

“
AIMING TO BE
A COMPANY THAT
GROWS ALONG
WITH THE CHILDREN
OF EACH
CHANGING ERA”



MESSAGE FROM THE PRESIDENT & CEO

Representative Director, President & CEO

H.G. Meij

I assumed the position of president in June of last year, and this year has passed very quickly. I joined the company one year earlier, the year in which TOMY celebrated its 90 years of incorporation. Throughout that time, the business environment has seen numerous changes, but in the midst of this, we have continued to push the need to promote major “revolutions.”

As we look at the world in which children find themselves, the emergence of smartphones and tablets, as well as the arrival of social media, have all had a major impact on both toys themselves and on how children play. Given this, throughout our more than 90 years of history, TOMY’s products and brands have evolved along with the changing times. We are moving forth with a range of initiatives in accordance with our New Medium-Term Management Plan, which has as its cornerstones the three reforms of “revolution of mind,” “product revolution,” and “structural revolution of business.” Personally, since my time as the COO, I have been taking a deep look at our strategies focusing on the next two to three years, and as president, I have started to think in more depth about strategies concerning management as a whole in the longer term. These focus on the next 10, 20 or even 30 years, and cover everything from products, brands, manufacturing and distribution, right through to securing personnel, and training future staff who will follow in our footsteps.

Looking back over the fiscal year which ended March 2016, the results of these reforms have started to make themselves apparent in various areas. Consolidated performance has grown year on year for eight consecutive quarters,* and December 2015 saw the highest per-month domestic sales in our history, with record sales of TOMICA and PLARAIL throughout the year, and LICCA attaining its highest sales in 23 years.

TOMY has now entered the “fourth generation” of its business. However, in the first generation, when we were but a small shop floor, the world market was one of tin toys. In the second generation, a materials revolution meant that tin gave way to plastics. The third generation was characterized by toys that added value through information—the so-called information revolution in response to the growth of mass media. Through all of these changes, what remains unchanged are our strong convictions—putting smiles on the faces of children around the world as our priority; applying pride in our handiwork down to the most minute detail when it comes to safety and secure quality; and maintaining flexible creativity to address the times and continue progress. With this in mind, we will turn the passion of our employees into a strength to continue to spawn dreams and take on the challenges of the times, and as we usher in the new “fourth generation,” we will continue to be a company that grows hand-in-hand with the children who are our future.

* Sales excluding the impact from the transfer of shares in TOYS UNION Co., Ltd., and TATSUNOKO PRODUCTION Co., Ltd.

SALES UP FOR EIGHT CONSECUTIVE QUARTERS,^{*}

**DUE TO
STEADY PROGRESS ON REFORMS,
FAVORABLE DOMESTIC BUSINESS,
RESTRUCTURING OF
OVERSEAS BUSINESS**

SUMMARY OF THE FISCAL YEAR ENDED MARCH 31, 2016



Business Performance

When compared to last year's challenging year, both within Japan and overseas, the fiscal year ended March 31, 2016, started to see the effects of our reforms. In the domestic market, the low birth rates and an ageing population continue to mean a sluggish toy market, and customer confidence also took a hit from the increase in the consumption tax of April 2015. However, key brands such as TOMICA, PLARAIL and LICCA, as well as BEYBLADE BURST, the next generation of spinning tops, are gaining popularity, and the rollout of these, together with *Star Wars: The Force Awakens*-related products, progressed favorably. Overseas, sales have been driven as a result of our acquiring the toy product rights around the world for the Disney/Pixar films *Inside Out* and *The Good Dinosaur*, as well as for Disney's *Zootopia* and animated products from *Miles from Tomorrowland*, which screened on the North American dedicated Disney channel *Disney Junior*. When broken down by region at POA (point of availability), the Asian market is also expanding and responding successfully to product strategies.

As a result, consolidated net sales were ¥163.0 billion, up 8.8% from the previous year*, the eighth consecutive quarter of increase since the fiscal year ended March 31, 2015. On the profit front, increased sales were reflected in a rise in gross profit, despite higher personnel, advertising and R&D expenses due to a focus on marketing and new product development. As a result, operating income increased 9.4%, to ¥2.6 billion. This was impacted by foreign exchange fluctuations as well as instabilities in Europe, and while we did not post the figures that we anticipated for that period, we achieved increased year-on-year profits. At the same time, an extraordinary loss of ¥8.5 billion was booked in the TOMY International (TI) Group from the partial impairment of goodwill and intangible fixed assets, meaning a net loss attributable to owners of parent of ¥6.7 billion.

* Sales excluding the impact from the transfer of shares in TOYS UNION Co., Ltd., and TATSUNOKO PRODUCTION Co., Ltd.

Impairment Booking at the TOMY International Group

In September last year, I also assumed the position of CEO of TOMY Holdings, Inc., and we changed to a system in which I could assume managerial oversight of the whole group, with the objective of reversing the ongoing unsatisfactory business performance in the TI Group, and further hastening coordinated management throughout the TOMY Group. At the same time, the Europe, America, and Oceania regions, which had up until that time been managed by the TI Group, came under direct administration and management of the head office. We revised the business plan following these changes in management structure, and are now seeing the results of these reforms mainly in Japan. To accelerate future growth in overseas markets, we decided to book impairment costs during this fiscal year. We cannot ignore the global market if TOMY is to attain sustainable growth. We are resolutely working to rebuild the TI Group, and are creating a sound foundation for our overseas business.



Overview by Business

Europe, America and Oceania had formerly been managed and administered as the TI Group, however this was transitioned to a direct management and administration structure for the Americas (North, Central and South America), Europe and Oceania under the leadership of the head office, and from the third quarter of the fiscal year ended March 31, 2016, the reporting segment classification has been changed. The following year-on-year comparison uses figures that have been recombined to correspond to post-change segment classifications.

Japan

We are seeing strong sales of new product lines in our core brands, including the TOMICA SYSTEM in which children combine various track parts; the PLARAIL "Shinkalion" in which a Shinkansen transforms into a robot; and Kira hair LICCA in which children can enjoy adorning LICCA's hair with rhinestones. We have also launched the new LICCA Stylish Doll Collections brand for adults, who may be more particular about body and hairstyles. We made tie-ups with other companies, and also actively provided information using social medias. After reexamining the DUEL MASTERS trading card game products and promotions, new users have increased, leading to a major recovery in sales over last year.

We are also seeing strong sales in new products in which we proactively launched products such as *Star Wars: The Force Awakens* products, as well as new craft toys for girls such as MOCOMOJI ORINA and FELTY MICHINE. A total of over 3,500 events held at retailers nationwide for BEYBLADE BURST released in July last year were a great success, and proved highly popular with elementary school boys.

"Toys 4.0" refers to those products that fuse analog toys and digital elements. In this category, we have developed LINEAR LINER, the world's first mass-produced miniature linear train that is magnetically levitated and driven, as well as OHANAS, a talking, cloud-based robot toy developed in collaboration with NTT DoCoMo. Kiddy Land (chain of toy retailers), having a high degree of recognition amongst overseas tourists, resulted in a strong growth in sales. In only 19 months since their launch, PRIPARA amusement machines deployed by T-Arts have gained more than 2.4 million registered users, a large slice of the market.

Despite a sluggish domestic toy market, we posted sales of ¥108.5 billion (up 5.6% YoY) and operating

income of ¥8.2 billion (up 29.5% YoY).

Americas (North, Central and South America)

While shipments of agricultural vehicle toys and baby products dropped, the introduction of products for the Disney/Pixar productions *Inside Out* and *The Good Dinosaur*, Disney's film *Zootopia*, and the *Miles from Tomorrowland* animated production screened on the North American dedicated Disney channel *Disney Junior* combined with healthy sales of Pokémon-related products and other character goods, resulted in sales of ¥34.6 billion (up 15.6% YoY). Changes to the product mix, as well as an increase in purchasing costs, resulted in an operating loss of ¥1.5 billion (compared with an operating loss in the previous year of ¥340 million).

Europe

The preschool market remains challenging in the European region, and price competition with rival companies has caused a sales slump in bath toys and other baby products, as well as painting products and other preschool goods. On the other hand, the rollout of Disney-related products is continued strongly, with total sales in Europe of ¥10.6 billion (up 9.7% YoY). Changes to the product mix, as well as an increase in purchasing costs and in SG&A expenses caused an operating loss of ¥2.4 billion (compared with an operating loss of ¥1.0 billion in the previous year).

Oceania

Sales of baby products dropped, but the global expansion of Disney-related products resulted in total sales in Oceania of ¥2.5 billion (up 8.8% YoY). Changes to the product mix and an increase in purchasing costs, as well as an increase in advertising expenses, caused an operating loss of ¥104 million (compared with an operating loss of ¥72 million in the previous year).

Asia

In the rest of Asia, we have been continuing initiatives to expand new POAs such as convenience stores and bookstores for our products, just as we have done in Japan. In addition to sales of the popular TOMICA series, we have continued to introduce TSUM TSUM series products, such as the stackable soft toy series from the Disney store, and "Tomica Disney Motors Tsum Tsum" based upon "Tsums," which appeared in the "LINE: Disney Tsum Tsum" smartphone game based upon the same characters. We have also started sales of a lower-priced TOMICA brand—TOMICA COOL DRIVE—

in China and Thailand. This brand takes into account different purchasing standards and tastes of children in other countries and regions. In South Korea, we held a hands-on event looking toward the full deployment of

PRIPARA amusement machines, and this garnered a lot of attention. Sales came to ¥57.2 billion (up 6.4% YoY), however operating income dropped to ¥878 million (down 35.9% YoY) as a result of increased SG&A expenses.



(Millions of yen)

	2015	2016	Change	Change (%)
Net Sales	149,938	163,067	13,129	8.8
Japan	102,808	108,519	5,711	5.6
Americas	29,955	34,622	4,667	15.6
Europe	9,703	10,641	937	9.7
Oceania	2,305	2,509	203	8.8
Asia (other than Japan)	53,850	57,288	3,437	6.4
Eliminations and corporate	(48,684)	(50,513)	(1,828)	—
Operating income	2,466	2,698	231	9.4
Japan	6,402	8,293	1,891	29.5
Americas	(340)	(1,586)	(1,245)	—
Europe	(1,077)	(2,418)	(1,340)	—
Oceania	(72)	(104)	(31)	—
Asia (other than Japan)	1,369	878	(491)	(35.9)
Eliminations and corporate	(3,814)	(2,364)	1,449	—

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ENDLESS
AGELESS
BORDERLESS
POA*

KEYWORDS OF PROGRESS



Looking Back—Year 2 of the New Medium-Term Management Plan

At the end of the second year of the New Medium-Term Management Plan, the unfavorable state of TI combined with its impairment meant a loss, but personally I feel that reforms are progressing well, and that they will prove effective.

Our New Medium-Term Management Plan put forward three revolutions—“revolution of mind,” “product revolution” and “structural revolution of business.” Behind these are an awareness of four aspects of our business environment. The first is that the toy market and the toy environment itself are significantly changing to ENDLESS. Toys are forever changing, and we have now entered an age in which we must provide consumers with new choices, value and ways to play. The second is that the target for products has expanded to AGELESS, and it is necessary to incorporate new demographics, so that toys are not just for kids, but adults as well. The third is the diversification of media, with BORDERLESS next-generation marketing incorporating social media becoming an essential aspect. The fourth is no matter how faultless a product may be, this means nothing if the products are not available for purchase, including overseas, meaning that we have to expand POAs, a points of availability.

In such environments, it is first vitally important that we have a “revolution of mind” amongst our employees. One of these is ensuring that an awareness and

understanding of the necessity of globalization is firmly rooted within the consciousness of our employees. Japan’s toy market comprises a mere 6% of the global market. Restricting ourselves to competing only within this market cannot lead to any meaningful expansion of the company.

Our “product revolution” comprises reforms in order that our products can reliably generate earnings. This includes expanding our lineup of core products, switching to a more brand-focused strategy, and developing new products. Products may change, but brands are eternal. If we can create a good brand image, then this will also enable expansion into other areas. While we are developing new products, we should not rely solely upon these, and we have been working to bolster our core products. As a result, lines such as TOMICA and PLARAIL have achieved their highest sales ever. These days, toys must evolve rapidly, so we are actively taking on the challenge of new technologies, creating new products that fuse analog toys and digital elements. We refer to this as “Toys 4.0.”

In the third of these reforms—the “structural revolution of business,” we are streamlining our organizational structure, as in the aforementioned major changes to corporate management overseas, we are slimming our organizational structure in Japan and working to expand POAs.

When carrying out these reforms, there are some aspects of ideas, product planning, design and manufacturing that cannot be carried out within the company; therefore we work together with partners, taking on board outside expertise on an as-needed basis.

* POA: Point of Availability

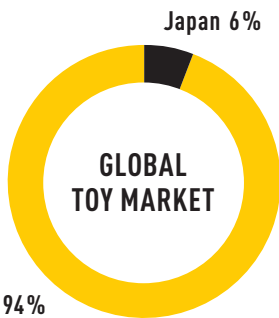


STRATEGY FOR FUTURE GROWTH

Core Strategy 1: Promoting Global Development

Expansion into overseas markets is key to securing significant future growth for TOMY. Whereas the low birthrate in Japan has meant a sluggish market, the global toy market is expected to grow from ¥9 trillion in 2015 to ¥12 trillion in 2020, an annual growth rate of 6.5%. TOMY must be a part of this. At present, 60% of TOMY sales are domestic, but Japan makes up only 6% of the global market, with only 1% of the world’s population under 14 years old being Japanese. A three- or fourfold growth in the size of the company will require that we set our sights on the remaining 94% of the global market.

Many challenges remain in our overseas operations, meaning improvements are urgently required. We have already looked at the causes of the TI Group’s sluggish performance, and I have already outlined the measures that we have taken to rebuild it. As a first step towards becoming a more global company, we have invested significant amounts in obtaining global licenses for major film content. These moves represent progress toward the company’s globalization, but I am very aware that if we are to increase profits, we will need to cultivate our own intellectual property so we have a balance that is not overly dependent on IP from other companies. The fiscal year ending March 31, 2017, will show us what results we may expect from the restructuring of the TI Group, and I hope that this will result in increased growth in our overseas businesses.



Source: Euromonitor International Ltd.

Core Strategy 2: From Products to Brands— Strengthening Our Core Toy Business

In the Japanese market, we are starting to see the effects of our product revolutions in the development of each product group—“core brands,” “new items,” “BIG BET (highest priority products)” and “Toys 4.0.”

I feel there are five ways in which we can grow the business. The first is to expand our existing business. The next is to increase the number of categories. In this, we have already established a business division targeting adults, and are also working to enhance next-generation marketing that utilizes websites and social media. The third is to carry out more effective marketing for different customers, such as delivering messages tailored to individual demographics. The fourth is to increase the size of the market itself. For TOMY, this corresponds to expanding to overseas sales of products formerly sold only in Japan, and to expanding POAs. The fifth is to use the company assets to increase corporate value, in other words “branding.” One very successful example of this is the LICCA doll. We have sought to completely relaunch LICCA in Japan, adding new lines, and create new marketing schemes and communication to make LICCA relevant to not only young children but equally to adults. As well as achieving a 50% increase in sales this year, LICCA was also featured in the December 28, 2015 *Nikkei Marketing Journal*’s 2015 hit product rankings (Lifestyle Edition). Furthermore, in just one year since we embarked upon these reforms, we have improved the company’s brand recognition through activities such as creating a music video with popular U.S. female singer Ariana Grande. A stronger brand will mean that a totally new licensing business will no longer be just a dream, and this will pave the way for future initiatives with our other core brands. We are confident that we can further strengthen the TOMY brand, and push forward our core toy business.

9 TRILLION YEN

80,418

2015

82,954

2016E

12
TRILLION YEN

AIMING TO BOOST SALES BY MORE THAN 6% IN OVERSEAS MARKETS

OVERSEAS TOY MARKET TRENDS

(Source: Euromonitor International Ltd.)

88,194

2017E

93,768

2018E

100,611

2019E

(US\$ MILLION)

110,184

2020E

OUR PILLARS OF GROWTH PRODUCTS AND BRANDS, AS (LICENSED) PRODUCTS

GROWTH DRIVERS

Prospects for the Fiscal Year Ending March 31, 2017

For the fiscal year ending March 31, 2017, of particular importance will be our "BIG BET" (highest-priority products) item, namely our BEYBLADE BURST next-generation "beigoma" spinning tops. BEYBLADE BURST is representative of "Toys 4.0" in that it endows analog toys with digital elements, and already enjoys high popularity mainly among elementary school boys in Japan. In addition, screening of the BEYBLADE BURST animated series commenced in April 2016. In the fiscal year ending March 31, 2017, we will also introduce promising new content, including the TV animated series KAMIWAZA WANDA, in which we have had a creative role, and MY HERO ACADEMIA, based upon a serialized youth comics.

As well as these major new contents, our domestic operations will continue to be bolstered by core products such as TOMICA, PLARAIL, and LICCA. Moreover, the introduction of new products incorporating new play styles such as the TOMICA SYSTEM and the PLARAIL "Shinkalion," as well as the incorporation of social media into the LICCA line will further expand branding and target markets.

In our overseas business, we are continuing with our restructuring of the TI Group, doing whatever is necessary to curtail losses, as well as centralizing and selecting businesses in order to increase our profitability. Through these measures, for the fiscal year ending March 31, 2017, we forecast consolidated net sales of ¥168.0 billion, ¥4 billion in operating income, ¥3.2 billion in ordinary income and ¥1.5 billion in profit attributable to owners of parent, and with an increase in both earnings and profits over the previous year, we are aiming to restore profitability.

2017 Onward

From 2017, we will begin in earnest our push to expand BEYBLADE overseas. Additionally, the TRANSFORMERS 5 movie, which was originally slated for release in 2018, has been brought forward one year, and three TRANSFORMERS movies will screen consecutively over three years starting in 2017. We have also obtained product merchandising rights for other major movie content to be released in 2018, as well as for other as-yet unannounced major content.

Under new leadership in Europe and North America, the TI Group is already seeing an increase in cooperation within the TOMY Group, with positive prospects. Strengthening relationships with partners who have a wide range of expertise is also opening up entirely new opportunities. More than anything else, I am very aware of the outstanding motivation of TOMY employees. TOMY's advances will continue into the future, of this I am confident.

ARE TOMY'S ORIGINAL WELL AS "BEST PARTNER"

(Billions of yen)

	2015 RESULTS	2016 RESULTS	2017 TARGETS	2018 TARGETS
NET SALES	149.9	163.0	168.0	190.0
OPERATING INCOME	2.46	2.69	4.0	8.0
OPERATING MARGIN	1.6%	1.7%	2.4%	4.2%
EBITDA	11.1	11.6	13.3	17.3

TARGETS AND SPECIFIC MEASURES FOR THE FISCAL YEAR ENDING MARCH 31, 2017

SALES: + ¥5.0 BILLION

- ▶ BEYBLADE, KAMIWAZA WANDA, MY HERO ACADEMIA, etc., in Japan
- ▶ Stable growth in long-standing products
- ▶ Enhanced initiatives to improve profits in overseas business

OPERATING INCOME: + ¥1.31 BILLION

- ▶ Higher sales and improvement in overseas business

TARGETS AND SPECIFIC MEASURES FOR THE FISCAL YEAR ENDING MARCH 31, 2018

SALES: + ¥22.0 BILLION

- ▶ Growth of BEYBLADE overseas
- ▶ Growth of TRANSFORMERS due to movie release
- ▶ Other new content

OPERATING INCOME: + ¥4.0 BILLION

- ▶ Higher sales leading to higher profits

WITH STAKEHOLDERS

Returns to Shareholders

We recognize that providing stable returns to shareholders is the most important issue for management. Along with striving to strengthen our business foundations and increase profitability, our basic policy remains to provide ongoing stable dividends. Our aim is to use retained earnings for investment in order to accomplish our medium- to long-term growth strategies, while improving our financial position by reducing interest-bearing debt.

For the fiscal year ended March 31, 2016, based on the above policy we had an annual dividend of ¥5 per share together with an interim dividend of ¥5 per share, for an annual total of ¥10 per share. For the fiscal year ending March 31, 2017, we have set an annual dividend goal of ¥10 per share.



To Meet Our Social Responsibilities

The TOMY Group recognizes corporate social responsibility (CSR) as an important part of the process of enhancing corporate value. Accordingly, we take a long-term perspective toward initiatives aimed at contributing to society through our business.

In addition to compliance, we have long followed a policy of creating products that are at the industry's top levels in terms of safety and security. As part of our efforts to use resources effectively and be environmentally friendly, we took the lead in developing "Eco-Toys," which have now become the industry norm. We are also an industry leader in the planning and development of "Accessible Design Toys," which are equally accessible to children with sight and hearing disabilities—a category we embarked on 36 years ago.

At the same time, the environments in which children live are undergoing substantial changes, and the world faces numerous complex and diverse social issues, such as globalization, the spread of IT, and energy and environmental problems. To remain a company that stakeholders trust amid these challenges, we are facing social issues head on and working to address these challenges through the strengths of our business.

As a first step in this direction, we have launched the CSR Project as an organization that cuts horizontally across the group. Going forward, this organization will endeavor to identify social issues that need to be addressed over the medium to long term. Through careful efforts on the part of each of our employees as they go about their activities, we aim to realize our CSR objectives.

For the sake of all our stakeholders, we will strive to resolve societal issues and create new value through toys. We believe this focus will enable us to contribute to society at large through our business activities and achieve sustainable growth.

H.G. Meij

Representative Director, President & CEO

A handwritten signature in black ink, appearing to be 'H.G. Meij', written in a cursive style.

**“CONTINUING TO
SPIN DREAMS
AND TAKE ON
THE CHALLENGES
OF EACH ERA”**

TO ACHIEVE SUSTAINABLE GROWTH