

Taking on structural reforms that will put us among the Top 3

Last year's market environment was marked by the shrinking of the Japanese toy market and tough overseas sales competition. We engaged in the necessary measures to deal with those developments in the second half by cutting costs, including personnel reductions and structural adjustments that would lead to increased sales, and in March of this year we announced the Revival Plan that will accelerate our pace on our current course. We regretfully posted revenue and profit declines in fiscal 2012 for the first time in three years. However, from the second half, the fruits of the merger with our U.S. subsidiary and new product development have been appearing gradually. We will continue to push hard for the further growth that will propel us to become world's third largest toymaker.



Message from the President & CEO

Pursuing Structural Reforms Rigorously Ahead of the Times, as We Approach Our 90th Anniversary

Results for the year ended March 2013

Net Sales:

¥179.0 billion

Operating Income:

¥2.5 billion

EBITDA:

¥10.0 billion

Kantaro Tomiyama
President & CEO
TOMY Company, Ltd.

富山 幹太郎

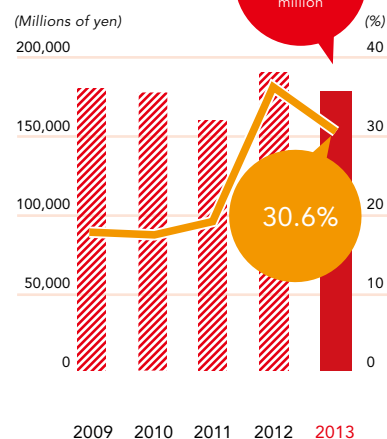
August 2013



(Years to March 31)

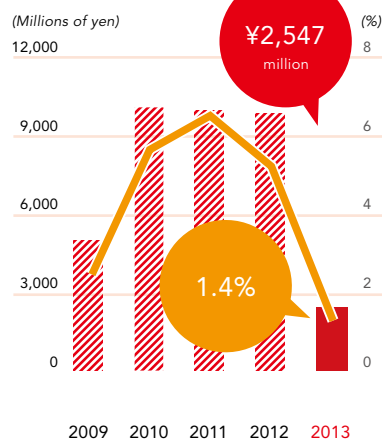
Net Sales

Overseas Sales Ratio

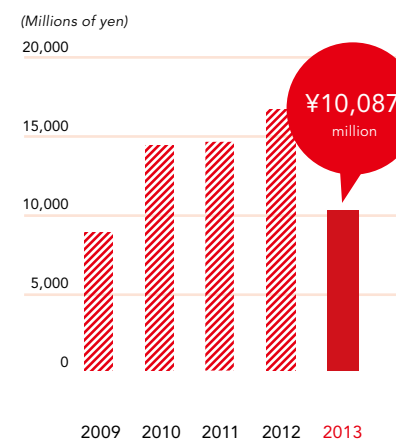


Operating Income

Operating Margin



EBITDA



Review of Fiscal 2013

(Fiscal year ended March 31, 2013)

Business Environment

As the Japanese toy market tended to shrink, the business environment remained tough.

The Japanese economy this term was characterized by hopes accompanying the credit easing policy launched by the new government, which took office in December last year.

Though the future outlook became brighter as the yen turned weak and the stock market kept rising, the toy business environment continued to be less optimistic.

Looking overseas, the business environment remained sluggish due to the prolonged European debt problems and the slowing of the Chinese economy. Such factors had a strong impact on sales during peak toy industry seasons such as Christmas and the Chinese New Year, and the business environment remained severe.



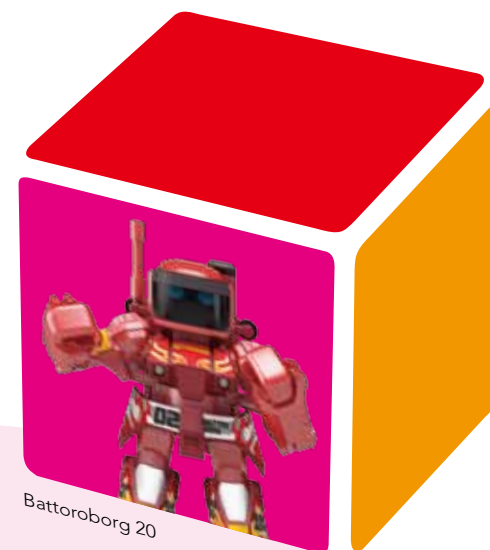
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Consolidated Business Results

In contrast with strong core products performance, tough overseas sales competition and deteriorating apparel revenues caused a decrease in sales and profit.

In addition to a change to stronger sales of core products such as *Tomica* and *Plarail*, the *Battorborg 20* battle hobby toys, new electronic pet products such as *Furby* and *PokémonTRETTA* amusement machines gained popularity, and the video game wholesale volume also increased. Nonetheless, our *Metal Fight Beyblade* and *Transformers* products, which were strong in Japan and overseas in the previous fiscal year, faced a reactionary fall, and our overseas subsidiaries experienced stiff competition. Consequently, net sales were down 4.4% YoY to ¥179,042 million. Regarding profits, although we continued to suppress selling, general and administrative expenses, operating income was down 75.0% to ¥2,547 million, gross profit decreased in tandem with the drop in sales in addition to the decreasing profitability of our apparel business. The bottom line was a net loss of ¥7,097 million in comparison with the previous fiscal year's net income of ¥3,679 million, due to the posting of an extraordinary loss of ¥7,939 million that includes expenses associated with an impairment loss on intangibles at TI International Group ("TI Group") and employees' voluntary resignation packages.



Battorborg 20

There was a gain in the popularity of new electronic pet products such as Furby and the Battorborg 20 battle hobby toys.

Major Efforts

We created a global management system and implemented structural reforms to make a breakthrough in a tough environment.

The TOMY Group worked within this difficult business environment to create a new global management system, as well as to reform its structure, so as to deal with the tough Japanese toy market and severe overseas sales competition.

While the building of a global system was intended to strengthen our core toy business, we also made progress in strengthening and expanding major project categories through cross-selling with T1, which we acquired in the previous term, as well as shoring up and streamlining our production bases.

We focused on restructuring founded on the following four policies in response to the tough toy market in Japan and severe overseas sales competition.

PROGRESS IN STRUCTURAL REFORMS

1. ADDITIONAL NEW PRODUCT LAUNCHES

We initiated sales of new products such as *Furby*, a smartphone-controlled electronic pet, *Battorborg 20*, interactive battle robots, and *Keitai Wanko*, a remote-controlled stuffed animal toy for girls.

2. STRENGTHENING PRODUCT GENERATION CAPABILITY

We used the opportunity provided by reorganization in October last year to furnish a system for driving product development that employs the specialized capabilities of a system made up of category-specific business departments. At the same time, we constructed a system for developing new, cross-category concept products, as well as products adapting to demands from clients and retailers. Furthermore, in addition to our China Business Strategy Office, we established Business Strategy Offices for Europe and Asia, creating a system capable of handling product launches tailored to regional needs.

3. STRENGTHENING MAXIMUM SALES ABILITY

We integrated the domestic sales offices with the Head Office Sales Group, reorganized our sales functions by newly establishing TOMY Marketing Company, Ltd., streamlined business processes by eliminating redundancy and sought to unify sales strategies and tactics.

4. THOROUGH EXPENSE REDUCTION

In addition to reducing head office director compensation and salaries at the head office manager level and above, we made operations as low cost as possible by revising logistics costs through sales structure integration and adjusting inefficient advertising costs and distribution promotion costs.

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Future Strategies

Getting back on track to achieve our growth targets through steady progress in our Renewal Plan

The pace of changes in today's business environment is rapid, and making progress through globalization requires the ability to make decisions more swiftly than ever before. As we are now amid such a broadly changing environment, we can view it as an opportunity to change our perspective and reform ourselves.

In response to this situation, we executed the TOMY Group Revitalization Plan in March in which we outlined three basic policies. By driving such measures steadily, we will be able to build a foundation for future growth.

Three Basic Renewal Policies

1. Build a stable revenue base in our domestic toy business
2. Drive our global business by concentrating investment resources (gained in Japan) in North America and Europe
3. Form our next-generation businesses through trial projects in the growing Asia market

The three policies and the system that will drive them are explained below:

First, we will reduce the break-even point and stabilize growth in the Japan toy business, which is the Group's revenue base. Doing so will generate cash flow and provide investment resources. We will also generate market concept-type product lines that do not depend on large-scale investment, as well as nurture and develop global content under the guidance of the Head Office for Overseas Business Affairs.

Our efforts in the area of sales include merging TOMY Logistics, which had handled logistics in Japan, into TOMY Marketing on March 31 of this year. By consolidating product distribution and logistics management, and in addition providing a more flexible response to consumer needs by thoroughly strengthening field support functions, we can provide a maximum impetus to sales promotions adapted to retail sites.

Next, the first step regarding concentrating investment in Europe and North America is management team reshuffling. Growth overseas will be realized under the overall guidance of the Head Office for Overseas Business Affairs, in close contact with TI International (TI), which plays a central role overseas. In real terms, this means acquiring global content such as *Pokémon* and *Disney* and using that to steadily gain market share, as well as focusing on rebuilding the baby business under Greg Kilrea, the new TI CEO.

Furthermore, we are working to form our next-generation businesses through trial projects in the growing Asia market. Under the guidance of the Head Office for Overseas Business Affairs, we will conduct market trials in Asia using low-cost products developed for that market and develop a "reverse innovation strategy" aimed at global expansion. For example, we had some success in China during this term with the boys' character *Kibao*, and this case can be applied in conducting similar strategic trials not only in China but also in the ASEAN countries, leading to the formation of a next-generation business.

We are strengthening the system for overall consolidated control under the guidance of the Head Office for Corporate Administration to build and operate an efficient global management system. In practice, this means constructing a global financing system to deal with rapid exchange rate fluctuations, building a global system that would make figure management possible for the entire Group and global risk avoidance efforts to deal with legal risk.

We are strengthening our corporate governance system and its functions in order to support these efforts. As part

of our reform of Board of Directors meetings aimed at achieving swift, objective decision making, we are reducing the number of Directors from 13 to 10. Executive roles and duties have been clarified by making half of the Board members outside directors, with Kantaro Tomiyama as President & CEO, Osamu Mashimo as Executive Managing Officer in charge of Japan Business Affairs, Shigeki Yanagisawa as Executive Managing Officer in charge of Overseas Business and Kazuhiro Kojima as CFO and Senior Executive Officer in charge of Corporate Administration.

Through steady progress in executing the Renewal Plan, we aim to achieve net sales of ¥178,000 million, operating income of ¥5,000 million, ordinary income of ¥4,100 million and net income of ¥1,300 million for the fiscal year ending March 31, 2014. We will also build a solid business foundation to strengthen our core domestic toy business and drive our overseas development to transform TOMY into a truly global company.

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We recognize returns to shareholders as our most important management issue.

Returns to Shareholders

We recognize returns to shareholders as our most important management issue. In addition to posting a net loss in the fiscal year ending March 31, 2013, due to our provision of voluntary resignation packages as part of our restructuring efforts and other factors, we are regretfully reducing the annual dividend to ¥10 per share, a reduction of ¥4. We believe that execution of the policies stated in the Renewal Plan will lead to improved shareholder value, and we ask for your understanding in this matter.

CSR

We at the TOMY Group remain aware that our mission is to inspire and fulfill the dreams of children and parents worldwide through our toys. For example, we spur children to consider the environment through our Eco-Toy program, offering toys made with fewer raw materials or with recycled materials. TOMY led the way in advancing the concept of Accessible Design Toys, which makes our toys equally accessible to sight- and hearing-impaired children, and now that concept has spread throughout the toy industry. We intend to continue fulfilling our corporate social responsibilities through toys, our core business.

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