

# OUR VALUES IN PLAY









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### **QR CODE**







On these pages use your Smart Phone to scan the QR code to view short films about TOP-TOY

## **WEB**







On these pages we make references to TOP-TOY.com/sustainability where you can find more information on our sustainability work

## Reader's Guide

Welcome to TOP-TOY's annual report 2011/2012. building blocks of the TOP-TOY culture, and we believe This report is intended for our internal and external stakeholders to learn more about our sustainability and is both sustainable and financially sound. financial performance in the past year.

a transparent account of the issues important to our business, including the achievements we have made so far, the challenges we face and the goals we are working how everybody in the TOP-TOY family contributes on this towards.

our daily work. We see our core values as important report.

that they create the foundation for a business strategy that

The report takes a value chain perspective of our business With the report, we would like to provide the reader with and we take the reader through a journey from the design of the toy and all the way to children's playrooms. Along the way, we have added cases from employees to show

In this year's report, we are focusing on our core values and The report is supported by additional information online. how we as TOP-TOY employees live these values through Look out for the web icon and QR codes throughout the



Our core values are at the very heart of our company and originate from being family operated for three generations. Our values are what keeps us together and makes us strong. In addition, they help us secure our market position, act responsibly and perform our best.

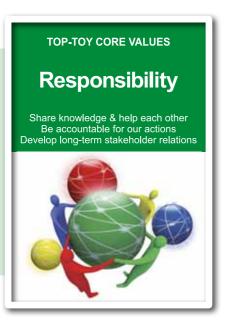


## **Business Sense**

Business Sense is about giving good service to our retail and wholesale customers by offering the right quality product at the right time and at the right price. We want satisfied customers who would like to do business with us again and again, and we strive to build long-term relationships with our business partners to ensure profitability for both them and us. We are open to new business opportunities and always look for a good deal. Business Sense is about being a good tradesperson, but also taking responsibility, as we do not want to do business at *any* price.

# Responsibility

Responsibility means we take ownership for what we do because we are accountable. We take responsibility for our actions throughout the value chain regardless of whether you are a customer, a colleague or a supplier. This for example relates to the quality and safety of our products, to the working conditions on the factory floor and to being transparent in communicating the dilemmas faced in our daily work. We want to share our knowledge internally and externally to seek the best possible solutions and we want to take responsibility for our most important stakeholders – the children playing with our products.



# **Family Tree**

TOP-TOY CORE VALUES

Be professional in our actions Strive for best practices Be better than yesterday

TOP-TOY is a family owned company serving consumers who are also families. We are loyal and honest to each other and towards our customers, and we want to secure long term sustainability rather than short term gains to benefit future generations. We want to bring joy to children and families through selling good quality products creating fun and memorable moments. We encourage people to work together rather than being 'lonely riders', and to share the same goals even though we work in different countries and time zones. At the same time we want to have happy employees, who perform their best at work, and go home to their families after a day's work in good spirits.



# **Top Performance** Top Performance

We strive to be top performers by always trying to improve ourselves and the way we work, by taking positive action and interacting with colleagues and customers in a professional manner. We target high quality in all our work efforts and go the extra mile for our retail and wholesale customers. We want to 'do better than yesterday' and we do this by actively listening to feedback and suggestions for improvement from relevant stakeholders. Top performance is about making the right decisions and implementing them, whilst not being afraid to raise concerns and make changes if needed.

# Toy Fun

Working for a toy company entails working for and understanding children. Having fun is a big part of most children's lives, and for them it is natural to experiment and try new things. In our daily work we want to create an environment where 'fun' is a driver for the work we are doing. We are devoted to bring smiles to the faces of our customers and colleagues by encouraging and appreciating each other. We aim to create a good work environment, and in that way have a positive effect on people's well-being as well as their performance.



# TOP-TOY – A Value Based Company

"Values do not make a difference if just words written on paper – values can only benefit our company and society when they are reflected in our everyday actions"

ond and Third Generation of the Gjørup Family – Peter Gjørup, Bjarne Gjørup, Henrik Gjørup and Lars Gjørup

**Keeping Our Values in Play** 

TOP-TOY values were officially formulated in 2008, but commitment and responsibility of each employee. they have always been part of our company. Our values are embedded in the TOP-TOY culture and continue to play an Adapting to Change important role in defining our work behaviour.

#### **Family Ties**

Børge Rasmussen, and extraordinary family ties have lead business sense. TOP-TOY to where we are now.

generation, Lars and Peter Gjørup, who were appointed serve as Joint Chairmen of the Board.

#### **Our Most Important Asset – People**

experience.

We also invest in giving employees the right tools in order We focus our efforts on issues material to our business, and to ensure job satisfaction and high performance. We by keeping our core values at the forefront of our activities, create lasting value for TOP-TOY. We work with employee to society. engagement through our Employeeship programme,

which is being rolled out across the organisation. The Shared values are at the core of our business. The programme focuses on how to improve teamwork,

OUR VALUES 05

Creating value is also about looking for new opportunities and preparing our business for the future. This includes optimising our sales channels, building our brands and For nearly 50 years TOP-TOY has been a truly family- strengthening our market position. Although TOP-TOY minded company. Henrik and Bjarne Gjørup worked has grown from a small enterprise to becoming a global closely to develop the business after their father, the late operation, the company's foundation still rests on solid

#### Responsibility in Everything We Do

Today the company is managed by the family's third It is important for us to conduct our business in a way that is socially, environmentally and financially responsible, and Joint Managing Directors in 2009. Henrik and Bjarne now for this reason it made good sense to become a signatory of the UN Global Compact in 2009. We fully support the ten principles and strive to integrate them in our daily work, for example when it comes to working with our At TOP-TOY we focus on people – both customers and suppliers on improving factory conditions and transferring employees. Staff in our retail and wholesale business offer knowledge. In a family owned business it is possible to high levels of service to ensure every customer has a good work with a longer time horizon which makes it easier to do the right things.

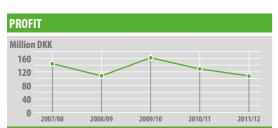
believe that only by having engaged employees we can we can make a positive impact on both our business and

**OUR VALUES IN PLAY** OUR VALUES IN PLAY OUR VALUES IN PLAY TOP-TOY sells toys and other products for children across the Nordic countries and Germany. We strive to conduct our business in a manner that creates both financial and sustainability value. This financial year our performance has been influenced by a difficult business environment in Europe.

REVENUE IN RETAIL AND WHOLESALE						
	2010/11	2011/12	Growth			
Retail	3,224	3,297	2.3%			
Wholesale	714	742	3.9%			
Other	16	5	-			
Group	3,954	4,044	2.3%			

**NOTE:** Other includes rental income, exchange rate adjustments etc.





#### **Our Business**

TOP-TOY is one of the largest toys businesses in the Northern European market. Throughout the financial year we employed 6,544 people (equal to 2,358 full-time positions). We operate in Denmark, Sweden, Norway, Finland, Iceland, Germany and Hong Kong. TOP-TOY runs a retail business which includes the well-known BR and TOYS"R"US chains and a wholesale business, NORSTAR.

We are convinced that the continued success of our business can only be achieved by staying true to our core values, which includes business sense, responsibility, family tree, top performance and toy fun.

#### **Modest Growth in 2011/12**

In the past year, we have experienced growth in total revenue for both our retail and wholesale business. However, our performance has been influenced by macro-economic developments, especially the Euro crisis that has negatively influenced consumer confidence in most of our markets, and we have therefore not seen the growth that we had expected.

GROUP KEY FIGURES AND FINANCIAL RATIOS					
5 years' key figures in 1,000 DKK	2007/08	2008/09	2009/10	2010/11	2011/12
Revenue	3,025,739	2,935,150	3,593,130	3,954,110	4,044,431
EBITDA	316,222	262,959	362,718	311,352	268,231
EBIT	238,064	181,167	273,574	216,608	169,686
Profit for the year	144,726	99,300	162,708	128,223	105,716
Balance sheet total	2,228,689	2,100,632	2,769,513	2,891,484	2,804,243
Equity	963,771	1,029,985	1,180,534	1,265,851	1,362,976
Employees and stores					
Number of employees (based on full-time positions)	1,792	1,805	2,128	2,261	2,358
Number of stores	262	266	274	286	297
Key financial ratios					
Operating margin	<b>7.9</b> %	6.2 %	7.6 %	5.5 %	4.2 %
Return on invested capital	12.4 %	8.8 %	12.2 %	8.3 %	6.3 %
Equity ratio	43.2 %	49.0 %	42.6 %	43.8 %	48.6 %

## Message from Joint Managing Directors

"The European business environment is going through difficult times, and this development has also had an impact on TOP-TOY's performance in the past year. Considering the soft market demand in many of our markets and our investments for future development, we are however satisfied with the financial result. And we must not forget that we have also made some noteworthy accomplishments"

#### A Glance at 2011/12

This year's after tax profit was 106 million DKK, compared to 128 million DKK in 2010/2011. The result is negatively influenced by rising purchase prices and general margin pressure.

Although our same-store sales in most markets have been flat or slightly declining, we saw the following highlights in our retail business:

- Our total revenue grew from 3.2 billion DKK in 2010/2011 to 3.3 billion DKK in 2011/2012.
- This year our BR webshops are included in the full period. We are pleased to see strong growth in the webshop traffic, revenue and very high customer satisfaction.
- We invested in TOYS"R"US webshops that we opened shortly after the end of the fiscal year, which we expect will contribute to future growth.
- We increased the number of stores to 297 by opening two TOYS"R"US stores and eleven BR stores in our existing markets, but also closed two BR stores.

In our wholesale business, important developments include:

- Comparable revenue increased from 714 million DKK in 2010/2011 to 742 million DKK in 2011/2012.
- · We aligned the name of our wholesale activities and now use the NORSTAR name across all markets.
- We completed the reorganisation of NORSTAR to optimise the sales organisation and expect a continued growth in distributing highly respected brands of quality toys as well as licensed products.

• We have decided, by the end of 2012, to close down our Toy Club business in Denmark, which distributes impulse toys to supermarkets using small delivery vans. Also, we will end the distribution of licensed confectionary products during 2012/2013. Both decisions are based on our future outlook of the businesses and desire to increase focus on other areas.

#### **Staying Committed to Sustainability**

We also made a number of achievements related to sustainability. This includes investments in our employees, as well as continued implementation of our supplier evaluation programme covering factory compliance and product safety across all TOP-TOY's buying locations. In 2011/12 we finalised the development of our new Code of Conduct, which will be implemented in the coming financial year. These activities form part of our continued support for the UN Global Compact.

#### Looking Ahead

Considering the current economic climate; in the coming year, TOP-TOY will work towards adapting our organisation to increase focus on margin improvement, permanent cost reduction and activities to support our sales. At the same time, we will make investments in strategic areas to ensure long-term profitability and continued growth.

Peter Gjørup and Lars Gjørup



Our products go on a long journey before reaching children's playrooms, and we must consider how we maximise sustainability and financial value in each step of the journey. Doing so is not always easy, but we believe that we can better strike this balance by listening to our stakeholders, addressing specific industry challenges, and setting strategic priorities.





corruption.

## We Address Industry Challenges

The majority of the world's toys are manufactured in TOP-TOY has a strong presence in the Nordic market, Asia, predominantly in China. Sourcing from countries but we are a small player in the global toys industry as that have different ways of doing business may entail we contribute to less than 1% of the global market. This certain challenges when it comes to quality standards, is not an excuse to take less responsibility, but we have factory working conditions, environmental concerns and to acknowledge that we cannot solve all challenges single-handedly.

> We therefore collaborate with industry peers, for example through the International Council of Toys Industry (ICTI) Care Process that has established a common compliance system to address human and labour rights issues.





NURSTAR"

TOP-TOY offers a good work environment and great customer service in our BR and TOYS"R"US stores

WE SELL LOTS OF

TOYS - WHOLESALE

TOP-TOY is a trustworthy

business partner for our

wholesale customers



**SAFE TOYS** 

TOP-TOY ensures that children can safely play with toys purchased from us



## **TOYS IN PLAY**

**TOP-TOY contributes** to creating happy childhood memories

## We Listen to Our Stakeholders

include children and their parents, employees, suppliers doing business. The top priorities for our stakeholders are and licensors, business partners, regulators, NGOs, industry peers, local communities, media and shareholders.

We believe that monitoring and actively engaging with our stakeholders enables us to better understand societal dynamics and identify material sustainability issues.

Our previous materiality assessment was conducted in November 2010, which included interviews with key stakeholders as well as a business impact analysis. The assessment provided us with a gross list of potential material issues which subsequently have been evaluated

It is essential to us that we listen to our stakeholders, who and used to guide us in which concerns to tackle first when product safety and quality, human and labour rights, work environment and open and honest communication.

> We plan to conduct a new materiality assessment during the financial year 2012/2013 to make sure that we keep up to date, so that we can better align TOP-TOY's own interests with those of our stakeholders.

Materiality Assessment and Stakeholder Engagement

# We Set Sustainability Priorities

As a signatory of the UN Global Compact, we are committed to supporting human and labour rights, the environment and anti-corruption in our business operations. Identifying issues that concern our stakeholders and which have an impact on TOP-TOY's business help us set strategic priorities for our sustainability work. Our strategic priorities include:

• We want to strengthen compliance and corporate governance by rolling out our new Code of Conduct and supporting policies across the organisation. With the Code, we want to promote an organisational culture based on personal responsibility and accountability.

- · We are continuing the systematic implementation of our supplier evaluation programme which means we now have a uniform approach to suppliers across all our buying locations.
- · We want to further invest in product safety and we therefore continue working towards having zero recalls and influencing our suppliers to raise the bar for product
- We work towards finding more environmentally friendly packaging options and increasing the amount of wooden products sourced from sustainably harvested forests.



## **CREATIVITY AND DESIGN**

We believe that toys can enrich children's lives. It is therefore a top priority for us to offer a product range in both our retail and wholesale business which contributes positively to children's well-being and development. We want to create fun and happy childhood memories.













## **Fostering Creativity**

our "inner child", since we have to be innovative and creative in the process. What begins as an idea develops into a concept that is then tested, manufactured, distributed and finally purchased by our customers.

In this process, we often work closely with our suppliers to constantly come up with new ideas and develop the right products. Good examples of this are our FLEXI-TRAX and KIDS-WOOD products.

#### **Children's Lifestyle Products**

TOP-TOY also designs a variety of textiles for children, such as sleeping bags, towels and bed linen. We have established a Textile Competence Centre to develop a variety of licensed lifestyle products for children.

design Oeko-Tex certified. This ensures that no products contain harmful substances. Today 45% of all textiles we design and manufacture are Oeko-Tex certified.

We work closely with licensors such as Disney and Lucasfilm in the design phase to ensure we can offer products with popular characters that children recognise and like.

#### **Design in the World of Toys**

Although we design some of our own products, the majority of products we sell are designed and innovated by others. We therefore collaborate with our suppliers to buy a combination of products, where some are selected for their educational value, such as shape sorters and memory games. Others are chosen based on current trends and popularity, or simply because they are fun to play with.

#### **TOP-TOY Tailor-made**

Some of the products we source from our suppliers are concepts that we then customise The beauty of designing a toy is that it brings out and adapt into TOP-TOY's own brands to fit our markets in Northern Europe. Such examples include BELLINO, KIDS-WOOD, PLAY2LEARN and HAPPY HOUSE.

> For our own brand products we can influence the choice of material, and we are focusing on phasing-in wood from sustainably harvested forests for our wooden products. Today we purchase 176 different wooden products through our buying office in Hong Kong, out of which 108 are our own brands. 76% of these are either FSC certified or rubber wood.

## **Fun and Safety Hand in Hand**

Safety is thought into the very first phase of product design and development, as well as when we purchase products designed by our suppliers.

We are working towards having all textiles we All TOP-TOY's products must, as a minimum, comply with applicable laws and regulations such as the European Toy Safety Directive. We want parents to feel assured that all products they purchase through our retail and wholesale businesses are safe for their children with regards to chemical and mechanical safety.



## Working Together as One Global Family

"We always work very hard to support each other and show that kind of family responsibility towards one another"

#### **Meeting Our Consumers' Demands**

In TOP-TOY, it is not just about designing new products – it is also about making sure that our existing product ranges keep up to date and meet consumer demands. Here, the creative process may involve expanding product offerings and designing new colour palettes, logos and packaging, so that we can offer products that are among the best in the market.

One example is our FOOD'N'FUN brand, which for more than ten years has offered play food and kitchen utensils for children aged 2-6 years. However, the look of the brand was outdated and the name and logo only featured cut and play food although the product offering had expanded beyond this.

#### **A Good Business Case**

A thorough business case was developed by the Product Management team in our Hong Kong office, then Richard Crosbie, Creative Development Manager, and Katherine Yu, Senior Graphic Designer, were brought in to revitalise the brand.

Richard states, "The products had outgrown the brand and we realised that we needed an actual house to fit in all the products – this was how we came up with the new HAPPY HOUSE brand name".





#### **Getting Boys into the Kitchen**

For all design and development – whether it is developing new products or revitalising existing ones – it is important to consider play patterns, gender roles and educational value since "It is through play that children learn their role as little citizens", as pointed out by Richard.

This also needs to be taken into account when designing new product packaging. Therefore, in addition to developing overall packaging design, icons and logo for the new HAPPY HOUSE brand, Katherine also oversaw the photo shooting of the children to be displayed on the retail packaging. "We have become more aware of the way we are portraying children and when designing new product packaging of this kind, it is important for us that children of both genders are equally displayed in play", she says.

#### **Success through Working Together**

The case illustrates how brand revitalisation requires close collaboration between our Product Development team and Graphic Design team, and both Katherine and Richard agree that working together is a fundamental part of running a successful project.

Other teams have also been involved in the process. "We have been working closely with the Product Management and Purchasing teams to find new products that fit the HAPPY HOUSE brand and with the Quality Assurance team to ensure product safety", Katherine explains. "In addition, suppliers have been involved to make sure the packaging has the right shape to display our products in the best possible way when they reach our stores".

## WE BUY LOTS OF TOYS

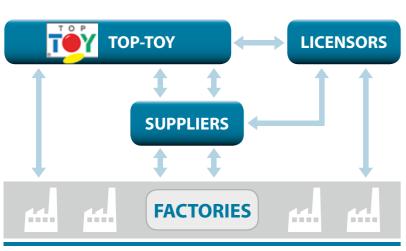
Purchasing the right toys is an essential part of our business. When we have decided on a great product that we want to sell in our retail or wholesale businesses, we start the purchasing process. This is a complex process that includes many different stakeholders and challenges.



#### **Sourcing Starts with a Supplier**

Our suppliers are our business partners – it would be impossible to source products successfully without good, trusted, and long-term supplier relations. The day to day relationship with our suppliers is managed by our Product Managers, who are responsible for the selection of products.

Each Product Manager has his or her own area of expertise and responsibility. Those based in our Hong Kong Office handle our Asian anchored suppliers, and the ones working from our European Offices (Copenhagen, Aarhus and Hamburg) are responsible for the European



anchored suppliers. Our own brands are managed by Product Managers in Hong Kong and Aarhus.

#### **A Complex Supply Chain**

There are many players in the toy world, including major brand manufacturers, small and medium sized suppliers, factories, wholesalers, retailers, and licensors. TOP-TOY does not own any factories, and therefore works closely with our suppliers who develop and manufacture the products we choose to purchase. A supplier may own its own factories or work on a contracted basis with a factory. For our own brands we often work with suppliers directly owning the factory.

At the same time, the manufacturing environment in China, where up to 70% of the world's toys are assembled, is constantly changing with factories being opened and closed or transferred to new owners or

Regardless of the setup, the requirements we demand of our suppliers are the same. Having an office in Hong Kong is therefore a great advantage for TOP-TOY, since we have local people employed who work directly with our suppliers and factories, and keep track on what is happening.

#### **World of Licenses**

Many toys come with a license which adds even more complexity to the supply chain. TOP-TOY may hold the license to produce certain products and other times it may be the supplier who holds the license.

As an example, in 2011, TOP-TOY developed a FLEXI-TRAX Cars 2 product based on the Disney movie. Here we had to seek out licensor approval from Disney, which included approval of concept and design of the final product, safety approval, and approval of the factory we had chosen for the manufacturing. The supplier owns the factory and was heavily involved throughout the process.

SUPPLIERS AND FACTORIES WITH ORDERS PLACED DURING THE FINANCIAL YEAR							
Supplier anchorship	Asia Europe						
	2009/10 2010/11 2011/12 2011						
Number of suppliers	254	261	228	273			
Number of factories	468	472	414	303*			
New factories	N/A	67	88	56			

<sup>\* 70%</sup> of our suppliers have submitted factory information as part of the roll out of our factory compliance programme.

#### **Making the Right Choice**

The fact is, if a supplier holds the exclusive right to a popular license, it can be difficult to "simply choose another supplier" if unhappy with their factory conditions. This may put TOP-TOY in a dilemma because if no other supplier can provide the exact same product, then TOP-TOY's decision may be limited to either buy their product or not. However, in such a situation TOP-TOY will usually engage with the supplier to make improvements so that the factory can live up to our requirements.

## **Traffic Light Concept Ensures Compliance**

In TOP-TOY, we have established a "Traffic Light Concept" that we use when we initiate any relationship with a supplier and as a condition of continued supplier collaboration. We have structured this into three areas of compliance that need to have a "green light" before any product can be purchased.

The green lights are not listed in order of priority, but all lights must be green before an order can be issued with a supplier.

## The Added Value of Responsibility

"We want to be a responsible supplier to our wholesale and retail customers. We want to protect the reputation of BR, TOYS"R"US and our wholesale customers"



#### **Following Requirements**

Jesper Sejra Faurschou is Product Manager for TOP-TOY and his job includes screening suppliers and working with licensor requirements. "Different licensors have different requirements and this has to be carefully respected when choosing suppliers, we have to consider both our own requirements and the licensor's requirements", Jesper explains.

#### **Balancing Our Margins**

Working with responsibility comes naturally for the Product Management team in Aarhus. "We want to make sure that our wholesale and retail customers trust that we are doing our best to be a responsible supplier", says Product Manager Karina Østergaard.

Product Manager Jakob Andersen says, "There is however a down-side to working with responsibility in the supply chain, as it has an effect on our price margins. This is not always appreciated by our customers. Of course production costs go up with using good suppliers and factories, which can sometimes put us at a competitive disadvantage, but then again, it is something we should be proud of as it strengthens our position".

Karina adds, "Many of our suppliers have actually worked with sustainability for many years, and we want to acknowledge the work they are doing".

# 

### **OR CODE**



See Product Manager, Hanne Hilstroem visit a supplier ir China, looking for new exciting products.

The first green light is **Legal Compliance** – where we need to have a contractual agreement in place with the supplier.

The second green light is the **Product Quality Compliance** – where we need to ensure that the products we source from the supplier meet or exceed EU regulations, local legislation and TOP-TOY's own safety and quality requirements.

The third green light is **Factory Compliance** - where we require all factories used for manufacturing products that we buy live up to TOP-TOY's Factory Compliance Standards.

#### **Current Priorities**

product quality and factory compliance for many years. At the beginning of 2012, we kicked-off an extensive project to start working with the Traffic Light Concept for our European

anchored suppliers, and we are now working systematically with this concept across all our buying locations.

We see clear benefits from this project because we ensure a uniform approach to supplier evaluation and obtain a much better understanding of the conditions throughout our supply chain. It is a valuable learning experience to roll out the Traffic Light Concept, especially in relation to factory compliance. This is because a significant part of the manufacturing takes place in high risk countries in Asia, and even if a supplier is European anchored, it is likely that the product is manufactured in Asia.

Our Hong Kong Office has been working with The roll out has commitment from all levels of the company and by working together as a team, we have come far in the process. This means by the end of 2013, the Traffic Light Concept will be fully implemented across TOP-TOY.

## Combining Business Sense and Responsibility

"The roll out of the Traffic Light Concept has added a new task to our daily interaction with our suppliers, but it also means that we have developed a clear position towards what we expect from them"



Lars-Bo Johl and Pia Rosenbek

#### A New Role

Lars-Bo Jøhl has been with TOP-TOY for 19 years, and in his current role as Product Manager he has witnessed many changes over the years, "Today, our role is not only to buy the right products at the right time, but also to make sure the suppliers use the right factories".

TOP-TOY's Product Managers are responsible for all daily communication with the suppliers, and this means combining business sense with responsibility. Product Manager Anders Pedersen explains, "We have to plan well ahead, negotiate deals, collect product test documentation, and convince suppliers to be transparent in their supply chains".

#### **Support from Senior Management**

The Traffic Light Concept was introduced for our European anchored suppliers in 2012. It requires a lot of work to ensure effective implementation of a new concept, but as Product Coordinator Pia Rosenbek says, "It helps that we have a clear position on what we require from our suppliers, and that this is supported by senior management".

Having support from senior management is essential when suppliers challenge the need to provide TOP-TOY with our requested information. This is also the case when we need to make firm decisions on whether we continue a business relationship or not with a supplier.

## **HOW TOYS ARE MADE**

The products that we sell through our retail and wholesale businesses are manufactured in around 700 factories across 30 countries. Even though we do not own any factories, and therefore cannot have full control of what goes on at the factory floor, we still work hard to ensure that they comply to our Factory Compliance Standards.

#### **Industry Challenges**

TOP-TOY faces many challenges when purchasing products in countries such as China. The most common problems we see in factories relate to payment of wages, excessive overtime and poor health and safety conditions.

In the global toys industry, TOP-TOY is a small player which makes it difficult to raise the bar for factory compliance on our own. This is why we take an active role in the ICTI Care Process, where we on an industry level work with our peers to improve working conditions in factories.

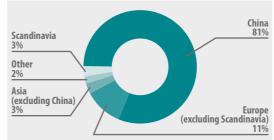
#### **Factory Compliance Standards**

All our suppliers must, as a part of their contractual agreement, follow our Factory Compliance Standards, where they acknowledge that the factories they use for manufacturing our products, as a minimum, meet our factory compliance requirements. Our Factory Compliance Standards are based on core ILO Conventions, the ten principles of the UN Global Compact, and the ICTI Code of **Business Practices.** 

#### **Focusing Our Efforts**

To use our resources where we have the greatest impact, we focus on factories located in high risk countries based on the UN Human Development Index. These factories face most human and labour rights challenges and by concentrating our efforts here, we can influence factories to make significant improvements.

## GEOGRAPHICAL DISTRIBUTION OF FACTORIES **USED BY TOP-TOY**



NOTE: Status June 30, 2012.



Any factory located in a high risk country that manufactures products for us must have a social audit performed at their factory every twelve months. The majority of factories are audited according to one of the following auditing and certification schemes:

- ICTI Care Process
- Social Accountability 8000 (SA8000)
- Business Social Compliance Initiative (BSCI)

TOP-TOY can also choose to conduct our own audits. In 2011/12 we conducted 87 audits, of which 64 were announced and 23 unannounced.

If an audit reveals non-compliance issues, we will work with the supplier and factory to develop a corrective action plan to improve the conditions in the factory.

#### **Zero Tolerance**

We have defined a number of non-compliance issues referred to as Zero Tolerance violations. If we find that a factory violates one or more of these, we will not conduct business with this factory as long as the violations are not being corrected.



### **OR CODE**



See Social Compliance Manager, Wydy Ling, inspect a factory in China. It is always the factory's responsibility to make corrective actions. TOP-TOY can support and give guidance, but cannot force the factory to change. Therefore if a factory will not make changes, TOP-TOY will have to terminate the business relationship, whereas factories working seriously to make corrective actions and continuous improvements, can be approved to manufacture products for TOP-TOY.

Examples of Zero Tolerance violations:

- · Use of child or forced labour
- Discrimination of workers
- Ban of trade unions and collective bargaining
- Lack of payment for regular working hours
- Serious neglect for health and safety

However, the most common reason for factory termination is if a factory refuses to show us true and accurate documents, such as records of working hours and payments, or refuses our auditors to access the entire factory premises.

In TOP-TOY we believe in transparency, and we would rather know the reality in a factory, so that improvements can be made, than to be presented with records that on paper meet the legal requirements, but does not reflect reality. In that way we can work together towards improvements.

# Excessive Factory Overtime – an Industry Challenge

One of the most common and complex challenges facing the industry in China is excessive overtime. The majority of people who work in factories are migrant workers, who have moved from remote rural areas to the cities where the factories are located – today migrant workers count for 150 million people in China.

RESULTS OF TOP-TOY AUDITS						
	2010/11	2011/12				
Total number of audits conducted by TOP-TOY	134	87				
TOP-TOY requirements are met at time of audit	0	0				
Improvements required after audit	91	57				
Failed – Zero Tolerance violations	43	30				



**NOTE:** Factories identified as part of the roll out of the factory compliance programme. Approx. 70% of all suppliers have submitted factory information.



Workers come to the factories, and many want to make as much money as possible during their employment, so they can support their families. The problem arises when factories require workers to work extremely high overtime hours without proper compensation. This is also connected to the industry's high degree of seasonality where buyers expect factories to deliver goods with short lead times. TOP-TOY acknowledges this dilemma, and we are adapting our business planning schedules to offer longer lead times, but it is also important to strike a balance between setting requirements for reducing overtime with the reality on the ground.

STATUS OF FACTORIES AUDITED BY TOP-TOY					
	2010/11	2011/12			
Total number of factories audited	83	64			
Number of factories approved	41	39			
Number of factories pending for final decision	4	2			
Number of factories not approved	38	23			

## On the Factory Floor

"The real reward in the job as a Factory Auditor is when you see a factory making progress. In that sense, you have contributed to a positive impact on people's lives"

#### **Our Eyes and Ears in the Factories**

Benjamin Ho, Peter Chan and Kim Yeung are our people on the ground in China, all of them with extensive auditing experience. They are our eyes and ears in the factories when it comes to improving working conditions.

However, one team alone cannot drive the process forward. "For us it is important that factory compliance is not only linked to our team, but also to other teams within TOP-TOY", says Peter, Factory Compliance Officer. Benjamin, our Senior Auditor adds, "When we request factories to make improvements, we need to communicate as a unified company, so there is a clear connection between a potential business opportunity and making improvements".

### **Factory Approvals**

An important step when purchasing is the approval process, where we review factory documentation and conduct factory audits. Only after a factory has been approved will TOP-TOY place orders with the factory.

The challenge however is that there is not always a clear cut as Wydy Ling, our Social Compliance Manager explains, "What is happening in the factories is not always black and

white, and for us it is therefore central that the suppliers and factories are transparent. In that way, we can build long-term relationships and ensure improvements on the factory floor".

#### The Factories Should Want to Work with Us

Sustainability Coordinator Christoffer Falkman, who handles factory compliance for our European anchored suppliers, explains, "We are quite a small player in the global toys industry, and therefore it can be difficult for us to put pressure on the factories. If a factory does not want to make the required improvements, we cannot force them and you can say that it is the factories who choose to end the business relationship, though we will do our best to get them to make the necessary changes".

#### The Reward

Kim is in no doubt what the most rewarding part of the job is. "It is when you come out to the factory and interview the workers, and you can feel that they trust you. In a way you can say that we have the same mission in terms of improving working conditions on the factory floor". Kim also adds, "This is truly the best part of the job – that you may be able to make a difference for other people".



## TOYS ON THE MOVE

Making sure that our products are transported from the factories all the way to our customers is no child's play. It requires careful planning, environmental considerations as well as constant care for the health and safety of our employees.



#### **Getting Toys from A to B**

The majority of the products we sell are retail stores, we collaborate with municipal manufactured in Asia. This entails a significant amount of transportation, which is costly and has a climate impact. We strive to transport our toys in the most efficient way with respect for the bottom line and the environment, we therefore try our best to avoid airfreight.

go on a five week journey by ship to Europe. From the harbour, the toys travel by truck to our distribution centres in Copenhagen or Aarhus. Products purchased from European based suppliers are mainly transported by truck from warehouses in Europe to our distribution centres. Here we make sure that all retail and wholesale deliveries are distributed to our stores and wholesale customers.

Currently we are testing an alternative approach where we ship containers directly to TOYS"R"US stores instead of via our distribution centres. This is a way to reduce both our CO2 emissions and logistics costs.

#### **Smart Business Planning**

Timing is essential in our business. For example, we have to make sure that toys are delivered in time for Christmas. Products that are imported

from Asia need to be planned around a year ahead whereas products manufactured in Europe can be planned with a few months' delivery time.

The seasonal nature of the industry presents challenges to factories and their workers because peak workloads may lead to excessive use of overtime. To reduce this, we have over the last couple of years improved our business planning and forecasting processes. In doing so, we ensure timely delivery of our products and create longer lead time to the benefit of the factories, which is good business sense.

#### **We Recycle Transportation Packaging**

Cardboard wrapping is necessary to ensure that products are not damaged during transportation. In our distribution centres and services to recycle as much transportation cardboard as possible. Currently, we are also researching more environmentally friendly packaging options, to reduce our footprint in this area for the future.

#### **Safety Comes First**

In Asia, products are loaded into containers and Ensuring the health and safety of employees working in our distribution centers is a key concern, and we continuously work to make improvements. One example is our new vacuum tube lifters designed for handling heavy items in our bulk area. This is expected to relieve us from approx. 800 tons of lifting annually. Another example is working with slip sheets in our containers to avoid having to load and unload containers manually.

#### **Current Priorities**

We acknowledge there are health and safety challenges across our entire value chain. However, we have chosen to prioritise our health and safety efforts specifically around the workers in the manufacturing factories and our own employees.



## Caring for Planet and People

"We have changed the pallet wrapping material to a new type of foil which is more environmentally friendly and longer lasting"



#### **Operating a Distribution Centre**

TOP-TOY operates a 60,000 m2 distribution centre in Copenhagen where Heidi Hannecke and Klaus Ipsen work as Assistant and Team Manager. Here, different initiatives are running to address environmental and safety-related

#### **Caring for the Environment**

"We care a lot about waste handling and recycling when it comes to for example plastic and cardboard", says Klaus. He also refers to other initiatives that include new pallet wrapping foil and a LED lighting project in one of the warehouse halls. By switching to LED lighting, TOP-TOY expects to reduce our CO2 emissions by 400 tons annually.

#### **Less Heavy Lifting**

The distribution centre runs night and day and everybody feels a great responsibility to look out for each other's well-being. Heidi points out that "We have a challenge in regards to heavy goods – we need to be efficient and perform, particularly during the Christmas peak season - but we must also look after our people". To minimise heavy lifting, TOP-TOY has bought new special vacuum tube lifters for items such as trampolines and pools. We are also testing special slip sheets to protect employees when unloading containers.

## How Slip Sheets Make a Difference

"Slip sheets make business sense since they make unloading more efficient. Also, we show responsibility towards people handling our containers because we minimise heavy lifting"

#### **Challenges with Lifting**

Most of our existing suppliers do not have a tradition of using pallets in containers because manual loading of goods is cheaper than investing in a forklift truck. However, this poses challenges with lifting when loading and unloading the containers. Therefore TOP-TOY has initiated a special slip sheet project, led by Shipping Manager Alice Chiu.

#### **Costs versus Benefits**

In February 2012, six suppliers packed their goods on slip sheets which arrived in nine containers in our distribution centre in Copenhagen. "To handle slip sheets, we had to invest in a new forklift truck with push-pull device, but the benefits outweigh the costs as they make unloading processes more efficient and minimise manual lifting", Alice explains.

#### Looking to the Future

However, there are also challenges with introducing slip sheets. For example, it is difficult to convince suppliers to



invest in equipment to handle slip sheets, but in the future TOP-TOY wants to develop a long term partnership with selected suppliers and use slip sheets as standard practice. "We will continue testing in the coming year and then scale the project as much as possible. It is definitely the way forward", says Alice.

## WE SELL LOTS OF TOYS

We sell our products through our BR and TOYS"R"US retail stores, and NORSTAR, our wholesale unit. No matter who our customer is, we always strive to conduct our business in the most ethical manner and deliver the best possible service.



#### **Top-Quality Customer Service**

In our retail stores, we want people to enjoy their visit, and be greeted with a smile from our employees. We take pride in offering great service, and all our employees go through Service Management training. In our wholesale business, we want customers to see us as a professional supplier of quality products for children.

#### **Fair Play in Competition**

Due to the setup of TOP-TOY, customers of our wholesale business may also be competitors to our retail business. It is therefore important for us that our wholesale customers see us as a trustworthy business partner that competes fairly in all markets where we operate.

REVENUE IN MILLION DKK (EXCLUDING VAT) 2011/12							
	Denmark	Sweden	Norway	Finland	Germany	Iceland	Total
BR	689	581	337	139	86	N/A	1,832
TOYS"R"US	473	464	360	116	N/A	52	1,465
NORSTAR	220	173	163	186	N/A	N/A	742

EMPLOYEES CALCULATED IN FULL-TIME POSITIONS							
	Denmark	Sweden	Norway	Finland	Germany	Iceland	Total
BR	504	324	180	90	78	N/A	1,176
TOYS"R"US	196	143	111	48	N/A	24	522

Employees in all relevant functions receive antitrust compliance training, and we maintain strict information firewalls between our retail and wholesale business units.

#### **Fair Play in Marketing**

As children are vulnerable and impressionable consumers, we always strive to conduct our marketing in a responsible way and in compliance with applicable regulations and best practices. We only use advertising messages that accurately portray the features of our products, and we avoid any misleading

If we are subject to complaints, we always seek to remedy and collaborate with relevant authorities. This was the case when we were found guilty of portraying stereotype gender roles by the Swedish Advertising Ombudsman in 2012. Here we initiated a dialogue and since then have taken steps to improve our advertising so that we show more gender neutral representations of children at play.

#### **Promoting a Good Work Environment**

In our workplace we do not want it to be all work and no play. On the contrary, we believe that having fun is the best way to ensure employee motivation, well-being and retention. We have worked systematically with employee engagement for a number of years and continue to broaden it out across the entire organisation.

Retail employees constitute the majority of our workforce, and it is important for us to ensure everyone's well-being, including health and safety. We adhere to local labour laws, as a minimum, and we strive for zero remarks when authorities carry out workplace inspections. In addition, we have a number of different initiatives to promote a good work environment in all our stores depending on the country of operation.



## **Our Commitment to Satisfied Customers**

"We want customers to feel safe with our products and to get the best possible service - basically we want to meet and exceed customers' expectations"



Our retail employees make sure customers – both adults and children get a good shopping experience. Valentina Ayres Cea, Assisting Store Manager in TOYS"R"US in Kristiansand, Norway finds there is something special about working in a toy store, "This is a place where families shop and we let the children play with our products. In that way we give them a good experience and the toy fun already starts in the store".

#### Improving Everyday

Daniel Abild is Store Manager in our BR store in Mikkeli, Finland and to him, training plays an important role in ensuring high levels of customer service and employee commitment, "We have training to help us improve



the way we do things. One example is the Situational Leadership course where Store Managers learn about leadership roles and how to motivate different types of employees. This creates happy employees who can provide good service and therefore create happy customers", Daniel explains. "We are very proud of our service culture which we continue to develop".



## Having the Right Sales Pitch

"We want to work as a trusted supplier towards our customers – and secure a good return of investment"

## **Business Sense is Key**

this includes marketing the products, setting the right prices, and actually just using plain common sense", says Over the last years the business Stefan Munge.

## **Sustainability Creates Trust**

since 2010. When working to maximise sales opportunities, he explains.

**N** RSTAR

feels he has a strong card on hand The Key Account Managers at in making customers understand NORSTAR are responsible for the that we are a responsible player in sales of our products to wholesale the Nordic market. "It is a very good customers. "In my job as Key Account tool to be able to refer to our work Manager, there are several aspects with sustainability in a sales pitch. that I have to take into consideration; This creates trust in NORSTAR", he explains.

environment has changed, and today more customers pay attention to sustainability, but of course "The Stefan has been with the company prime focus for our customers is to get a good and fair price", Stefan

> One thing is clear however, "You never become too old to play with the



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## **SAFE TOYS**

Product safety is a key concern for our stakeholders and is also a key priority for TOP-TOY. We want to make sure that our customers can trust our toys, be it parents and their children shopping in our retail stores or via our wholesale business.



**QR CODE** 



See Quality Assurance Manager, Clarence Wong and his team test for product safety.

#### **A Game Changer**

The new European Toy Safety Directive, that entered into force in July 2011, has In addition, we put a lot of effort into quality significantly changed the toys industry, since it requires higher toy safety standards and more documentation than previously. In addition, the directive will introduce increased requirements for assessments of chemical substances in July 2013, and significantly more chemicals will be banned to use.

TOP-TOY supports high toy safety standards and believes that sensible legal requirements are necessary to ensure an accountable industry. We have been working systematically with toy safety since 1992, when we established our buying office in Hong Kong. Being close to the factories which produce large quantities of our toys is an advantage to better control product safety and quality.

#### **Plav it Safe**

Even though the Toy Safety Directive only focuses on toys, we ensure that all categories of products we purchase are safe and meet legal requirements. We want to play it safe and have decided to broaden the scope for selected product categories and apply similar requirements for safety documentation as in the Toy Safety Directive. This for example includes textiles where we increasingly request for

Oeko-Tex certification, and today 45% of all textiles we design and manufacture are Oeko-Tex certified.

#### **Keeping an Eye on our Products**

We believe it is good business sense to work closely with our suppliers to make sure products meet all safety requirements. Therefore all our products purchased from Asian anchored suppliers are inspected before shipment. It is better for all parties involved to eliminate any potential safety breaches as early in the process as possible.

In 2011/12, TOP-TOY conducted in-depth assessments of 477 new TOP-TOY branded products prior to production, and conducted 110 process inspections during the actual production.

control after completion of production and prior to delivery. In 2011/12, our Quality Assurance team made 715 visits to 323 different factories and conducted 3,779 in-factory product inspections. We also perform in-house product inspections counting for 1,459 inspections in 2011/12.

We also verified that 1,599 new products were correctly marked according to European and Nordic legal standards, as well as we assessed documentation to verifiy that the products had passed the relevant safety measurement tests.

When the new Toy Safety Directive was introduced we started a process of ensuring that all existing products met the new requirements. During 2011/12 we have assessed and verified that more than 8,000 products are in compliance with the new Toy Safety Directive by requesting relevant documentation from the supplier.

It is our philosophy that if anything has gone wrong in production, it is better to stop non-compliant products in the factories rather than consumers experiencing products not meeting safety and quality expectations.

## The European Toy Safety Directive

#### **The European Toy Safety Directive**

The new European Toy Safety Directive entered into force in July 2011. The most significant changes compared to the previous toy safety regulation within the EU are increased requirements for documentation of toy safety, increased chemical requirements and a clear division of obligations between manufacturers, importers and distributors.

The Toy Safety Directive is one of the first directives developed by the EU under the New Legislative Framework. The objective of this framework is to strengthen product safety implementation in the EU and ensure greater consistency between different product types.

We expect the New Legislative Framework will be used to standardise the approach to product safety and the division of obligations for other product categories in the future, including product categories in our assortment such as textiles.

### **TOP-TOY:** Manufacturer obligations **Supplier:** No obligations

When TOP-TOY holds the role as manufacturer, we are responsible for ensuring the appropriate technical documentation. This applies to our own brand products, which are marketed in the EU under our trademarks. For many of our suppliers producing TOP-TOY's own brand products, the Toy Safety Directive represents a new mind-set and we work closely with them to ensure that they understand what is required.

#### **TOP-TOY:** Importer obligations **Supplier:** Manufacturer obligations

When TOP-TOY holds the role as importer, we require a Declaration of Conformity, confirming that the supplier meets the requirements of the Toy Safety Directive. We also require appropriate test reports from our suppliers, for example test reports for chemical compliance.

#### **Obligations of a Manufacturer**

When producing toys for the EU market, the manufacturer must draw up technical documentation including results of chemical, physical and mechanical testing and product safety assessments.

#### **Obligations of an Importer**

Before bringing toys into the EU, the importer must ensure that appropriate testing for product safety has been carried out by the manufacturer and that the toys have been labelled according to the EU toy safety requirements.

#### **Obligations of a Distributor**

When making toys available on the EU market, the distributor must verify that the toys have been labelled according to the EU toy safety requirements and provide the required instructions and safety information.

> **TOP-TOY:** Distributor obligations **Supplier:** Manufacturer obligations

When TOP-TOY holds the role as distributor, we request both a Declaration of Conformity and appropriate test reports. Here we go beyond the Toy Safety Directive requirements, and some suppliers would therefore decline to submit test reports. If a supplier will not provide test reports, we evaluate the supplier's history of toy safety compliance, and based on this evaluation, decide whether or not to place an order.



A challenge we face is that not all industry players have the same level of quality control processes, and therefore have difficulty meeting the Toy Safety Directive requirements.

TOP-TOY works toward transferring knowledge to our Asian suppliers. In May 2012, we conducted supplier seminars in Hong Kong, focusing on the new increased requirements for chemical substances. In doing so, we ensure that our suppliers can continue to deliver their products to us after July 2013. A total of 59 suppliers participated in the seminars.

#### **Never Compromise Safety**

We never compromise on safety or quality, and we always work to improve product standards so that we meet our customers' expectations. Although our goal is to have zero recalls, we unfortunately still have to recall products from time to time in case of non-compliance. This is conducted in a transparent way and in close collaboration with suppliers, licensors and relevant authorities.

#### **Never Compromise Quality**

If we receive many claims on a product from retail or wholesale customers, we will share this information with key suppliers, and by doing so, we make sure that our next delivery of a given product is improved.

#### An Opportunity and a Challenge

TOP-TOY sees the new European Toy Safety Directive as an opportunity for the entire toys industry to improve safety standards, and we have over the years invested a lot of resources in

We Support Suppliers to Meet Requirements meeting the new requirements. Nevertheless it is also a challenge, since not all stakeholders in the industry are equally engaged in the process and prepared to invest the resources required.

> It is important to keep focusing on toy safety, since the core of our business is to provide children with safe toys, which can give them good play experiences. For this reason TOP-TOY will continue to work with toy safety in meeting and exceeding the legislation.



	Product Safety and Recalls
\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	

OVERVIEW OF PUBLIC RECALLS OF PRODUCTS SOLD BY TOP-TOY DURING 2011/12						
PRODUCT	YEAR	ISSUE	INFORMANT			
Rummikub	2012	Phthalates in textile print	Internal control			
Hair-ee Sportz Magno-Z	2012	Loose magnets	Authorities, Denmark			
Animal Globus	2011	Electrical safety issue	Authorities, Sweden			
Atlanta VX Shark Scooter	2011	Broken steering column	Internal control			

FIVE YEARS' OVERVIEW OF PUBLIC RECALLS OF PRODUCTS SOLD BY TOP-TOY						
	2008	2009	2010	2011	2012	
TOP-TOY public recalls	0	0	5	3	2	

## **Product Safety in Action**

"We feel a great responsibility to make sure that children do not get hurt when playing with our toys – and the same responsibility to guard the reputation of our company"

#### Product Safety is a Good Investment

TOP-TOY has a dedicated Quality Assurance (QA) team who ensures that all products are safe and comply with regulations, as well as TOP-TOY's internal guidelines. Clarence Wong manages the QA team in Hong Kong, and he emphasises, "Investing in toy safety is costly, but definitely worth it because you cannot put a price on children's safety".

#### **Trust in Toys**

Clarence works together with his colleagues Jon Vastrup, Product Safety Manager and Britt Eriksen, Product Safety Engineer, who are based in Denmark. "It is no secret that our industry suffers from low trust due to scandals years back. It takes a long time to build up a good reputation, but only minutes to break it down, which is why we put a lot of efforts into ensuring that products are safe before we buy them", says Jon.

However, despite our continuous efforts, it is sometimes still necessary to recall a product. "When it comes to children's safety, we do not take any chances and our customers can trust us to handle recalls in a professional way", Britt states.

#### **How We Handle a Recall**

The QA team points to the case of the Atlanta VX Shark Scooter, which was recalled in September 2011. "The

scooter had passed the tests, but we discovered a raw material defect after it was reported that a child had an accident when the steering bar broke off", says Britt. The QA team immediately initiated an investigation where they tested the product in-house and contacted the authorities as well as the supplier.

"The process was challenging because when the supplier started to test the scooter they were testing a different batch of the scooters, which had no defects", Jon explains. However, upon realising the problem, they took it very seriously, and the scooter was recalled in all our markets. "Our supplier appreciated our professionalism and our fast action was noted in our responsibility to our customers", says Clarence.

#### **Collaboration is Key**

The QA team agrees that handling product safety requires great teamwork when working on different continents and across the entire organisation.

"We have close contact with Product Managers and collaborate on how to find the best products", Britt points out. "We also have a good dialogue with our Service team and our colleagues in the stores who report back to us about customer concerns. In that way, we keep our finger on the pulse", Jon adds.





## **TOYS IN PLAY**

The best toy ever is one that is played with. Children need to develop and play with one another and their toys. The fundamental success criteria for our business are to bring smiles to children's faces and create good childhood memories.



#### **Creating Value**

choosing the right products from the right suppliers and to promote them in the right way. Parents should be assured that their children are safe when playing with our products – and they should feel free to play along with them. The most important part of a toy's life is when it is played with and create value for our customers.

#### **Bringing New Life to Toys**

When a toy has played out its role, there are many ways to give it new life. It can be saved for nostalgic reasons, or even better - given to younger children in the family or to charity – either way will give the toy a chance to provide happy memories to more children.

When the toy's life finally comes to an end, we highly recommend that customers recycle the product at proper recycling facilities, and sort the different materials according to the instructions. This is especially important with regards to electronic products containing batteries, as these can cause severe environmental damage. Many different types of toys contain small batteries, and unfortunately these often end up in household waste.

#### **Retail Packaging**

The products we sell and customers take home are wrapped in a retail packaging. There are several reasons why product packaging is important. It provides legally required information to the customer, as well as protects the product during transportation.

As a company we have to strike a balance between taking environmental considerations on one hand, and on the other, ensuring there is enough packaging to protect the toys and to have proper displays in the stores. However, we have an increased focus on reducing the amount of retail packaging.

#### **Giving to Charity**

Not all children are equally fortunate and TOP-TOY wants to give less fortunate children TOP-TOY invests a lot of time and effort in the possibility to develop and play. For this reason TOP-TOY has chosen to support the work of the SOS Children's Villages in Nanchang,

> Since our sponsor agreement was initiated in 2009, we have donated approx. 7,900,000 DKK to the SOS Children's Villages. This has been possible with the help of our customers buying our SOS plush dogs in our BR stores, where half of the sale price of the dogs is given to the SOS Children's Villages.

The reason for supporting orphans and vulnerable children in China is that many children are left on their own, when their parents travel to the cities to work in the factories. As a responsible company we would like to participate in countering the negative effects of workers' migration, due to the fact that we source the majority of our products in China.





TOP-TOY has a reputation for being a responsible company and we are devoted to working with sustainability issues throughout our value chain, such as product safety and factory compliance. However, we also acknowledge there is more work to be done and we will continue to make improvements.

#### **Setting Priorities**

by integrating social and environmental considerations into our operations. Our sustainability work must be guided by the TOP-TOY won the category "best emerging nature of our business and the markets in report" which is given to a company that is which we operate to create long term value. It is important for us to be in continuous dialogue has come a long way already. with our stakeholders in the process.

In the coming years, our main strategic priorities will be to:

- Strengthen compliance and corporate governance.
- Continue the systematic implementation of our supplier evaluation programme.
- Further invest in product safety.
- · Find more environmentally friendly packaging options.

Furthermore, we work towards becoming more continuous improvement. data driven to increase transparency.

We are proud of the reporting we have done We want to work strategically with sustainability until now, and in September 2012 we were awarded by the Danish Association of Chartered Accountants (FSR) for last year's annual report. relatively new in sustainability reporting, but

#### **Opportunities and Risks**

Working with sustainability offers many benefits, including cost savings, risk reduction and strengthening of our brand. However, we acknowledge there are risks associated with this work. When we openly address our challenges, we may be subject to criticism. Also, when looking deeper into our supply chain, we might find things we are not happy with and, when collecting data on progress, good results may not arrive as quickly as we had hoped. Nevertheless, we see this as an opportunity for

## Integrating Sustainability into Our Strategy

"In TOP-TOY, sustainability and financial value creation are not mutually exclusive we believe they must go hand in hand"

## **Making Sustainability a Strategic Priority**

When Lars and Peter Gjørup were appointed as Joint Managing Directors of TOP-TOY in 2009, they decided to make sustainability one of their strategic priorities.

"As a family owned company, we have always focused on being a good corporate citizen. We therefore agreed that it would make good business sense to work more systematically with sustainability and also communicate about it externally", says Peter.

#### **Business-Model Driven**

Liselotte Carlsen joined as Group Sustainability Manager in 2010, and has since been the key driver behind business model and operational context. In this way, we the greatest impact", she explains.



Liselotte reports directly to Peter for efficient decision making and also to ensure senior management is always up to date with TOP-TOY's sustainability work.

#### **Local and Global Focus**

The Sustainability Department is located in our headquarters in Denmark. "We want our Sustainability TOP-TOY's sustainability work. "In order to create value, it Department to be close to the markets that we operate in, is important that we align our sustainability work with our to be able to better engage with our stakeholders", Lars points out. "However, we still keep a global focus because can prioritise our efforts and find out where we can have the team works closely with for example our Factory Compliance and Quality Assurance teams in Hong Kong".

SUSTAINABI	LITY GOALS AND I	PROGRESS ALONG THE VALUE CHAIN	
CHAPTER	GOALS		PROGRESS
	Product Responsibility	• New Have all textiles we design and manufacture Oeko-Tex certified.	<ul> <li>Today 45% of all textiles we design and manufacture are 0eko-Tex certified.</li> <li>See Page 10</li> </ul>
Creativity and Design	Environment and Climate Change	Establish a baseline for current quantities of certified wood used in our wooden products.     Set future targets for quantity of certified wood for our wooden products.	<ul> <li>Today 76% of our own brand wooden products are either FSC certified or rubber wood.         We will expand the baseline to cover all wooden products.</li></ul>
We Buy Lots of Toys	Supplier Evaluation	<ul> <li>Roll out our supplier evaluation programme "Traffic Light Concept" (covering legal, product quality and factory compliance) to all TOP-TOY buying locations.</li> </ul>	<ul> <li>Implementation in progress and expected to be completed by 2013.</li> <li>See Page 12-14</li> </ul>
How Toys are Made	Factory Compliance	<ul> <li>All factories meet our Factory Compliance Standards by end of 2013.</li> <li>New Develop positions on child labour, forced labour and overtime.</li> </ul>	<ul> <li>Today factories used by Hong Kong anchored suppliers meet our Factory Compliance Standards. For factories used by European anchored suppliers, we are in the process of implementing our Factory Compliance Standards.</li> <li>In progress and expected to be finalised by 2013.</li> </ul>
Toys on	Environment and Climate Change	<ul> <li>New Evaluate new Direct to Store concept.</li> <li>Establish a baseline for energy consumption across TOP-TOY.</li> </ul>	<ul> <li>Test in progress.</li> <li>Ongoing pilot project with LED lighting in distribution centre in Copenhagen.</li> <li>See Page 19</li> </ul>
Toys on the Move	Employees	• New Reduce manual lifting in distribution centres.	<ul> <li>New vacuum tube lifters introduced for handling heavy items in distribution centre in Copenhagen. See Page 18</li> <li>Slip sheet pilot project carried out to protect employees when loading and unloading containers. Testing expected to continue in 2012/13. See Page 19</li> </ul>
We Sell	Competition	Train employees in antitrust issues.	<ul> <li>Procedure in place to assess the need for training of all new employees. Training conducted by Legal Department.</li> </ul>
Lots of Toys	Employees	Continue implementing employee engagement programme (Employeeship) across TOP-TOY.	• All office staff as well as store managers and assisting store managers participate in annual employee engagement programme (Employeeship). See Page 20
Safe Toys	Product Responsibility	<ul> <li>New Train suppliers in European Toy Safety Directive.</li> <li>New Have zero recalls.</li> </ul>	<ul> <li>59 suppliers trained in 2012. See Page 24</li> <li>Ongoing Quality Assurance inspection of products. See Page 22</li> </ul>
Toys in Play	Environment and Climate Change	Find alternative, more environmentally friendly packaging options.	• Research project conducted and work streams to be further defined.  • See Page 26
	Reporting	<ul> <li>Improve our reporting performance and report on relevant and critical issues.</li> <li>Collect data systematically allowing for increased transparency.</li> </ul>	<ul> <li>Ongoing</li> <li>Data protocols to be developed during 2012/13 for future data collection.</li> </ul> ○ See Page 28
Cross-Cutting Areas	Communication and Stakeholder Engagement	<ul> <li>Increase sustainability information on our communication platforms, TOP-TOY, NORSTAR, BR and TOYS" R"US websites.</li> <li>New Conduct materiality assessment every second year.</li> </ul>	<ul> <li>Information is now available on websites and will be updated ongoing.</li> <li>See Page 8</li> <li>We expect to conduct a new materiality assessment during 2012/13.</li> </ul>
	Compliance and Corporate Governance	Develop a Code of Conduct and supporting policies.     Develop a whistle-blower system to uncover any unethical behaviour in TOP-TOY.	<ul> <li>Code of Conduct finalised and implementation plan established for 2012/13.</li> <li>The Code of Conduct will be publically available in 2013.</li> <li>Decision has been made to evaluate the need for a whistle-blower system.</li> </ul>

TOP-TOY is a family owned and operated business that sells toys and other products to children. We are the largest toy trading company in the Nordic region. Our retail and wholesale business cover six countries where we supply a diverse range of products to children of all ages.

#### **Family Run for Three Generations**

We are proud of being a family business with nearly fifty years of serving customers. Today Lars and Peter Gjørup are the third generation of the Gjørup family leading the company.

#### We are a Sales Organisation

from our headquarters located near Copenhagen with support operations based in located in prime shopping locations across Aarhus, Hong Kong and Hamburg.

Our core business is divided into three business units: Retail, Wholesale and Supply to maximise the potential of our sales channels, while ensuring there are information firewalls between our retail and wholesale activities.

To support the sales organisation, we have a number of support functions, such as IT, Finance, HR and Communications, which service our business units. We also have governance functions, such as Sustainability and Legal, which provide advisory service to management.

#### TOP-TOY group level operations are managed Our Retail Business Unit – BR and TOYS"R"US

BR is a well-established retail chain of 248 stores Denmark, Sweden, Norway, Finland, the Faroe Islands and Northern Germany. We also have BR webshops that complement our physical stores in Denmark, Sweden, Norway and Finland.

**Organisational Setup in TOP-TOY GOVERNANCE SUPPORT FUNCTIONS FUNCTIONS** WHOLESALE **SUPPLY** RETAIL **BUSINESS BUSINESS BUSINESS** UNIT UNIT UNIT N RSTAR 

TOP-TOY operates 49 stores under the TOYS"R"US banner in Denmark, Sweden, Norway, Finland and Iceland under a license agreement. Our TOYS"R"US stores offer a larger scale shopping experience and a wider selection of products than our BR stores. In 2012, we also opened TOYS"R"US webshops in Denmark, Sweden, Norway and Finland.

As part of our BR banner we operate Club BR. Club BR offers children and their parents good deals, fun newsletters and the possibility to participate in competitions. Club BR has over 1,600,000 members across all the countries where BR operates stores.

Our retail business unit is organised around regional and national management, who are supported by head office regarding planning and execution of sales and marketing activities, as well as management of dynamic product assortments to effectively utilise retail space.

#### Our Wholesale Business Unit - NORSTAR

In 2012, we changed the name of our wholesale business unit (formerly K.E. Mathiasen) to NORSTAR, which was already the trading name for our Finnish and Norwegian markets.

NORSTAR is headquartered in Aarhus and was added to the TOP-TOY Group in 2009. NORSTAR services a wide range of retail channels (approx. 4,500 outlets) through local sales operations and showrooms in Denmark, Sweden, Norway and Finland.

NORSTAR is a branded product distributor and among others, is the exclusive wholesale distributor of Mattel toys in the Nordic region. In addition to toys, NORSTAR also sells licensed lifestyle products for children such as apparel, home textiles and melamine.

### **Our Supply Business Unit**

This business unit manages all product suppliers and licensors of products which are sold by our retail or wholesale business units.

The supply business unit plans, supports and executes timely product deliveries from TOP-TOY's suppliers worldwide to our stores, wholesale customers and consumers. In addition, the business unit is responsible for product selection, product development, marketing, license management and quality assurance. These activities are mainly carried out in Denmark and Hong Kong.

We also own and operate two distribution centres in Denmark. They serve all retail stores and wholesale customers in six countries.

#### **The TOP-TOY Family**

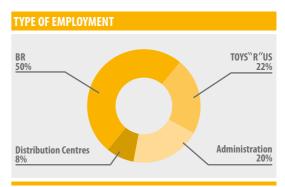
Our family tree is characterised by dedicated employees who work in retail stores, the wholesale sales force, administrative offices and distribution centres across seven countries.

During the financial year 2011/12, TOP-TOY employed 6,544 people (equal to 2,358 full-time positions). The majority of our workforce consists of retail employees. During Christmas, the toy industry's peak season, we naturally need to hire a large number of extra people to service all our customers. Therefore, 78% of our employees work part time or hold temporary contracts. This is an attractive option for many students, as they can gain work experience alongside their studies. More than half of TOP-TOY's employees are under 25 years old and 68% are women.

Demographic Data

# GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES Denmark **Hong Kong** Iceland Norway 13%

**NOTE:** All numbers are based on full-time positions.



**NOTE:** Administration includes sales personnel in NORSTAR. All numbers are based on full-time positions.

OR CODE



The TOP-TOY journey started in a Danish provincial town in the 1950s, and today we operate 248 BR stores across the Nordic countries and in Germany, as well as 49 TOYS" R"US stores in the Nordic region. In addition, we run a wholesale operation across the Nordic countries. Join us on a trip down memory

#### From Local Newsagent to Toy Store

In 1950 a newsagent was established in Roskilde – a town near Copenhagen in Denmark. Børge Rasmussen, a man of both initiative and vision, was the owner of the store, which would become a major toy company in the future.

During the 1950s, the range of products grew constantly and toys entered the shelves during Christmas. In 1963, Bjarne and Henrik Gjørup, During the mid-nineties, an agreement was sons of Børge Rasmussen, joined the company and it was decided to turn the newsagent into a specialised toy store. At the same time, the store new TOYS"R"US stores across Scandinavia. was renamed "BR" after Børge Rasmussen.

#### **Becoming a Retail Chain**

Since then BR continued to grow, opening many new stores. In addition, a new sales concept was introduced in 1987 when we opened our first SUPERLEG store.

In 1990, the company TOP-TOY A/S was formed as the corporate body for all business activities.

signed with TOYS"R"US to convert our existing SUPERLEG stores to TOYS"R"US, and to open

#### **Establishing a Presence in Asia**

distribute and sell in the Northern European wholesale business. market.

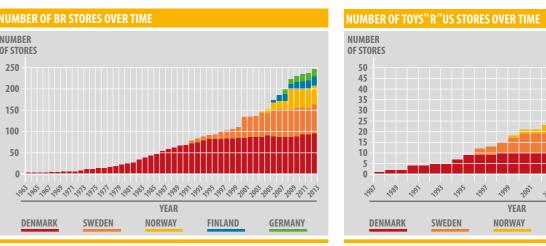
#### **Venturing into Wholesale Business** - NORSTAR

In 2009, TOP-TOY acquired K.E. Mathiasen, now licensed products for children in the Nordic family owned company with a long history.

#### A Large Player in the Nordic

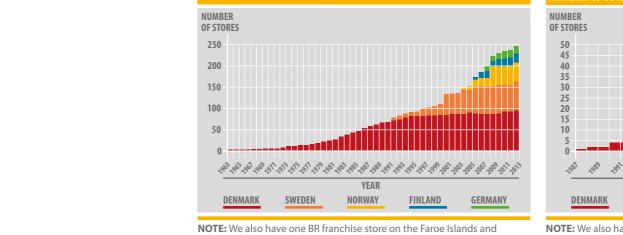
In 1992, TOP-TOY established a buying office Today, we are one of the largest toy businesses in Hong Kong. The purpose was to be closer to in Northern Europe, operating 297 toy stores many of our main suppliers and factories and under the retail banners BR and TOYS"R"US ensure a higher quality for the products we and servicing approx. 4,500 outlets through our

In total, we engage 6,544 employees (corresponding to approx. 2,358 full-time positions), divided over stores and offices in Denmark, Sweden, Norway, Finland, Iceland, NORSTAR, the largest distributor of toys and Germany and Hong Kong and have an overall annual turnover of around 4 billion DKK. Since region. Similarly to TOP-TOY, the business was a 2009, Peter and Lars Gjørup, sons of Bjarne Gjørup, took over as third generation Managing



**NOTE:** We also have webshops in Denmark, Sweden, Norway and Finland.

NORWAY



webshops in Denmark, Sweden, Norway and Finland. 1989 ( ) 1990 ( ) 1987 ( ) 1992 ( ) 1996 ( ) 1999 ( ) 2000 ( ) 2003 ( ) 2005 ( ) 2006 ( ) 2007 ( 2010 2011 2008() 2009 2012() BR webshops open TOYS"R"US Acquisition of Edwis TOP-TOY in Denmark, Sweden, (Norwegian toy retailer) webshops open First **Norway and Finland** buying office and conversion of stores in Denmark, First TOYS"R"US **BR** store established First into BR 💣 Sweden, Norway Newsagent in First combined opens in store opens in in Hong Kong **BR** store and Finland **Roskilde in Denmark** Edwis **Finland** Financial and Norway First opens in Sustainability des \* les First SUPERLEG TOYS"R"US Sweden Report is store established K.E. Mathiasen A/S store opens published in Denmark becomes BSCI in Iceland Strategic alliance K.E. Mathiasen participant First changes name to SUPERLEG for Nordic region K.E. Mathiasen A/S Peter and Lars Gjørup **BR** store **NORSTAR** in all BSCI between Mattel acquires Norstar in appointed as Joint Newsagent transformed opens in onverted to and TOP-TOY countries **Managing Directors Norway and Finland** into toy store and Norway TOYS"R"US **N** RSTAR renamed "BR" after N@RSTAR Acquisition Børge Rasmussen of Salzmann O receipa i (North German The BR logo Internal launch Takeover of existing is modified toy retailer) K.E. Mathiasen A/S of TOP-TOY TOYS"R"US stores and conversion ("Fætter BR") **Code of Conduct** acquires Leksam First TOYS"R"US Second combined in Sweden of stores into BR TOP-TOY signs up to in Sweden BR store opens in Sustainability **Financial and** the UN Global Compact Salz - Ann Finland Report is Sustainability published Report is published TOP-TOY A/S TOP-TOY signs Acquisition of Stor & Liten K.E. Mathiasen A/S formed to operate up to the ICTI (Swedish toy retailer) established **BR and SUPERLEG Care Process** and conversion TOP-TOY A/S acquires of stores into BR K.E. Mathiasen įçţį WORSTAN 25 COMP OUR VALUES IN PLAY OUR VALUES IN PLAY OUR VALUES IN PLAY

"TOP-TOY has been on quite a journey and although we have grown significantly, we have still managed to preserve that special family feeling"

#### **The TOP-TOY Family**

Whether you have been in the company for decades or just to remind everyone that we are here to sell toys and other stepped through the doorway, all employees are part of the TOP-TOY family. To better understand what this means, we asked two employees to describe the TOP-TOY culture.

#### **Welcoming New Family Members**

Bruno Boysen, HR Manager, has been with TOP-TOY for more than 30 years. Today he is responsible for carrying out introduction courses for new employees. "When meeting new employees, I always tell them my job is not to tell you what to do, that is your manager's responsibility. My task is to introduce you to the TOP-TOY family, our culture Fun is Serious Business and give you a sense of the formal and informal rules that Both Bruno and Mette emphasise TOP-TOY's relaxed guide our organisation", he says.

in Bruno's introduction is Mette Helbo, who works as Accountant. She describes her first meeting with TOP-TOY, "The company has a special family spirit and when you remarks." start, you feel this right away".

#### **Keeping our Mission in Mind**

As part of the introduction, the majority of new office staff spend a number of days working in one of our retail stores.

"Regardless of which job function you have, it is important products for children – that is our mission", Bruno points

Mette has not yet had the chance to work in one of the stores, but she is looking forward to it, "I think it will be an eye-opener and I look forward to get a better understanding of what goes on in the store. I am sure this experience will benefit my work when I get back to the office", Mette explains.

atmosphere when describing what is unique about the company, "I noticed that TOP-TOY has a very informal work One of our new employees, who recently took part culture, for example, during lunch, you can sit at the same table as the Managing Director who is very interested to hear about what you are currently working on", Mette

> Finally, it is important to keep in mind that an essential part of TOP-TOY culture is connected to the idea of having fun in our daily work, as Bruno puts it, "We need to be better than yesterday, but we should not forget to have fun while doing it – we are a toy company after all!"







For more information on our sustainability work contact our Sustainability Department at sustainability@top-toy.com or visit our website TOP-TOY.com/sustainability



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# Methodology and Reporting Framework

#### Scope and Reporting Framework

This report focuses on our financial and sustainability performance during the financial year covering July 1, 2011 to June 30, 2012.

The report lives up to the criteria of the UN Global Compact, including the commitment to issue an annual Communication on Progress (COP) report. In addition, the report lives up to the legal requirement for Danish companies to disclose how they work with sustainability.

TOP-TOY looks towards the Global Reporting Initiative (GRI) framework for inspiration, but we do not work consistently with GRI as yet.

#### **Data**

collected from internal systems and key persons across the their respective owners. organisation.

by responsible managers to ensure the report reflects accurately on TOP-TOY's performance. To the best of TOP-TOY's knowledge, the data presented is accurate and reflects TOP-TOY's progress.

We continuously work towards improving our data collection and verification systems, and to become more data driven.

#### **Legal Notices**

Throughout this report references are made to the TOP-TOY Group, which means TOP-TOY Holding A/S and its subsidiaries: TOP-TOY A/S, TOP-TOY (Hong Kong) Ltd., NORSTAR A/S and TOP-TOY Ejendomme A/S.

TOP-TOY is a registered trademark of TOP-TOY (Hong Kong) Ltd. KIDS-WOOD, FLEXI-TRAX, BELLINO, PLAY2LEARN, ATLANTA, FOOD'N'FUN, HAPPY HOUSE and CLUB BR are registered trademarks of TOP-TOY A/S. DANSPIL is a registered trademark of NORSTAR A/S.

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This report is based on quantitative and qualitative data All other marks referred to in this report are the property of

Some photographs in this report combine separate Statements and data have been verified for correctness images of actual TOP-TOY employees to depict virtual TOP-TOY teams.



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