Management's Discussion and Analysis

Overview of results

The Japanese economy in the fiscal year ended March 31, 2011 showed signs of a pickup in corporate earnings, particularly in the export industry, against a backdrop of economic measures implemented by the government and high economic growth in emerging countries. However, coming on top of the continuing strong yen, soaring oil prices due to political unrest in the Middle East, and weak personal consumption, the impact of the Great East Japan Earthquake that occurred in March caused the economic situation to deteriorate sharply. Although the global economy continued on a recovery path owing to the effect of additional monetary and fiscal measures in the U.S., financial problems in Europe remained unresolved, leaving the economy unable to reach a full-scale recovery.

The toy industry experienced two distinctly different purchasing trends by consumers. There were firm sales in long-standing products and some hit products, but revenue from these sales did not sufficiently cover for the overall slump in the toy market, which remained in a difficult business environment.

In this climate, the TOMY Group designated the fiscal years from 2009 to 2012 as "four years of reengineering and globalization," and the Group is pushing forward with reforms for a new stage of growth, underpinned by the concentration of business resources in the toy business and by a drive for global expansion. As part of these efforts, on March 11, 2011 TOMY entered into an agreement with RC2, a U.S. toy and baby products company listed on the NASDAQ stock exchange in the United States and on April 29, 2011, TOMY made RC2 a wholly owned consolidated subsidiary through a tender offer. The acquisition has provided TOMY with access to RC2's vast global corporate platform including a robust global distribution network, an arsenal of exceptionally strong brands, and an outstanding management team and other human resources. Through the acquisition, TOMY has taken a giant step forward toward realizing its medium-term growth strategies centered on global expansion.

In the TOMY Group's business, *Metal Fight Beyblade*, a modern version of Japan's traditional battling tops that is being earnestly marketed overseas, and long-standing products such as *Tomica* and *Licca* dolls performed well. However, a part of the toy peripheral business struggled with a decline in video game wholesaling volume at a subsidiary and a slump in sales in the apparel business.

Results

Net sales

Consolidated net sales for the fiscal year under review were ¥159,490 million (down 10.8% year on year). Net sales by geographical segment were ¥143,863 million (down 11.4%) for Japan, ¥8,704 million (down 12.9%) for Europe, ¥665 million (down 34.6%) for North America, and ¥6,257 million (up 16.0%) for Asia.

Cost of sales

The cost of sales was ¥106,822 million (down 13.7%) and the cost of sales ratio declined from 69.2% the previous year to 67.0%. This resulted in gross profit of ¥52,668 million and an increase in the gross profit margin from 30.8% the year before to 33.0%.

Selling, general, and administrative (SG&A) expenses

SG&A expenses were ¥42,341 million (down 4.9%). The SG&A expense ratio, on the other hand, increased from 24.9% the previous year to 26.6%.

Operating income

Operating income was ¥10,327 million (down 1.2%). The operating margin, however, increased from 5.9% the year before to 6.5%. Broken down by geographical segment, Japan had operating income of ¥12,522 million (up 2.5%), Europe posted an operating loss of ¥205 million (compared to operating income of ¥188 million a year earlier), North America recorded operating income of ¥1 million (down 95.9%), Asia had operating income of ¥1,259 million (up 15.6%), and there was an intercompany elimination of ¥3,250 million.

Net income

Net income was ¥8,929 million (down 0.5%). Net income per share declined from ¥96.60 the previous year to ¥94.85.

Business results by geographical segment*

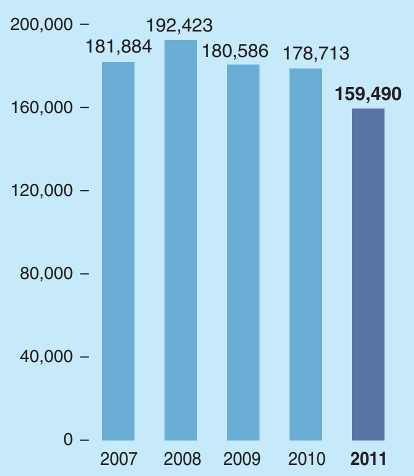
Japan

Metal Fight Beyblade remained popular owing to the introduction of a wider lineup of appealing products through a mix of media advertising, active expansion of in-store events, and the successful creation of hit products through their establishment as global products. *Transformers* enjoyed steady sales boosted by efforts to promote related products aimed at younger age groups, taking advantage of the broadcast of the TV animation series in Japan, and solid export sales due to the high popularity of *Transformers* characters in overseas markets. As for long-standing products, sales increased for *Tomica World* series products such as the Super Auto Tomica Building in the *Tomica* brand, which celebrated its 40th sales anniversary, for products related to *Thomas the Tank Engine* series in the *Plarail* brand, and for various dolls and dollhouses in the *Licca* brand.

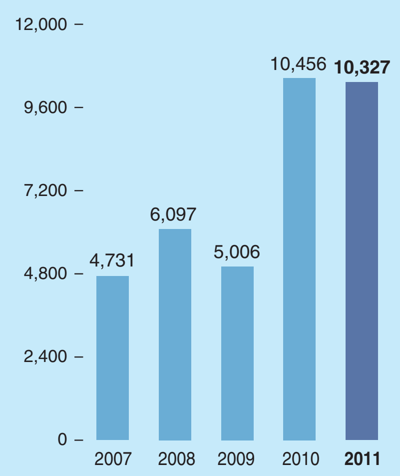
In businesses operated by subsidiaries in Japan, firm sales were reported in the mini-capsule toy business and the plush toy business of T-ARTS Company, Ltd., and for model trains and other products of TOMY TEC CO., LTD. However, a part of the toy peripheral business struggled, with TOYS UNION CO., LTD., reporting a decline in video game wholesaling volume and the apparel business TINKERBELL INC. reporting a slump in sales.

Accordingly, net sales in Japan for the fiscal year under review were ¥144,989 million (down 11.5%) while operating income was ¥12,522 million (up 2.5%).

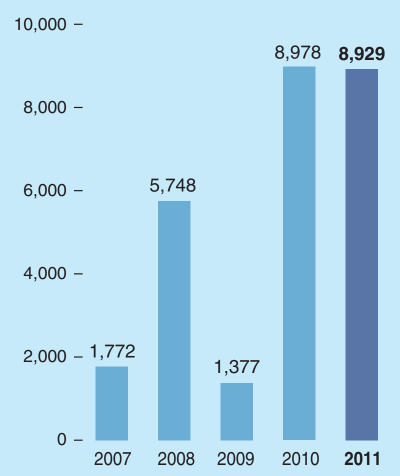
Net Sales
(Millions of yen)



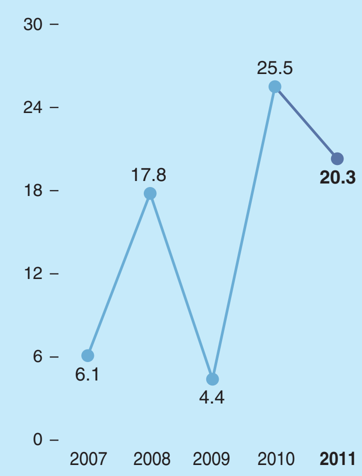
Operating Income
(Millions of yen)



Net Income
(Millions of yen)



Return on Equity
(%)



Europe

All businesses struggled in terms of sales and the business environment remained difficult as a result of weak personal consumption due to a general mood of stagnation in the European economy and a hike in the value-added tax. In particular, new replacement products were unable to cover the dip in sales caused by the expiry of the license for the *Thomas the Tank Engine* series. On the other hand, sales of *Tomica* toys in Europe started in July and efforts are being made to steadily put *Tomica* toys in position to become a long-standing brand in the future. However, since this was the initial year of introduction for *Tomica*, costs were incurred in areas such as advertising.

As a result, net sales in Europe were ¥8,710 million (down 12.8%) while there was an operating loss of ¥205 million, compared with operating income of ¥188 million in the previous fiscal year.

North America

U.S. sales subsidiary TOMY Corporation, which undertook a corporate restructuring, began sales of *Tomica* in the North American market at the end of September. Meanwhile, it focused sales efforts in the TV game software business on existing titles.

Consequently, net sales in North America were ¥673 million (down 33.8%) while operating income was ¥1 million (down 95.9%).

Asia

Regarding business development in Asia of *Metal Fight Beyblade*, the TOMY Group took an aggressive marketing approach, including expanding the broadcast of the TV animation and holding various events. Consequently, sales of related products were strong, and the actual products became hits in each country. As for long-standing products, *Tomica* model stores were opened in Shanghai, and Tomica Square, which brings together all the *Tomica* content at a single location, was opened in Taiwan. In the *Plarail* brand, a toy version of the CRH2 Hexiehao high-speed train was launched in China. These business efforts brought steady toy sales.

As a result, net sales in Asia were ¥29,404 million (up 13.2%) while operating income was ¥1,259 million (up 15.6%).

* Discussion of net sales by geographical segment includes intersegment sales and transfers.

Financial position

Current assets as of March 31, 2011 stood at ¥66,779 million, up ¥4,646 million from the end of the previous fiscal year ended March 31, 2010. This was mainly attributable to an increase in cash and deposits.

Noncurrent assets stood at ¥27,729 million, down ¥5,900 million from the end of the previous fiscal year. This mainly reflected sales of land.

Current liabilities stood at ¥32,483 million, up ¥2,642 million from the end of the previous fiscal year. This was mainly attributable to ¥7,000 million in the current portion of convertible bonds with subscription rights to shares being transferred from noncurrent assets to current assets on one hand and a decline in current portion of long-term loans payable and other accounts payable.

Noncurrent liabilities stood at ¥13,369 million, down ¥10,608 million from the end of the previous fiscal year. This mainly reflected the transfer of ¥7,000 million in the current portion of convertible bonds with subscription rights to shares to the current portion of bonds with subscription rights to shares as well as repayment of long-term loans payable and redemption of bonds.

Total net assets were ¥48,744 million, up ¥6,681 million from the end of the previous fiscal year. This was mainly attributable to an increase in retained earnings.

Cash flows

Cash and cash equivalents (hereafter "cash") as of March 31, 2011 amounted to ¥29,038 million, an increase of ¥2,399 million compared with the end of the previous fiscal year ended March 31, 2010.

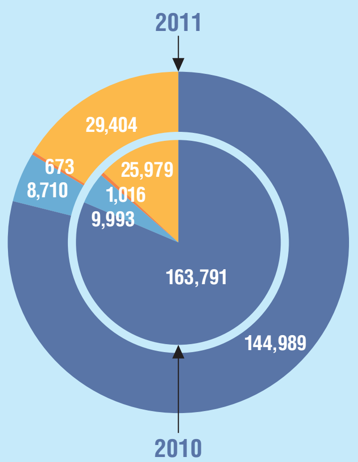
Net cash provided by operating activities totaled ¥8,486 million. Cash was mainly provided by income before income taxes and minority interests of ¥7,837 million and depreciation and amortization of ¥4,146 million, while cash was mainly used for an increase in notes and accounts receivable—trade of ¥1,158 million, an increase in inventories of ¥1,062 million, and income taxes paid of ¥992 million.

Net cash provided by investing activities amounted to ¥1,169 million. Cash was mainly provided by sales of property, plant and equipment of ¥4,264 million, while cash was mainly used for purchase of property, plant and equipment of ¥2,386 million and purchase of intangible assets of ¥1,153 million.

Net cash used in financing activities totaled ¥6,767 million. Cash was mainly provided by a net increase of ¥1,112 million in short-term loans payable, while cash was mainly used for repayment of long-term loans payable of ¥3,715 million, redemption of bonds of ¥1,850 million, repayments of finance lease obligations of ¥1,481 million, and cash dividends paid of ¥1,316 million.

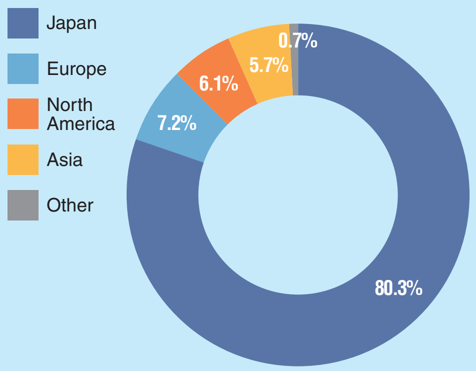
Net Sales by Geographical Segment*

	2010 (Millions of yen)	2011 (Millions of yen)
Japan	163,791	**144,989**
Europe	9,993	**8,710**
North America	1,016	**673**
Asia	25,979	**29,404**



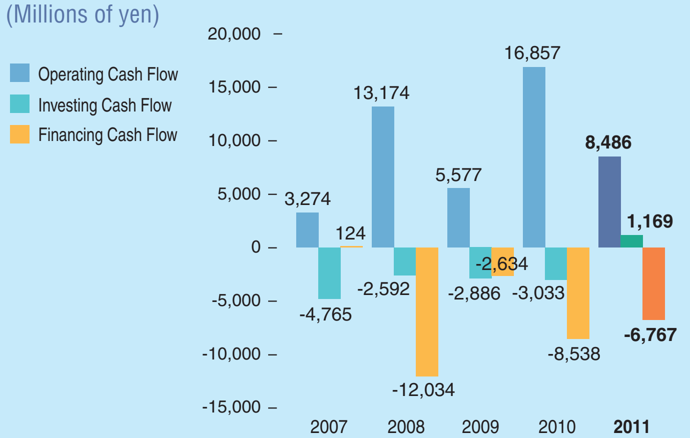
* Includes intersegment sales and transfers.

Percentage of Net Sales by Market



Operating Cash Flow / Investing Cash Flow / Financing Cash Flow

(Millions of yen)



Cash and Equivalents at Term-End / Free Cash Flow

(Millions of yen)