

With pride and a sense of responsibility in having the toy industry as our livelihood, we at the TOMY Group aspire to see the Group grow together with society.

遊びをせんとや生まれけむ 戯れせんとや生まれけん

遊ぶこどもの声聞けば わが身さえこそ動がるれ

For play and sport we were born. Born for jesting and laughter, no doubt.
For when I hear the voices of children playing, even my body begins to swing.

This poem from an anthology compiled in Japan around 1180 expresses just how much children's smiles and laughter are a treasure that empowers those around them. It reminds me that the feelings parents have for their children—regardless of social status, wealth, nationality or race, down through the ages—are all underpinned by the sole wish for their children's happiness. Through play, children learn many things and acquire the fortitude to live. Wishing for healthy emotional and physical growth of children, we at the TOMY Group are committed to contributing to society through toys. Heading now toward our 90th anniversary, we have set clear targets with the goal of becoming one of the top three toy companies in the world, and have made a major shift in course in the direction of globalization. By globalization, I mean that the toys provided by the TOMY Group and everything that we do are intended to bring big smiles to the faces of children throughout the world. And their smiles will spread to the adults around those children. That is why we are building a strong sales network which will enable the TOMY Group's outstanding products to excite the world's markets.

We are committed to doing everything we can to ensure that children's toys can be enjoyed safely and without worry. And most important of all is our determination to make toys that, once in a child's hands, will allow that child to play with absorbing interest and eyes aglow. Therefore, I want TOMY to be the kind of company where its employees, as toy makers, are filled with genuine excitement. Trust in the TOMY brand by as many people as possible is, I believe, the sure path toward becoming a truly global toy company.

Right now, we are in the midst of great change. And change begets great opportunities. We will move forward toward those opportunities with a steady stride, one step at a time, believing that the pathway will not fail to open for us as we do.

富山 幹太郎
Kantaro Tomiyama

President & CEO
TOMY Company, Ltd.



Interview with the President



What is your assessment of the fiscal 2010 results?

(Please give a general overview of the fiscal 2010 results.)



I am pleased that we achieved operating income topping ¥10,000 million for the second year in a row.

This, I believe, is due to the firm and steady management structure we have put in place. It has already been five years since our merger with Takara in 2006. During this time, we have pursued consolidation and options in line with the reorganization of management resources and strived to boost management efficiency. Last year we announced a medium-term business plan, which we are pursuing vigorously now, and going forward we will aggressively expand our global business.

On the other hand, I also feel that we must examine critically the facts that net sales for fiscal 2010 declined compared to the previous year and that we did not achieve our planned targets for income.

Looking back over the year, our hit product *Metal Fight Beyblade* and long-standing products such as *Tomica*, *Plarail* and *Licca* performed well.

However, products besides the above did not perform as originally planned, with consumers showing two distinctly different purchasing trends on top of weak personal consumption caused by uncertainty in the overall Japanese economy. Also, a part of our toy peripheral business struggled with a decline in video game wholesaling volume at a subsidiary and a slump in sales in our apparel business. As a result, net sales declined year on year to ¥159,490 million.

At ¥10,327 million, operating income was about the same as the prior year thanks to strong sales of products with a high margin and as a result of our continuation of thorough cost control efforts, which we have been

pushing since last year. I believe that the fact that we maintained operating income at the ¥10,000 million level means that the year ended as a major accomplishment. We achieved a management structure that can secure stable earnings, and it was a year in which I felt that, from here on we cannot rely solely on the Japanese market and that our global business will become more important.



What kind of edge does the TOMY Group have over its competitors?



TOMY has two major strengths.

First, we have long-standing original products and brands that we have planned and developed, such as *Tomica*, *Plarail*, and *Licca*.

These established products have all enjoyed the favor of customers for more than 40 years and have grown as products that continue to be cherished over multiple generations. Furthermore, we are now offering such original brands to the wider world; sales of *Tomica* began in Europe and North America last year.

Our other strength is that we have branded hit products such as *Transformers* and *Beyblade*, each of which can be globally marketed. The third Hollywood movie in the *Transformers* series, "Transformers: Dark of the Moon," was released during the fiscal year ending March 2012. Movie-related toys have a global sales volume of more than 80 million units, and *Transformers* characters are growing as internationally famous characters. With the *Beyblade* franchise as well, we own content originating from toys that are worldwide hits, including the expansion of toys sales to more than 70 countries and regions.

Q What does your earnings forecast look like for the future?

A Our long-term vision is to be one of the top three toy companies in the world as a truly global company, and I think that we need \$3 billion in net sales to remain competitive.

Right now, we are working under a medium-term business plan that designates the fiscal years from 2009 to 2012 as “four years of reengineering and globalization.” Based on this plan, we have undertaken reforms to prepare for a new growth stage, focusing on the following three key issues to develop a management environment that can handle a serious globalization push: (1) expanding our toy business in Asia;

(2) globalizing boys’ category products; and (3) reinforcing and expanding our core businesses.

Furthermore, we acquired RC2 Corporation (now “TOMY International; hereinafter “RC2”), a company in the United States listed on the NASDAQ stock exchange, to accelerate our globalization drive. RC2 became a wholly owned consolidated subsidiary on April 29, 2011.

The acquisition of RC2’s vast global corporate platform will allow TOMY to grow sustainably as a truly global player through the creation of multiregional expansion centering on the No. 1 market of North America and No. 2 market of Japan in the toy industry. Our new business objectives are net sales of \$3 billion and operating income of \$300 million in 2015. To get in position for that, I anticipate consolidated net sales of ¥200 billion and operating income of ¥11.7 billion in the fiscal year ending March 2012.

Q What specific measures are in your overseas strategy for the future?

A In addition to our business with Hasbro, Inc., I think that creating synergy with RC2 in the future is one of our important overseas strategies.

As a specific measure, we will utilize RC2’s distribution network which reaches 25,000 stores worldwide focusing on North America, as our own distribution network to sell toys and baby-related products.

In addition, there is the potential to spur the global expansion of both companies’ brands and contents. Besides existing brands, there is the possibility of creating new products and content through development

by both companies.

To strengthen our production structure, we will integrate our offices and logistics in China, which is a major production base for both companies. We will also utilize TOMY’s production structures in Thailand and Vietnam to carry out low-cost operations.

In the area of human assets and organizational structure, we welcomed Mr. Curtis Stoelting (the former CEO of RC2) as a board member at TOMY to make use of management with a record of achievement in global expansion. We will develop a global human resources organization through personnel exchanges between the two companies.

Furthermore, with little business overlap in our product lines and main sales regions, we will maximize both companies’ strengths, bringing out a synergy that makes “1 + 1 = 3” and taking a giant leap forward toward the world market.

RC2 Acquisition Effect

RC2 The strength of RC2 for TOMY

- 1 Strong sales network in North America
- 2 Solid management fundamentals
- 3 Reliable product-line
- 4 Global talent / establishment of global structure

TAKARA TOMY The strength of TOMY for RC2

- 1 Capability of R&D
- 2 Stable of exceptionally strong brands
- 3 Asian distribution network
- 4 Sourcing and manufacturing other than China

In addition, there is less duplication (product-line, sales network)

Acquisition synergy that makes “1 + 1 = 3”

RC2 Fund-Raising, Goodwill and Other for the Acquisition

Funds needed for the acquisition

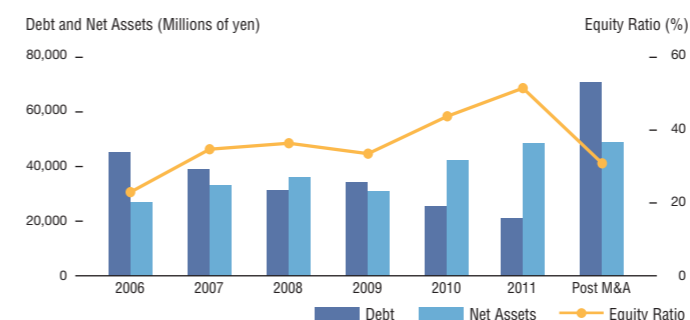
Purchasing amount: **Around \$640 million**
Long-term borrowings: **¥50 billion**

Advantage

- Low cost and stabilization borrowings in Japan
- Exchange risk hedge by borrowing in US\$

Debt repayment plan

- Early repayment from increasing cash flows from operating activities



Goodwill / Intangible assets

Amounts below are calculated based on the estimated figures after the acquisition as of April 30, 2011. Amounts as of March 31, 2011 are not included.

	Goodwill	Intangible assets	Total
Amount (Millions of yen)	23,000	20,000	43,000
Depreciation period (Years)	20	17 (Average)	—
Yearly depreciation (Millions of yen)	1,200	1,200	2,400