

Though the overall toy markets in Japan and overseas are shrinking, toys for boys are growing in Japan

Despite a mild recovery in the United States during the fiscal year ended March 31, 2013, the global economic situation remained unpredictable as the European financial crisis flared again and growth in the Chinese economy slowed. In Japan, the future appears brighter thanks to a weaker yen and the transition to a bullish stock market, but the depth of the impact on consumer spending due to next year's expected increase of the consumption tax, etc., is unpredictable. Although the toy markets in Japan and overseas were lower last year, our Group's core "toys for boys" category, which includes products such as toy trains, was up 9% YoY, a result that confirms we are pursuing the correct strategy in the tough environment.



YOU ARE
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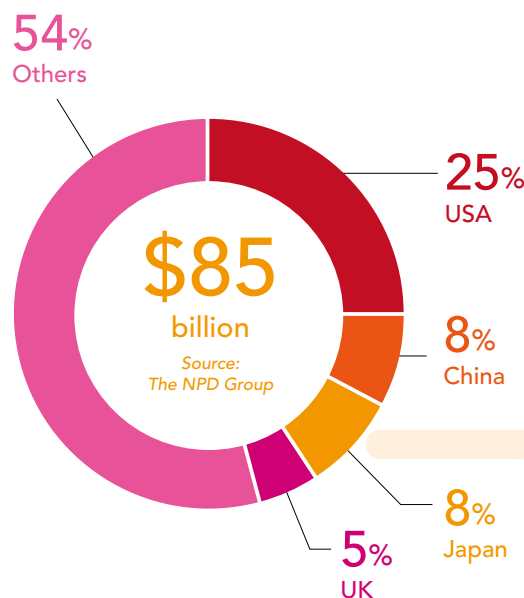
Market Trends

The economic atmosphere in Japan, North America and major countries in Europe remains opaque, and without a real comeback in demand the overall economy was stagnant.

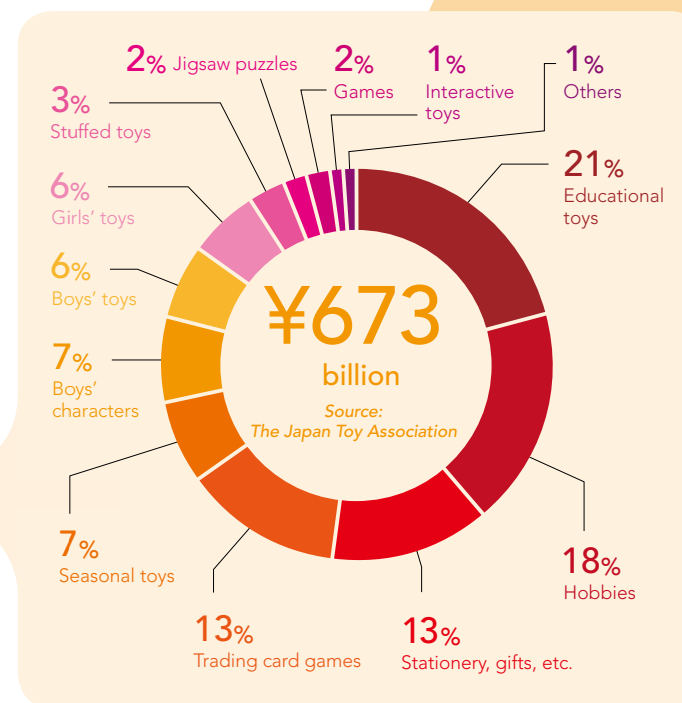
The fiscal 2012 (April 2011–March 2012) domestic market decreased 2.5% to ¥673 billion from the previous year on a retail price basis, due to fewer than usual hit products. By product segment, sales of trading card games declined 16.4% YoY and with the decrease in boys' hobby products, sales of boys' characters dropped 14.1%. On the other hand, the "toys for boys" category, which includes products such as toy trains, was up 9.0% YoY. (Source: The Japan Toy Association)

In the United States, the world's largest toy market, a longer than usual Christmas holiday provided more opportunities for purchasing, which led to an 18% YoY increase in Christmas season sales. Nonetheless, calendar year 2012 net sales were \$16.5 billion (approximately ¥1,305.5 billion), slightly lower than the previous year's \$16.6 billion. Meanwhile, fewer than usual new product launches in the top five European countries (the United Kingdom, France, Germany, Italy and Spain) resulted in a drop in net sales of 2% YoY to £9.88 billion (approximately ¥1,253 billion). (Source: The NPD Group)

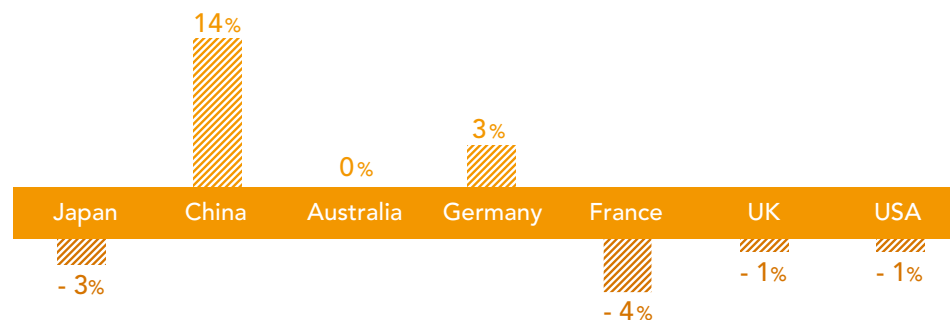
Global Toy Market 2012



Japanese Toy Market 2012



2012 vs. 2011 Market Growth by Country



Notes: 1. Foreign exchange is calculated at the following rates: £1 = ¥125; US\$1 = ¥79.
2. Sources: For Japan data, the Japan Toy Association; for China, Yano Research Institute Ltd.; for Australia, Europe and USA, The NPD Group. China's figure is forecast as of May 2012 by Yano Research Institute Ltd.

Group Performance

As noted earlier, the market environment continued to be tough during the fiscal year ended March 31, 2013, and consolidated net sales fell 4.4% YoY to ¥179,042 million. Despite continuous efforts to suppress selling, general and administrative expenses, operating income was down 75.0% to ¥2,547 million as a result of the decline in sales, as well as lower profitability in the apparel business. The bottom line was a net loss of ¥7,097 million (in comparison with net income the previous term of ¥3,679 million) due to the posting of an extraordinary loss of ¥7,939 million, a figure that includes expenses associated with certain intangible assets of overseas subsidiaries and voluntary resignation packages.

PERFORMANCE BY REGION

From the current fiscal year, the Group is employing a tri-regional global organizational structure (Japan/North America, Europe and Oceania/Asia (other than Japan)) rather than the previous quad-regional structure (Japan/North America/Europe/Asia (other than Japan) and Oceania).

JAPAN

Sales of newly launched high-end series trended strongly within the core *Plarail* toy train product line. We also sought to expand the target demographic for *Tomica* car toys and increase existing product variation through collaborations involving popular content. Sales of new products, such as interactive plush dog toys for girls, motion-interactive robots and next-generation electronic smartphone-controlled plush toys were strong, whereas amusement machines continued to gain popularity and video game wholesaling volume increased. Nonetheless, these successes were not sufficient to offset a drop in sales overseas of *Metal Fight Beyblade* and *Transformers*, which had sold strongly in Japan and overseas during the previous fiscal year, as well as sluggish sales in the trading card market.

As a result, total net sales decreased 5.3% YoY to ¥138,141 million. Operating income declined to ¥7,037 million (down 45.0%), reflecting the decline in gross profit associated with the decrease in net sales and a decline in apparel business profits.

NORTH AMERICA, EUROPE AND OCEANIA

The TI Group launched full-scale sales of the globally licensed *Pokémon*-related products in January 2013. Although sales of toys based on vehicles made by multinational agriculture machinery maker *John Deere* were solid globally, toy sales were sluggish in Europe and baby product sales struggled in North America, therefore net sales in North America, Europe and Oceania declined 3.7% YoY to ¥36,104 million. The operating loss deteriorated to ¥1,637 million (compared with a loss of ¥2 million in the previous fiscal year), resulting from a decline in gross profit following the decrease in net sales, development expenses occurring from the result of the cancellation of new product launches, an increase in mold costs and a deterioration in the cost of sales ratio.

ASIA (OTHER THAN JAPAN)

Net sales in Asia (other than Japan) were ¥28,970 million (down 16.3% YoY), whereas operating income was ¥1,445 million (down 4.2%).

In China, we increased sales of products related to the *Kibao* Chinese-created animated TV characters by setting product retail prices in line with local prices. The TI Group's *The First Years* baby products were launched in Thailand and Vietnam, in addition to existing sales in China. The decrease in net sales was the result of a snapback in shipments of *Metal Fight Beyblade* and *Transformers*-related products by manufacturing subsidiary TOMY (Hong Kong) Ltd., which handled increased shipment volume the previous fiscal year.

(Millions of yen)

	Net sales			Operating income (loss)		
	2013	2012	Change	2013	2012	Change
Japan	138,141	145,870	(7,729)	7,037	12,795	(5,757)
North America, Europe and Oceania	36,104	37,490	(1,385)	(1,637)	(2)	(1,634)
Asia (other than Japan)	28,970	34,602	(5,632)	1,445	1,508	(63)
Total	203,216	217,963	(14,747)	6,846	14,302	(7,455)
Eliminations and corporate	(24,173)	(30,698)	6,525	(4,299)	(4,116)	(183)
Consolidated	179,042	187,265	(8,222)	2,547	10,186	(7,638)

Product Development

The TOMY Group's corporate mission is to create new value from play to fulfill the dreams of our stakeholders, and we seek to achieve our mission through R&D dedicated to creating products and content that will satisfy the dreams of the world's children.

During the fiscal year under review, the Group launched the new *Dream Tomica* series lineup through collaborations involving popular content to expand our target demographic and diversify the *Tomica* series. We conducted R&D into generating outside-the-box product concepts for more fun and a deeper sense of wonder, employing the latest in technology and current trends to launch series such as the *Battorborg 20* motion-interactive robots, which provide realistic boxing fun and a sense of direct control through wireless operation, and *Keitai Wanko*, a plush dog with a dog-language translator that looks like a smartphone. Furthermore, in addition to cross-global development of internationally licensed *Pokémon* products in North America and Europe, as well as in Japan, China and other Asian countries, we increased sales of products related to the boy-oriented *Kibao* characters from Chinese-created and broadcast anime by setting retail prices in line with local market price needs. Our product development puts customer safety first, and we have bolstered our in-house testing system based on our own standards to improve product safety. We have also promoted full-scale value engineering (VE) initiatives to optimize function and cost from the product planning and development stage onward. We also conduct R&D into resource efficiency out of concern for the environment. One example is the Eco-Mark certification received by the *Plarail* "Eco Straight Track" and "Eco Curved Track" rails, in recognition of our commercialization of track that is not only composed of 50% or greater recycled plastic but also safer and more functional.



Our R&D seeks to create products and content that will satisfy the dreams and wishes of children the world over.



We adopt the latest trends and technologies in conducting deeper R&D of new kinds of play and amusement.



Our product development puts customer safety first.