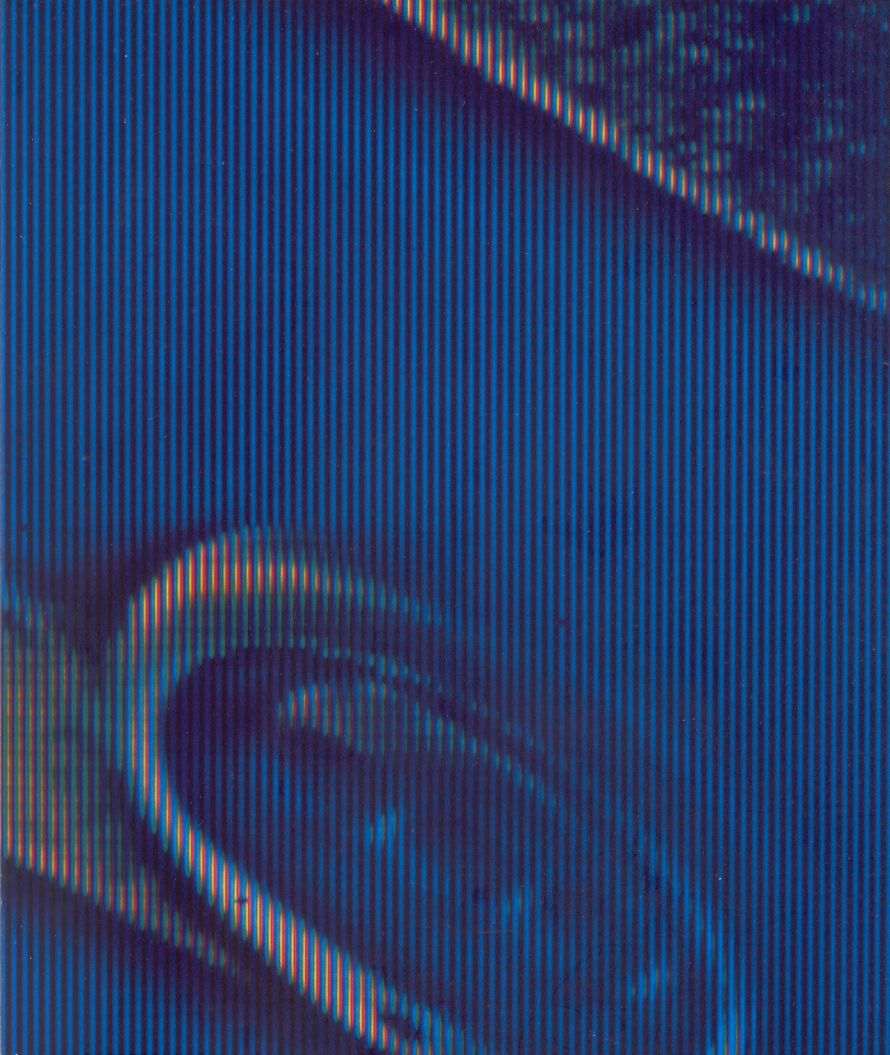
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