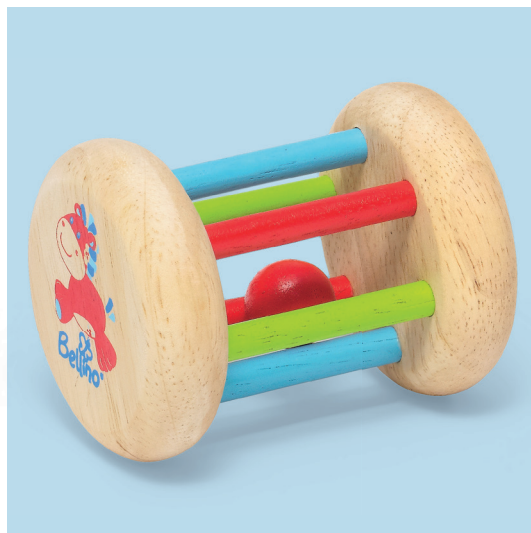
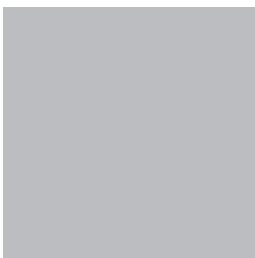


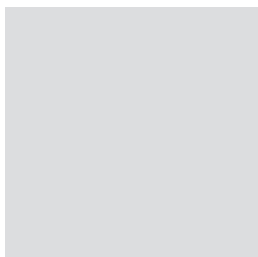


PLAYING TOGETHER



2012/2013

TOP-TOY's Performance Report



Reader's guide

TOP-TOY's Performance Report

Welcome to TOP-TOY's Performance Report 2012/13. This is our fourth consecutive report aimed at giving internal and external stakeholders a clear account of our commitments and key achievements over the past year. Our intention is to provide you with an accurate picture of the challenges we face and the goals we are working towards.

In order to give an all-round overview, the report covers many diverse aspects of our business. It is for this reason that we have named the report *TOP-TOY's Performance Report*.

The focus of our report

We have chosen to focus on five key stakeholder groups and how we work with them at TOP-TOY. Each chapter is dedicated to a stakeholder, starting

with our suppliers, who provide us with our products, and our employees, who ensure the operation of our business. The next chapters are dedicated to our customers and how we meet their expectations, the society we are engaging with and the environment. Throughout the report, we present six selected highlights of importance to our business.


One of our important achievements in 2012/13 was the rollout of our new Code of Conduct. The Code serves as a framework for guiding our employees with regard to responsible behaviour. In several chapters, we describe how the Code is put to use in our daily operations.

The report is supported by further online information at www.top-toy.com







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Highlights of the year

Rollout of
our Code of
Conduct



See page 13



BR Toys test
store opens in
Germany

See page 29

New **TOYS"R"US**
webshops
in Denmark,
Sweden, Norway
and Finland



1,800,000

DKK donated to SOS Children's Villages



SOS CHILDREN'S
VILLAGES

See page 35

Implementation of Factory
Compliance Programme for full
traceability of all factories

See page 17-18



13,000,000

products sold to our
NORSTAR customers

See page 30



Award for best
emerging
sustainability
report in
Denmark



Completion
of materiality
assessment

See page 14-15

4,785

inspections
with regard to
product safety



See page 19

42

suppliers trained in the new
chemical requirements of the EU
Toy Safety Directive



See page 36

18 million
customers
served in our
retail stores

See page 29



18,700
products in assortment

See page 16



2,000,000
members of Club BR

See page 29



Message from Joint Managing Directors

Selling products to children is our core business. Our success depends on our ability to sell the right products - providing fun and contributing to children's development and creativity.

Our financial performance must improve

The past year has been financially disappointing. Our result shows an operational performance on a level with last year. This is below our expectations, and we need to improve going forward.

Our performance confirms that internal control systems and business planning are not strong enough. We need to establish an environment, where we have a more realistic view of market developments and react faster to change. We also need to reduce our costs to improve our competitiveness.

The decision to merge our two own distribution centres into one, announced in June this year, is one example of how we are improving our efficiency. Another is our further investment in infrastructure to provide us with strong omni-channel capabilities that will contribute to our overall competitiveness.

Externally, the trends towards digitalisation, globalisation and cross-border trade are gathering strength. As these trends change the way children play and lead to a more competitive market, it is increasingly important to adjust.

Our strategic ambitions for the future

We foresee some demanding years ahead. With our new strategy - One-Vision - we will address internal and external challenges to build and maintain TOP-TOY as a sustainable company. Our vision is to achieve profitable growth in the future market place.

The most valuable asset in TOP-TOY is our employees. We appreciate the hard work that is put into preparing our business for the future while at the same time catering for the daily needs of our customers. All employees have shown that they are committed and loyal to TOP-TOY.



Peter Gjørup



Lars Gjørup

Staying true to our core values

We will stay true to our core values with no compromises in how we do business. We are proud to highlight some of the key areas that characterise our company.

- Children can continue to play safe. We support the European Toy Safety Directive and spend considerable resources on assessing and verifying compliance to meet or exceed all applicable legislation including the new chemical requirements for toys enforced from July 20, 2013.
- We have successfully implemented our Factory Compliance Standards for all factories that manufacture our products. We see the improved traceability of the factories as a great achievement.
- In 2012/13, we rolled out our new Code of Conduct. The Code provides the foundation for our business ethics – essential for a responsible company driven by values.
- We continue to engage actively with our key stakeholders in a transparent and honest way on issues that matter to them. This ensures we maintain the right strategic direction. During 2012/13, we conducted a materiality assessment to learn about our stakeholders' priorities.

This progress reflects our continuing support for the UN Global Compact. It is also the natural continuation of 50 years of responsible business aimed at bringing joy to children and their families.

**Peter Gjørup and Lars Gjørup**

Our performance

We are determined to improve and adapt our organisation by investing in strategic areas that secure long-term profitability, continued growth and social and environmental value.

Our financial performance

Growth in 2012/13

Overall revenue grew 1.4% to 4.1 billion DKK. In an overall flat market, TOP-TOY appears to have gained market share. The growth of our retail business in the face of market pressure confirms that our business model is still the right one. On the wholesale side of the business, however, we experienced some decline.

Our 2012/13 result shows that we have not achieved our goal to increase earnings. Non-recurring items impacted after-tax profit, which ended at 56.8 million DKK.

Financial performance in retail

Our retail revenue grew 3.1% to 3.4 billion DKK, while same store sales declined 0.8%. Much of the growth came from our webshops. We opened nine

and closed eight BR Toys stores and opened one TOYS"R"US store.

Financial performance in wholesale

Revenue declined 6.7% to 693 million DKK, partly due to the closure of our Toy Club Business in Denmark and the termination of licensed confectionery distribution.

At the end of the financial year, we announced a plan to consolidate our two distribution centres in Denmark into one efficient operation at the existing facilities near Copenhagen.

Operational income

Adjusted EBIT (operational income before interest, tax and non-recurring items) declined 11.0% to 164.4 million DKK, due to margin pressure from declining sales prices, increasing purchase prices and increased operational costs.

TOP-TOY KEY FIGURES AND FINANCIAL RATIOS					
Five-year key figures in DKK million	2008/09	2009/10	2010/11	2011/12	2012/13
Revenue	2,935.2	3,593.1	3,954.1	4,044.4	4,100.3
Adjusted EBITDA	263.0	362.7	312.7	274.2	239.9
Adjusted EBIT	181.2	273.6	217.9	184.7	164.4
Non-recurring items*	0.0	0.0	1.3	15.0	56.3
Profit for the year	99.3	162.7	128.2	105.7	56.8
Balance sheet total	2,100.6	2,769.5	2,891.5	2,804.2	2,767.9
Equity	1,030.0	1,180.5	1,265.9	1,363.0	1,395.7
Employees and stores					
Number of employees	1,805	2,128	2,261	2,358	2,352
Number of stores	266	274	286	297	299
Key financial ratios					
Operating margin	6.2%	7.6%	5.5%	4.6%	4.0%
Return on invested capital before non-recurring items	8.8%	12.2%	8.3%	6.9%	6.3%
Equity ratio	49.0%	42.6%	43.8%	48.6%	50.4%

NOTE: * In 2012/13 non-recurring items related to the decision to merge our two own distribution centres into one
 In 2011/12 non-recurring items related to closing of TOY-CLUB activity and write-down of goodwill
 In 2010/11 non-recurring items related to demolition of real estate in DK



The decision to consolidate our two own distribution centres resulted in non-recurring costs of 56.3 million DKK, covering:

- Re-evaluation of inventories in NORSTAR A/S
- Goodwill impairment related to the NORSTAR acquisition
- Costs related to lay-offs and activities to support employees affected by the decision

These are primarily non-cash, so the balance sheet remains strong with 1.4 billion DKK equity and low net-interest bearing debt, primarily related to our real estate investments.

Looking ahead

Activities to increase earnings and improve short and long-term profitability have been initiated. These aim to improve the assortment, increase

home deliveries, and reduce inventory markdowns and costs.

Our sustainability performance

Sustainability progress

We have made good progress with our on-going sustainability efforts in 2012/13. Our main achievements included the rollout of our new Code of Conduct and completion of a materiality assessment.

Looking ahead

We will continue to work towards the integration of sustainability in our business. In doing so, we will engage with our key stakeholders to create long-term shared value. Through 2013/14, we will continue to work towards our new and existing goals.

Goals	Progress	Status
Suppliers See page 16-23		
Oeko-Tex certification of all own-design children's clothing and home textiles	All own-design textiles are Oeko-Tex certified	★
Use sustainably harvested wood for wooden own brand products	66% are FSC certified or made from rubber wood	★
Zero recalls	Ongoing quality assurance	★
Rollout of supplier evaluation programme	Full implementation by end 2013	★
Implement our factory compliance standard	Full implementation by end 2013	★
Develop positions on child labour, forced labour and overtime	Expected to be finalised during 2013/14	★
Employees See page 13		
Develop a Code of Conduct and supporting policies	Code of Conduct fully implemented	★
Society See page 14-15 & 32-37		
Train suppliers in European Toy Safety Directive	42 suppliers trained in 2012/13	★
Systematic data collection for increased transparency	To be finalised during 2013/14	★
Conduct materiality assessment	Completed in 2013	★
Assess human rights impact and develop policy	Expected to be developed during 2013/14	★
Environment See page 38-41		
Reduce health-damaging lifting tasks in our distribution centre near Copenhagen	All health-damaging lifting eliminated	★
Evaluate new direct-to-store concept	Test in progress	★
Establish a baseline for energy consumption	LED lighting project implemented in distribution centre	★
Find more eco-friendly packaging options	To be initiated during 2013/14	★

★ More to do ★ On track ★ Done

About TOP-TOY

Our mission



Bjarne Gjørup & Henrik Gjørup



Staying true to our mission

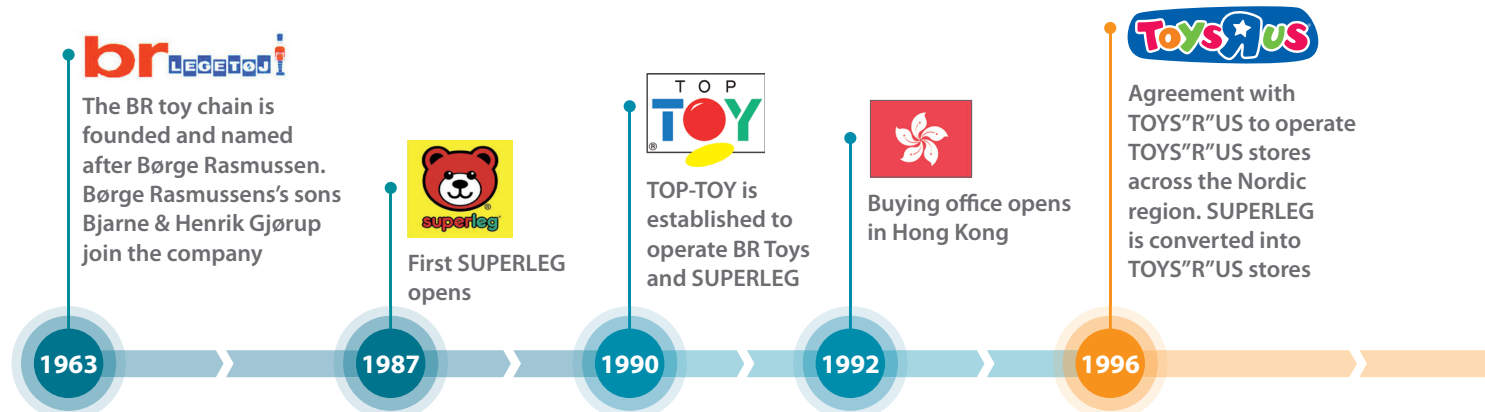
For 50 years TOP-TOY has been a truly family-owned company, bringing joy to children's lives through the products we sell. When Bjarne and Henrik Gjørup started the toy store chain with their father Børge Rasmussen in 1963, it was all about making children smile and creating fun childhood memories.

Their original idea was to establish specialised toy stores in shopping malls and other key locations – all inspired by the American way of selling products.

Today, we have grown to become one of the largest companies in the toy industry in the Northern European market. We operate 299 retail stores and a wholesale business and are managed by the third generation of the Gjørup family.

The approach to selling our products has developed but our main focus remains the same – to sell fun, safe and high-quality products that foster the development, learning and creativity of children.

50 years of fun



Reference: Learn more about our 50 years' of history at www.top-toy.com/50th-anniversary



Our core values



Keeping our values in play

TOP-TOY's values are still based on the family ties that founded the company. Our values keep us together and make us stronger. They also help us act responsibly and perform to the best of our ability when serving retail and wholesale customers and meeting business partners.

Fun is serious business

Understanding our key stakeholders - children - is fundamental. Having fun is a big part of most children's lives, and that should be their experience when using our products. This mentality is also reflected in the way we work, where we balance fun with the serious side of running a business.

Playing responsibly

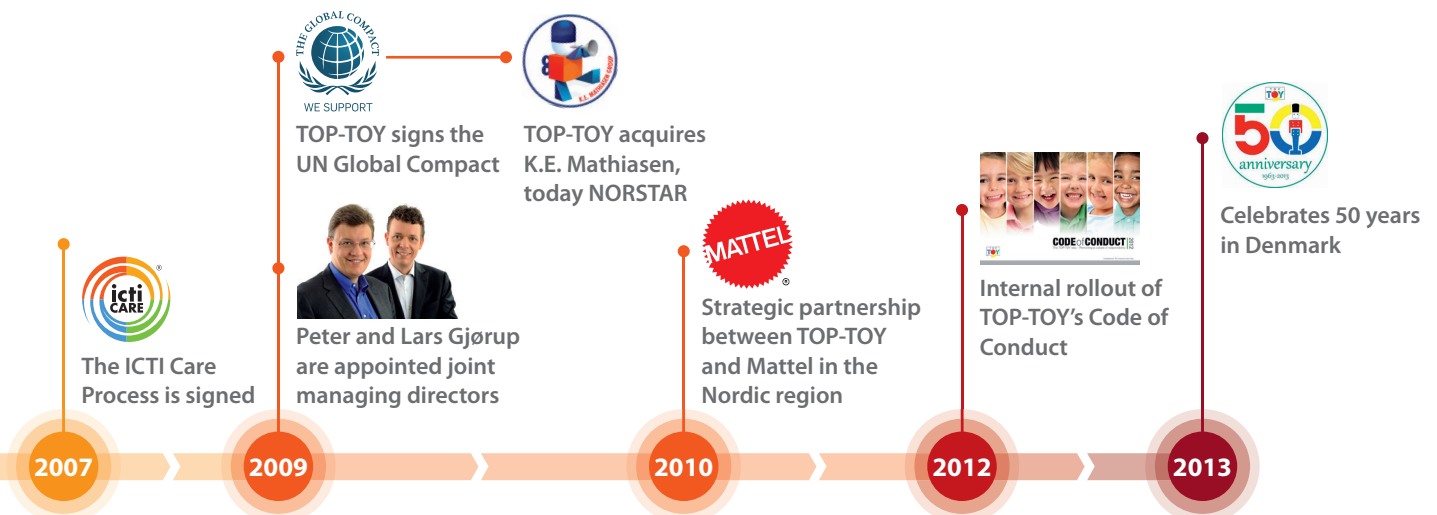
Selling toys and other products to children is a big responsibility. This is why acting responsibly is one

of our top priorities and reflected in our company values. It is the only right way to behave in a business that relies on making children happy.

A dedicated workforce

Throughout our long journey and growth from local to global, we have preserved a strong family-oriented culture. No matter whether you have been in the company for decades or just stepped inside the door, everyone is considered part of the TOP-TOY family, and we work together across locations.

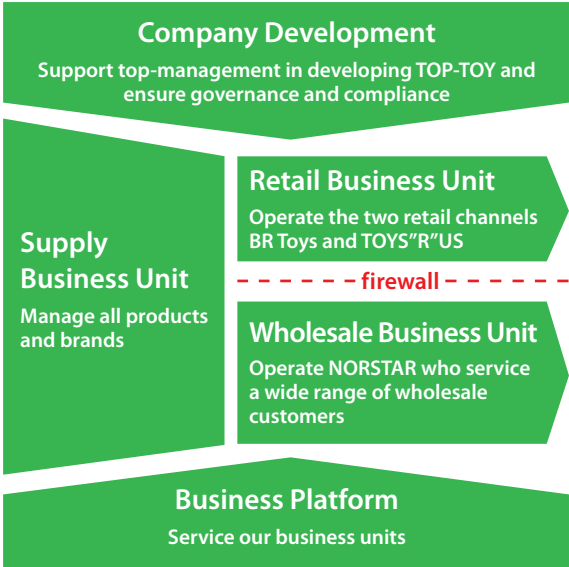
Throughout 2012/13, TOP-TOY had 6,067 employees (corresponding to approx. 2,352 full-time positions) located in Denmark, Sweden, Norway, Finland, Iceland, Germany and Hong Kong. Our aim is to serve the customers who do business with us in our BR Toys or TOYS"R"US stores or through our wholesale company NORSTAR.



Key facts about TOP-TOY

TOP-TOY specialises in distributing and selling toys and other child-related products in Northern Europe. Our organisation has two retail chains - BR Toys and TOYS"R"US, for which we hold an exclusive license to operate in the Nordic region, and a wholesale company, NORSTAR. Today TOP-TOY is managed by Lars and Peter Gjørup - part of the third generation of the Gjørup family.

- Established in 1963
- Revenue 4.1 billion DKK in 2012/13
- Head office located in Denmark, including retail office for BR Toys and TOYS"R"US
- Buying office in Hong Kong
- Wholesale offices and showrooms in Denmark, Sweden, Norway and Finland
- 249 BR Toys stores in Denmark, Sweden, Norway, Finland, the Faroe Islands and Northern Germany
- 50 TOYS"R"US stores in Denmark, Sweden, Norway, Finland and Iceland
- BR Toys and TOYS"R"US webshops in Denmark, Sweden, Norway and Finland

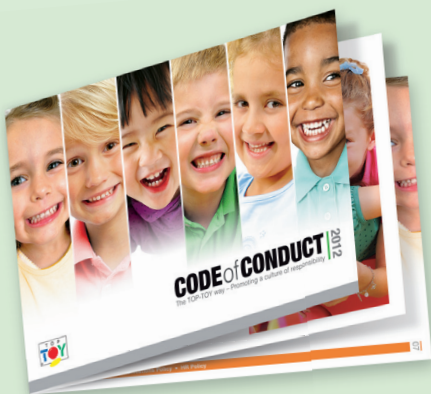


	Denmark BR Toys: 91 TOYS"R"US: 15 No. of employees: 1,140
	Sweden BR Toys: 66 TOYS"R"US: 16 No. of employees: 499
	Norway BR Toys: 48 TOYS"R"US: 11 No. of employees: 328
	Finland BR Toys: 25 TOYS"R"US: 5 No. of employees: 170
	Germany BR Toys: 18 No. of employees: 86
	Iceland BR Toys: 3 No. of employees: 29
	Faroe Islands BR Toys: 1 franchise store
	Hong Kong No. of employees: 100

NOTE: Number of employees is based on full-time positions.

Our Code of Conduct

Our Code of Conduct



In 2012, we launched our new Code of Conduct. Based on our core values, the Code provides a framework for guiding employees with regard to responsible behaviour. Our employees are our ambassadors, and we want to shape an organisational culture based on personal accountability.

The Code of Conduct is a tool for encouraging and supporting dialogue when solving the ethical dilemmas that employees may face in their daily work and for establishing clear roles and responsibilities across the organisation.

In the future, TOP-TOY plans to introduce a number of policies in support of the Code of Conduct.

You can find our new Code of Conduct on our website.

Eleven critical issues

We have focused our Code of Conduct on the eleven issues, that are most critical to our business:

- 1. Personal accountability**
We are responsible for living the Code of Conduct
- 2. Interaction with external stakeholders**
We are TOP-TOY's ambassadors
- 3. Conflict of interest**
We are objective in our decision-making
- 4. Financial**
We treat TOP-TOY's assets as if they were our own
- 5. Gifts and entertainment**
We say no to gifts - to ensure transparent business decisions
- 6. Confidential information and intellectual property**
We protect and respect our own and others' intellectual property
- 7. Responsible marketing**
We support fair play in marketing
- 8. Antitrust**
We support the principles of fair competition
- 9. Product integrity**
We want our customers to trust our products
- 10. Employment**
We provide a good work environment for all employees
- 11. Environment**
We want to reduce our impact on the environment

Stakeholder concerns

We actively and transparently engage with our key stakeholders on issues that matter to them. That ensures we keep working in the right direction.

Staying up-to-date

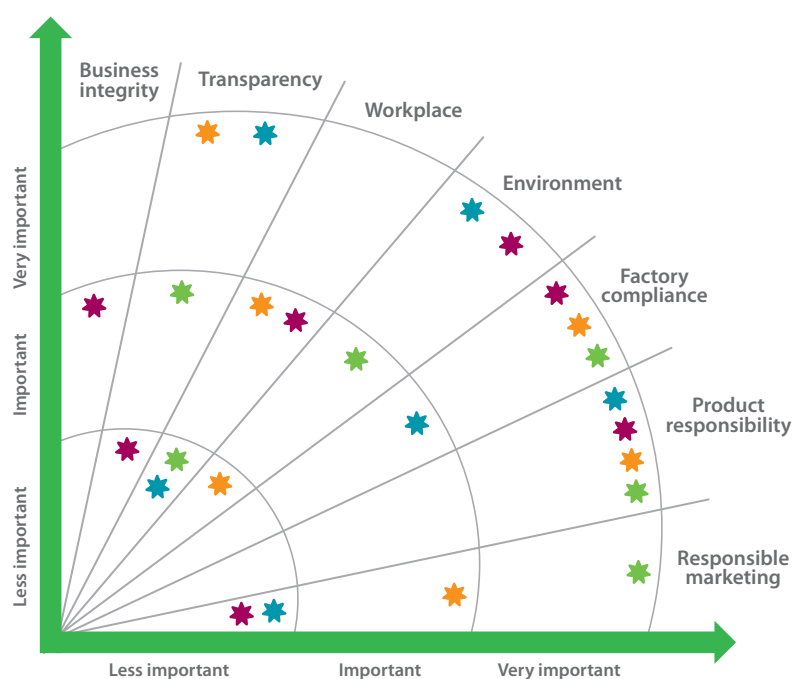
We strive to maintain an on-going dialogue with our stakeholders. By identifying and prioritising the issues that are most important to them, we are better able to meet their expectations and stay up-to-date with issues that may influence our business.

As part of this dialogue, we conducted a materiality assessment in May 2013 to learn more about the topics of greatest importance to our stakeholders right now.

Managing stakeholder expectations

One conclusion from this materiality assessment is that the priorities of individual stakeholders typically - and understandably - reflect the most pressing issues within their own area of interest. This underpins the need to engage with stakeholders in an on-going, issue-based manner to ensure the best dialogue and to influence stakeholder expectations of what we are able to influence and how.

Prioritisation of stakeholder concerns



Internal stakeholders:

- ★ Retail employees in BR Toys and TOYS'R'US
- ★ Office and NORSTAR employees

External stakeholders:

- ★ Parents with children aged 0-12 years
- ★ Other external stakeholders such as suppliers, NGOs, academia and industry associations

WHAT MATTERS TO OUR STAKEHOLDERS?

Topic	Related issues
Product responsibility	<ul style="list-style-type: none"> - Product safety - Product quality - Educational value - Product design - Use of materials and eco-labelled products
Factory compliance	<ul style="list-style-type: none"> - Child labour - Health and safety standards - Environmental considerations - Labour and human rights
Transparency	<ul style="list-style-type: none"> - Internal communication - External communication
Environment	<ul style="list-style-type: none"> - Waste management and recycling - Energy consumption and CO2 emissions - Packaging - Transportation
Responsible marketing	<ul style="list-style-type: none"> - Product-specific promotion
Workplace	<ul style="list-style-type: none"> - Health and safety standards - Career development - Employee rights
Business integrity	<ul style="list-style-type: none"> - Code of Conduct



Addressing stakeholder concerns

PRODUCT RESPONSIBILITY AND FACTORY COMPLIANCE

Product responsibility and factory compliance are mature sustainability issues that we have addressed for a number of years. Our success depends on our ability to continue offering customers safe and high-quality products in line with legal requirements and produced under proper conditions.

»» We will continue to invest in activities related to product responsibility and factory compliance and, when appropriate, engage and communicate with stakeholders to realise opportunities.

See page 16-23

TRANSPARENCY

Transparency requires close attention and action. To ensure transparency and accountability to our stakeholders, it is important that we communicate about our sustainability work and progress made.

»» We will maintain transparent internal and external communications about our sustainability work to avoid any misunderstandings with regard to where and how our products are produced and to ensure customers trust us and our products.

ENVIRONMENT

Environment is an area of growing importance to our stakeholders. In the past, our primary priority has been the social aspects of our value chain and, to a lesser extent, our environmental impact.

»» We will increasingly investigate our environmental impact to evaluate potential risks and opportunities within areas such as packaging, waste management and recycling. We will focus on addressing areas where we can make a real environmental difference now and in the future.

See page 38-41

RESPONSIBLE MARKETING

Responsible marketing is regulated and driven by legislation and a number of voluntary initiatives. As children are vulnerable and impressionable consumers, we strive to carry out our marketing activities responsibly.

»» We will monitor and follow future developments within responsible marketing and continue to produce gender-neutral advertising.

See page 32-34

WORKPLACE

Creating a good **workplace** for TOP-TOY employees is crucial to our business. Career development opportunities and health and safety require continuous attention to maintain a motivated, loyal and competent workforce.

»» We will monitor current employee-related activities and develop specific employee engagement opportunities to ensure employee retention, motivation and attraction.

See page 24-27

BUSINESS INTEGRITY

Business integrity has a high impact on TOP-TOY's business. Our ability to engage in ethical, responsible and legal business practices is paramount to ensure good relations with internal and external stakeholders

»» We will continue to communicate about our Code of Conduct to our employees and implement targeted business integrity initiatives.

See page 13

2 Suppliers

We sell products to children. With that comes a great responsibility to ensure that our products meet high safety standards and are produced under proper working conditions. This is why we work closely with our suppliers to select the right products and ensure compliance.

Our product offering

At TOP-TOY, we want to ensure that our products contribute positively to children's happiness and development.

We have 18,700 products in our assortment. Some we have designed ourselves, but the majority are designed by our suppliers. This makes suppliers key business partners to us.

It is important to have products with popular characters that children recognise. For this reason, many of our products come with a licence, such as Disney and Sanrio, to ensure our product offering meets current trends.

Designing our products

We are involved in developing own brands such as KIDS-WOOD and FLEXI-TRAX from the first idea until market launch. Other products are developed by our suppliers and then manufactured to our specifications to ensure they fit into our own brands, for example BELLINO, PLAY2LEARN, COLOR KIDS and HAPPY HOUSE.

We also design the graphics and specify the materials for tableware, children's clothing and home textiles, such as sleeping bags, towels and bed linen.



"Children should always be able to have fun, explore their creative potential and develop skills when playing with our products. I believe that play is important to a child's development and that toys add great value to this."

Hanne Hilstroem, Product Manager, Hong Kong

The more we are involved in a product's design, the more we are able to influence the choice of material used.

Today, we have 99 wooden own brand products, 66% of which are made from FSC certified or rubber wood. In addition, all the clothing and home textiles we have designed in 2012/13 are Oeko-Tex certified to ensure they are free of harmful substances. Oeko-Tex certification also applies to all towels and bed linen sourced from suppliers in 2012/13.



CODE OF CONDUCT HIGHLIGHT

Our customers can trust our products

In our Code of Conduct we address product integrity, which involves:

- Ensuring product quality and safety
- Ensuring decent working conditions in the factories that manufacture our products

»» All relevant employees are trained in how to source our products, and they know when to buy and when not to buy. They are also expected to report any unethical practices that they come across in their daily interaction with suppliers.





Adapting our product offering

One of the mega-trends affecting our business today is digitalisation. Many children spend a lot of time playing online and with digital products. For this reason, new digital products for children appear all the time.

We closely follow the debate on how digitalisation influences the development of children and their play patterns.

The shift from classical toys towards more digital products means we increasingly add new digital products to our assortment. One example is

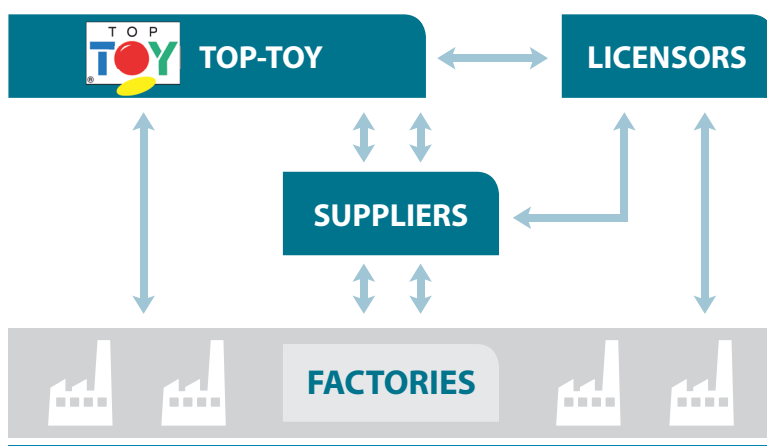
Hasbro's FURBY, an interactive plush toy with software that enables children to give it a unique personality. Another is LEXIBOOK tablets, designed for handling by small children so parents no longer have to worry about breakage or exposure to inappropriate content.

Our supply chain

The TOP-TOY supply chain is complex, including many players. We do not own any factories, so we have to work closely with our suppliers, who either own their factories or have a contract with several factories.

In Asia, where up to 80% of the world's toys are manufactured, the manufacturing environment is subject to constant change. Factories are often opened and closed or transferred to new owners or addresses. Strong, long-term supplier relations characterised by mutual trust are, therefore, essential to us.

Licences bring further complexity to the value chain. Sometimes, a supplier holds the licence to produce certain products. On other occasions, it is held by TOP-TOY. This means that, in addition to working with suppliers, TOP-TOY works with a number of licensors.



During 2012/13 we work with:

- 482 suppliers
- 33 licensors
- 761 factories



"Our Traffic Light Concept is a precondition for doing business with us. We use it in approving new suppliers and factories and in our continuous systematic evaluation of our existing supplier base."

Christoffer Falkman, Sustainability Specialist, Denmark

Setting the right requirements

Our Traffic Light Concept describes our supplier requirements, covering three important areas: legal, product quality and factory compliance.

Rolling out the Traffic Light Concept to all suppliers is an on-going process. We have worked with our non-European-based supplier on product quality and factory compliance for many years. The Traffic Light Concept was introduced to Europe-based suppliers at the beginning of 2012 and will be fully implemented by the end of 2013. This means that, regardless of where our suppliers are based, our requirements are now the same.

We have expanded our scope because many of our products are manufactured in high-risk countries outside Europe. Even if a supplier is based in Europe, it is likely that their products are manufactured in an Asian country.

Our product safety requirements

We comply with the EU Toy Safety Directive and other legal requirements to ensure that our products - both toys and non-toys - meet or exceed high standards of safety. This applies to mechanical and chemical safety and correct labelling according to EU standards.

Meeting the mechanical requirements

Ensuring mechanical safety involves several steps. The products we source undergo a substantial safety assessment process prior, during and after production.

Before placing an order, we often conduct an in-depth assessment of a product's design to ensure it meets the relevant requirements. If we find that the design is not optimal, we work with the supplier to make the necessary adjustments.



TRAFFIC LIGHT CONCEPT

We require a 'green light' in three areas before we will purchase any products from a supplier:

Legal compliance

We need to have a written agreement in place setting TOP-TOY's terms and conditions of purchase.

Product safety compliance

We need to ensure that the products we source meet or exceed EU regulations, local legislation and TOP-TOY's own safety and quality requirements.

Factory compliance

We need all factories that manufacture products for us to commit to TOP-TOY's Factory Compliance Standards.



In addition, our safety inspectors may visit a factory during production to make sure there is no deviation from what is agreed and which can potentially compromise product safety.

After production, our inspectors carry out sample tests of all the shipments we dispatch from Asia into the EU to ensure mechanical and chemical safety requirements are met.

We also ensure all documentation is in place for the products we source.

Meeting the chemical requirements

In July 2013, the EU introduced new, more stringent requirements for documentation and new limits for chemical substances in toys.

For us at TOP-TOY, the new requirements are demanding. Yet, as we have worked systematically with product safety for many years, we are prepared to fulfil them. We have invested considerable resources in assessing and verifying chemical compliance based on a higher level of documentation from our suppliers.

TOP-TOY is positive about the new requirements, which are based on well-documented knowledge and take actual consumer issues into account.

We want to be part of an industry that has a good reputation. So our ideal scenario is that the authorities monitor the market and ensure compliance with product safety regulations.

Quality assurance prior to production

In-depth assessment with regard to safety, functionality and durability	387 products
--	--------------

Quality control during production

Process inspections in factories	44 inspections
---	----------------

Quality control after production is completed

In-factory inspections of final products	3,615 inspections
In-house inspections of final products	1,170 inspections
Products verified with regard to labeling and documentation	2,585 products

Recalls

We strive for zero recalls. However, if at any time it comes to our attention that something is wrong with one of our products, we initiate a recall rather than compromise the safety of children.

Our recall process is transparent and involves close collaboration with suppliers, licensors and relevant authorities to alert them and arrange for necessary actions.



"We believe in strict but fair requirements for product safety, and we go beyond legislation where we consider that it is not strict enough."

Jon Vastrup, Product Safety Manager, Denmark

OVERVIEW OF PUBLIC RECALL OF PRODUCTS SOLD BY TOP-TOY DURING 2012/13

Product	Year	Issue	Informant
Smurf Moodlight	2012	Loose battery lid giving access to button cell batteries	Internal control

FIVE-YEAR OVERVIEW OF PUBLIC RECALLS OF PRODUCTS SOLD BY TOP-TOY

	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
TOP-TOY public recalls	0	4	2	4	1

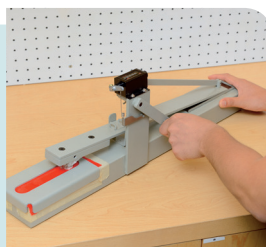
HIGHLIGHT

Testing our products

We subject our toys to a series of tests, including use and abuse, torque, tension, drop and impact, compression, tip over, seam strength, flammability and chemical. In this way, we ensure the safety and durability of our products. Here you can see some of the mechanical durability tests of BELLINO ACTIVITY HORSE and BELLINO SUCTION CUP SPINNER.

Colour fastness test

This test checks that fabrics do not lose colour during play. A crocking machine and white cloth are used to determine whether the colour rubs off. This ensures that the colour is locked into the fabric, with no colours getting onto children's clothes or other toys.

**Tension test**

Products are attached to a pull force gauge to determine their ability to withstand pulling for 10 seconds at a force of 22 pounds (10 kg). In this way, we can be sure that small parts do not come off easily, avoiding the risk of swallowing by small children.

**Impact test**

During the impact test on the BELLINO ACTIVITY HORSE rattle, we drop 1 kg onto the toy 10 times. This assesses its ability to withstand impact without small parts breaking off, potentially causing sharp edges.

**Sound level test**

The BELLINO ACTIVITY HORSE is a rattle that requires testing for sound levels. A sound level meter measures decibels to ensure the sound presents no risk to children's hearing.

**Item drop test**

By dropping items 10 times from a height of 140 cm, we can determine their robustness. No small parts should break off or sharp edges form.





Our factory requirements

We require our suppliers to follow our Factory Compliance Standards. This means suppliers may only produce our products in factories that are committed to meeting or exceeding our requirements. These requirements are based on core ILO Conventions, the 10 principles of the UN Global Compact and the ICTI Code of Business Practices.

Focusing our efforts on high-risk countries

We focus on evaluating factories in high-risk countries where there are most challenges in respect of, for example, excessive overtime, erratic payment of wages and insufficient health and safety conditions. By concentrating our efforts here, we

believe we can have the biggest impact in driving factory improvements.

Ensuring progress through audits

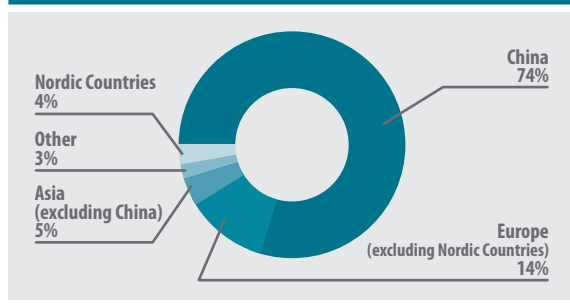
To monitor the performance of the factories that manufacture our products, we monitor compliance via audits. Most factories are audited according to one of the following auditing and certification schemes:

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

We may also conduct our own audits if a factory is not certified according to any of the standards we accept. Generally, though, we require the factory to book a third party audit from a TOP-TOY-accepted audit company.

For this reason, the number of TOP-TOY audits has fallen over the past year, while the number of third party audits has gone up. We believe that this gives the factory more ownership of the process as well as giving the audits third party credibility.

GEOGRAPHICAL DISTRIBUTION OF FACTORIES 2012/13



NOTE: Status June 30, 2013.



"We have worked with factory compliance for many years, which is why we also appreciate that TOP-TOY has an increasingly strict approach to compliance and documentation. As we are both in the toy industry, it is really important to work together to tackle common industry challenges."

*Andreas Torstensson, Micki Leksaker AB, Sweden.
Supplier to TOP-TOY*

After an audit has been performed either by TOP-TOY or a third party auditor, we ask the supplier and factories to take ownership of any findings and develop the necessary corrective action plan.

It is the factory's responsibility to implement the corrective actions. We can provide support and guidance, but if the factory is not committed to change, we are likely to terminate the business relationship. Factories that make a serious effort to undertake corrective actions and continuous improvements, on the other hand, are likely to be approved.

At TOP-TOY, we believe in transparency. We would rather know the reality of factory conditions, so that improvements can be made, than be presented with records that meet legal requirements on paper but are not a true reflection of the current factory status.

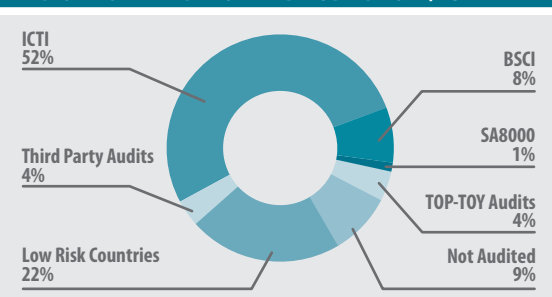
One of the most common reasons for terminating a business relationship is if a factory refuses to show us true and accurate documentation.

RESULTS OF TOP-TOY AUDITS*

	2010/11	2011/12	2012/13
Total number of audits conducted by TOP-TOY	134	87	85
TOP-TOY requirements are met at time of audit	0	0	0
Improvements required after audit	91	57	72
Factory failed audit due to major non-compliances	43	30	13

* Accepted third-party companies also conduct audits on behalf of TOP-TOY.

FACTORY CERTIFICATION AND AUDITS 2012/13



NOTE: Status June 30, 2013.



"Factory audits are of course an important part of our sourcing work, but equally important is an open dialogue with factory management and actual capacity building in the factory. We put a lot of effort into speaking to factories and encouraging them to be transparent about their operations, including working hours. Working hours is one of the industry's greatest challenges – balancing seasonal busy periods with local and international standards."

Wydy Ling, Social Compliance Manager, Hong Kong

STATUS OF FACTORIES AUDITED BY TOP-TOY*

	2010/11	2011/12	2012/13
Total number of factories audited	83	64	70
Number of factories approved	41	39	58
Number of factories pending final decision	4	2	1
Number of factories not approved	38	23	11

* Accepted third-party companies also conduct audits on behalf of TOP-TOY.

HIGHLIGHT

Addressing industry challenges

TOP-TOY faces a variety of challenges when sourcing products in high-risk countries. We address these challenges proactively and continuously.

Meeting legal safety requirements

Toys are strictly regulated by the EU Toy Safety Directive, and it can be difficult for suppliers from other regions to understand the complex EU legislation. For example, stricter rules apply to a plastic toy fork that a child uses to feed a doll than to a real plastic fork used by a child to eat with. Fancy dress costumes are also more heavily regulated than everyday children's wear. If an orange was a toy it would need to carry a safety warning because of its fragrance, and kid tablets are subject to more restrictions than the regular tablets children play on.

»» We want to play it safe and ensure all the products we source meet the highest safety standards. This is why we require documentation for all products as well as train our suppliers in how to comply with the mechanical and chemical safety requirements that apply to toys sold in the European market.



Excessive overtime

High seasonal fluctuation in demand results in peak production periods and excessive overtime in the toy industry. Working overtime affects the health of factory workers and violates national and international legislation. Factories in Asia, for example, typically employ many migrant workers, who come from rural areas to increase their earnings by working as many hours as possible. Factory owners may then be tempted to ignore overtime restrictions.

»» We work with our suppliers to improve forecasting and business planning schedules to ensure longer lead times. But, since the toy industry is fashion driven, there is a limit to how well in advance an order can be placed. We also have no control over when other companies place their orders.



Products - to buy or not to buy

One dilemma that we may face is when a supplier owns a product or holds exclusive rights to a popular licence but the factory - where the products are manufactured - does not live up to our requirements. In such a situation, it is not possible to source the product from another supplier and factory. Then we must decide whether to purchase the product or not.

»» We always try to work with suppliers to ensure a factory meets our requirements. But sometimes our influence is limited. The decision then becomes one of sourcing or just saying no.



3 Employees

We believe that motivating and engaging our current workforce while attracting new colleagues is fundamental to continue delivering the right products and service to our customers.

Our people

Our employees are our most valuable assets. It is they who secure our business success. When we have great people, we are able to deliver great products and services - and that makes happy customers. This is why we strive to make our employees the best TOP-TOY ambassadors.

Working at TOP-TOY is serious fun

At TOP-TOY, we want to make sure that we have the right balance between seriousness and fun in our daily work.

We want our employees to have a serious approach to their job, seeking new opportunities for developing TOP-TOY, improving their performance and working together to reach mutual goals and enhance our bottom line. On the other hand, we must keep in mind that we sell products for children. To be good at that, our employees must also know how to play.



"We need to be better than yesterday, but we should not forget to have fun while doing it. After all, we are a company selling products that make children happy."

Bruno Boysen, HR Manager, Denmark

Did you know?

A typical TOP-TOY employee is a woman in her twenties who works in a BR Toys store in Denmark and holds a part-time position.

CODE OF CONDUCT HIGHLIGHT

We provide a good work environment for all employees

In our Code of Conduct we address employment, which aims to:

- Provide a safe working environment
- Ensure non-discrimination and encourage mutual respect, trust, loyalty and fairness

»» All employees are expected to take responsibility for their actions, share knowledge and assist each other in realising assigned tasks in their daily work. Employees are also expected to make good judgment calls when required.



HIGHLIGHT

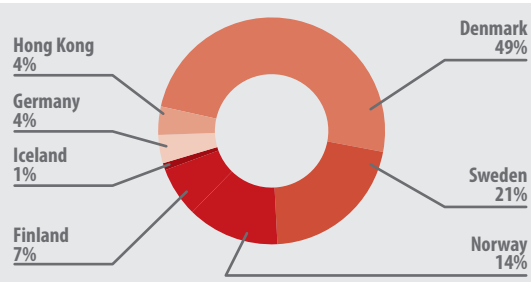
Meet our employees

Our employees 2012/13

- TOP-TOY employs 6,067 people in total (equal to 2,352 full-time positions).
- The majority of our employees - 72% - work in our retail stores, with 50% in our BR Toys stores and 22% in our TOYS"R"US stores.
- More than 75% of our retail employees work part time or have temporary contracts, particularly covering the toy industry's peak Christmas season.
- The majority of our employees are women, representing 69% of our workforce.
- TOP-TOY employs people across seven countries with many different nationalities.
- TOP-TOY employees are typically young, with half the workforce under 25 years of age. Working in our stores is an attractive option for young people, giving them relevant work experience while studying or starting a retail career.
- TOP-TOY employs a diverse workforce, which enables us to apply a broad range of experience, knowledge and perspectives. Some employees have dedicated their entire career to TOP-TOY, while others have external competences.
- The employees with the longest seniority have been with TOP-TOY for more than 40 years.

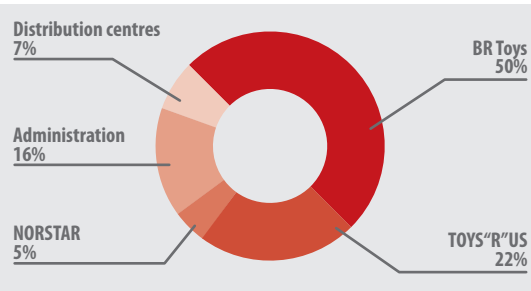


GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES



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

TYPE OF EMPLOYMENT



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

EMPLOYEES CALCULATED IN FULL-TIME POSITIONS

	Denmark	Sweden	Norway	Finland	Germany	Iceland	Hong Kong	Total
BR Toys	490	324	184	102	81	-	-	1181
TOYS"R"US	191	136	122	46	-	29	-	524
NORSTAR	48	21	18	18	-	-	-	117
Administration	244	18	4	4	5	-	100	363
Distribution centres	167	-	-	-	-	-	-	167

Our culture

Although TOP-TOY operates in several markets and lines of business, the family culture remains intact. We want to have a strong company culture where we treat each other in a loyal, caring and respectful manner.

Our employee engagement programme

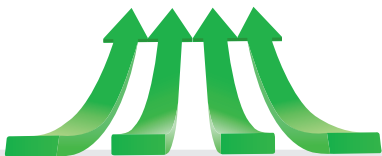
To strengthen our company culture, we work systematically with employee engagement through a dedicated employee engagement programme, which builds on eleven factors.

Every year, we ask our employees to share their thoughts about TOP-TOY as a workplace. In an online survey, employees highlight areas they are proud of or that could be improved. The outcome of the survey is discussed at a workshop, where the eleven factors are also rated. All teams then develop actions plans for implementing improvements in their work areas.



“Working with employee engagement means that we have a common language and a common way of working. Based on that, we can build a TOP-TOY culture reflecting our values and beliefs.”

Winnie Leung, HR & Communication Manager, Hong Kong



What our employees are proud of

- Core values and culture
- Strong family ties and high ethical standards
- Exciting job with development opportunities
- Appreciation of children and play
- Sustainability work with regard to product safety and supply chain management

EMPLOYEE ENGAGEMENT FACTORS	
1.	Commitment
2.	Responsibility
3.	Loyalty
4.	Initiative
5.	Productivity
6.	Relations
7.	Quality
8.	Professional competence
9.	Flexibility
10.	Implementation
11.	Energy

Our new Code of Conduct

The rollout of our new Code of Conduct is an important contributor to our TOP-TOY culture. With the Code, we want to empower employees to make ethical decisions when facing dilemmas in their daily interactions with colleagues, customers, suppliers, regulators and others. Our aim is to build an environment for ethical behaviour.

During 2012/13, all TOP-TOY employees participated in workshops where they had the opportunity to ask questions and discuss concerns regarding the Code of Conduct and what it means for their daily work. The rollout also included an employee e-learning programme. All new employees joining TOP-TOY in the future will also undergo training in the Code.



What our employees would like to improve

- Internal communication
- Knowledge sharing
- Acknowledgement of employees going the extra mile
- Ability to use existing and develop new skills

Knowledge sharing and training

Training and providing our employees with the necessary knowledge is an important part of empowering people and an area we prioritise at TOP-TOY.

Training in retail

Every year, we hold our Toy Summit conference for store managers and assisting store managers. Here the participants learn about new products and trends within the industry and are able to put questions to top management.

Store managers also meet regularly at district level to learn from each other and receive training in, for example, service management, product safety and Code of Conduct. They also share knowledge on different digital platforms.

Our service management concept focuses on training retail employees in service-related matters so they can serve customers in the best possible way.

Other training initiatives for retail employees include e-learning about products and health and safety issues such as lifting techniques.



Sharing knowledge in wholesale

For the wholesale side of the business, we hold two biannual Sales and Marketing Summits. Here, our sales staff are introduced to new products, brought up-to-date with market trends and trained in relevant work-related subjects.

Working environment initiative

In 2012/13, we introduced an online system for collating employee concerns about the working environment, including health and safety issues. Concerns reported by employees are investigated by the workplace representative to determine their cause and the need for corrective actions to prevent recurrence.

So far, the system is available to store employees in Denmark. If successful, we will look into introducing it in other locations.



"I think it is a great opportunity to participate in the Toy Summit. We get information about new products and I get to exchange ideas and information with my colleagues. It is a place where I build relationships and gain new skills, driving me to become better than yesterday. It is also a lot of fun as you get to try out various new products."

Cody Bjordal, Assisting Store Manager, TOYS'R'US, Norway

4

Customers

We always strive to meet and exceed the needs of our retail and wholesale customers. We believe that delivering the best possible service and value while providing great products for children is the best way to achieve this.

Customer experience

We want to give our retail customers a good experience, starting in our stores or during the online research before purchase and continuing after the products are taken home to play with. Our goal is to have retail customers return to our stores and webshops.

For our wholesale customers, we want to ensure a good experience from the initial meeting with our sales representatives until the products are delivered and sold through their distribution channels. We want our wholesale customers to choose us as their preferred business partner and to see us as a trustworthy company.

We believe that the key to good service is to have high quality products and great retail and wholesale employees. Our efforts to empower and engage our employees have a positive domino effect on the service they provide.



"I believe that by putting people first then they will put customers first. Empowering our store employees will have a positive effect on the service they provide to our customers. This in return will improve the customer experience."

Fritz Dimmlich, Customer Experience Manager, Sweden



Who are our customers?

Retail

Our *retail customers* are primarily children up to the age of 12, parents, grandparents and guardians. Each group has different expectations. While children expect our products to be fun and live up to current trends, parents are more concerned about the play value and safety of our products and the conditions under which the products are produced.

Wholesale

Our *wholesale customers* are large retail chains and small local stores across the Nordic region. They expect us to be a trustworthy business partner, offering an attractive assortment of branded products. They expect us to comply with the firewalls between our retail and wholesale business unit.

REVENUE IN MILLION DKK (EXCLUDING VAT) IN 2012/13

	Denmark	Sweden	Norway	Finland	Germany	Iceland	Total
BR Toys	676	610	365	152	86	-	1,889
TOYS"R"US	467	471	399	118	-	56	1,511
NORSTAR	198	183	153	159	-	-	693

Shopping in BR Toys and TOYS"R"US

We want customers to enjoy visiting our retail stores. Our two retail chains have different identities to accommodate diverse customer needs. While BR Toys is the local chain store known for "making children happy", the TOYS"R"US identity is "it doesn't get bigger than this". In 2012/13, we served some 18 million customers in our 249 BR Toys and 50 TOYS"R"US stores.

We have a standardised store concept for each chain and we analyse shopper behaviour to help create the most effective store design. In September 2012, we opened a test store in Germany with a new and very different BR Toys concept.

As part of the shopping experience, our customers can become members of our Club BR loyalty programme or subscribe to our TOYS"R"US newsletter. Since we launched the Club BR loyalty programme in 2009, more than 2 million have signed up.

Offering digital solutions to retail customers

We see an increasing trend towards online shopping. Responding to this, our BR webshops have operated since 2010, and in 2012, we opened our TOYS"R"US webshops.

TOP 10 MOST SOLD BRANDS IN BR TOYS AND TOYS"R"US IN 2012/13

1. LEGO
2. DISNEY CARS
3. BARBIE
4. MONSTER HIGH
5. SKYLANDERS
6. OUTRA SPORT
7. COLOR KIDS
8. HELLO KITTY
9. DISNEY PRINCESS
10. NINTENDO



"Our retail colleagues should have the best possible knowledge for answering the questions they receive from customers. It is important to me and my team that store staff feel just as passionate about the products as we do. In that way, they can guide customers - both young and old - towards the right products."

Thomas Bahn Jespersen, Retail Category Team Manager, Denmark

NUMBER OF CUSTOMERS PER MONTH IN BR TOYS AND TOYS"R"US IN 2012/13



Operating webshops has its challenges. Delivering products to private households requires a new logistical set-up. The environmental impact of home deliveries is also arguably higher than when customers come to our stores to shop. When shopping online, children are unable to explore and play with the products, as they are in our physical stores.

In addition to our webshops, we pilot various initiatives to create a seamless customer experience across digital and traditional sales channels providing our customers with new possibilities and increased convenience.

Doing business with NORSTAR

Through NORSTAR, we supply well-known brands such as BARBIE, SCHLEICH and NINJA TURTLES to our wholesale customers. We also offer a selection of licensed lifestyle products such as apparel, home textiles and tableware.



“Working with NORSTAR enables me to challenge myself every day. The width of their product range and the high importance of their main brands to our market require detailed joint planning and almost daily updates on how we are doing. The work never ends, and that’s what fascinates me the most.”

Mari Hyvönen, Toys Buyer at Citymarket, Finland. NORSTAR customer to TOP-TOY

TOP 10 MOST-SOLD BRANDS IN NORSTAR IN 2012/13

1. BARBIE

2. FISHER-PRICE

3. MONSTER HIGH

4. BRÜDER

5. HOT WHEELS

6. SCHLEICH

7. DISNEY CARS

8. DISNEY PRINCESS

9. TRASH PACK

10. MONSUNO



NORSTAR serves more than 4,500 retail stores across the Nordic countries - this includes large retail chains as well as small local stores. In 2012/13 NORSTAR sold more than 13 million products to our wholesale customers.

We want to sell more than just a product to our customers – we want to help them grow their business. The dedicated sales force in each of our markets ensures the right local knowledge is in place to give customers the best all-round experience.

Customer satisfaction

Customer feedback is important to ensure the continuous improvement of our products and services. For this reason, we listen to and engage with customers in order to understand and respond to their changing expectations and evaluate their satisfaction.

Measuring customer satisfaction in wholesale

In May 2013, we conducted a satisfaction survey among both large and small wholesale customers. We received more than 300 answers. Small customers responded to an online survey, while large customers were interviewed over the phone.

Feedback on our product portfolio was positive. Customers also commented on the extensive market knowledge of our sales representatives and good service adjusted to local needs.

Overall, the customers responded that NORSTAR adds value to the final consumer and that doing business with us enhances their business. We also received suggestions for areas to improve, which we are now investigating further.

Measuring customer satisfaction in retail

In the past, we have used exit interviews to evaluate the service level in our stores, but we are now looking into an on-going interaction with our retail customers at store level through direct dialogues and online surveys. This will provide us with more systematic data and improve our retail employees' ability to listen and respond to our customers' needs.

What is important to parents with children aged 0-12 years?

Each week, we ask 600 parents across our markets about their preferences when it comes to purchasing toys. This gives us a good indication of brand awareness and current trends.

In May 2013, we asked parents what they expect from BR Toys and TOYS"R"US with regards to sustainability. The results were not surprising. They expect our products to be safe, educational and produced under appropriate conditions. In

addition, they value communication about our work and transparency.

We also asked the parents whether BR Toys and TOYS"R"US currently meets these expectations. Even though most are satisfied with our current work, the feedback from around half of the respondents was that they actually do not know what we are doing. This tells us we should make a greater effort to communicate and provide retail customers with more information.



SUSTAINABILITY AREAS PRIORITISED BY PARENTS WITH CHILDREN AGED 0-12 YEARS



5

Society

We recognise that we have an impact on society. We seek to make a positive impact through our products, our commercial operations and our stakeholder relations. Being a good corporate citizen is top of mind at TOP-TOY, and we always strive to reach the right balance between profits and responsibility.



Our role as a corporate citizen

As an international company, working in many markets, employing many people and operating several lines of business, TOP-TOY has a direct impact on society. This poses a number of opportunities and challenges. At the same time, we are aware of the responsibility we have towards society and our stakeholders.

By putting mechanisms in place and collaborating with relevant stakeholders, we try to address our challenges and live up to our responsibilities within, for example, advertising and competition.

Advertising

When we advertise towards children, we need to strike the right balance to ensure we respect children's rights. On the one hand, we want to increase awareness of our brands and products. On the other hand, this should not be at the expense of the child.

Advertising in a responsible manner

We fully recognise our responsibility to use advertising messages that accurately portray the features, quality and performance of our products and avoid misleading consumers. In this way, we both protect our young target consumers and meet all applicable regulations, best practices and stakeholder expectations.



"We conduct our marketing in a responsible manner. When it comes to marketing to children, we pay even more attention, since children are impressionable. Therefore, we strive at all times to communicate in a fair, honest and clear way towards children of all ages."

Thomas Bundgaard, Brand Marketing Manager, Denmark

Promoting equal play for both genders

Over the past years, a dominant gender debate has arisen, starting in Sweden. This focuses on how genders are portrayed in their traditional roles versus more modern roles.

TOP-TOY has previously been found guilty of portraying stereotype gender roles by the Swedish Advertising Ombudsman, and we have taken a number of steps to improve our advertising to children in respect of the gender debate.

During 2012, we have had a constructive dialogue with the Swedish Advertising Ombudsman. We have worked with internal guidelines and conducted workshops on how best to approach this area. As a result, we have changed the way we portray boys and girls in our printed catalogues.

We have learned a lot from this work and implemented a number of changes in our 2012 BR Toys and TOYS"R"US Christmas catalogues. With our new approach, there is no such thing as a boys or girls product.

The changes in the catalogues received a lot of positive attention from customers, global media and other stakeholders, including the Swedish Advertising Ombudsman.



"I am convinced others will follow the same line as TOP-TOY with regards to gender-neutral advertising to children. It is especially important when it comes to children and young people since they do not have the same experience and opportunities to evaluate marketing communication."

Elisabeth Trotzig, Swedish Advertising Ombudsman, Sweden



CODE OF CONDUCT HIGHLIGHT

We support fair play in marketing

In our Code of Conduct we address responsible marketing, which means:

- Conducting marketing activities with honesty and fairness

» All relevant employees have received the necessary training in how to advertise in a responsible manner, appropriate to the audience. Employees are also required to safeguard and respect the privacy of customer data by following appropriate policies at all times.



HIGHLIGHT

Good efforts pay off in the gender debate





Competition

The combined retail and wholesale activities of TOP-TOY pose some challenges with regard to competition, as some of our wholesale customers sell products to the same market served by our retail stores and vice versa.

However, competition provides an obvious benefit to consumers. Due to our size, we have the opportunity to distribute a wider range of products to the Nordic market than would otherwise be possible, due to the complexities of the business environment, with different national requirements and languages.

Information firewalls

To earn the trust of our wholesale customers when operating both a wholesale and retail business, TOP-TOY maintains information firewalls to protect customer information. Any breach of these firewalls may compromise the reputation of TOP-TOY as a trustworthy business partner.

Additionally, our organisational setup is designed to ensure compliance with competition laws in the markets where we operate.

All employees with direct contact to customers and suppliers are trained to respect both commercial and legal firewalls to avoid any discussions of prohibited subjects.

Our commitment to protecting confidential information and competing fairly is also reflected in our new Code of Conduct. This commitment applies to the wholesale customers that purchase products from NORSTAR and to the individuals who provide us with personal data when registering for our Club BR loyalty programme and TOYS"R"US newsletter.



"I regularly consult my brand marketing colleagues about the creation of effective trade-marketing activities for our wholesale customers. I do this secure in the knowledge that my colleagues will not share confidential wholesale customer information with my counterparts on the retail side of the business."

Anja Sogaard Olsen, Nordic Trade Marketing Manager, Denmark

Did you know?

We have donated DKK 10.3 million to SOS Children's Villages since initiating our sponsor agreement in 2009 primarily by selling plush dogs in our BR Toys stores.



SOS CHILDREN'S VILLAGES

CODE OF CONDUCT HIGHLIGHT

We compete with respect for the law

In our Code of Conduct we address antitrust, which involves:

- Competing fairly in all markets where we operate

» All relevant employees receive antitrust training. They are also required to report any suspected breaches to the legal department.



Our role in the industry

TOP-TOY is a small player in the global toy industry, accounting for less than 1% of the market. When it comes to lifestyle products for children, we are even smaller. This makes it difficult to solve challenges single-handedly.

For this reason, we encourage industry cooperation. Companies should not invent their own systems, but help to shape better standards in the industry. This can also help avoid audit fatigue among factories.

We participate in relevant international and regional associations to share our knowledge and stay up-to-date with industry developments. We also have on-going dialogues with relevant authorities in the Nordic countries and EU.



“TOP-TOY has been present in Asia for more than 20 years, and we have built up a lot of knowledge on how to balance the expectations of European customers with the Asian reality. We contribute this knowledge to the ICTI Care Process as a member of their Technical Advisory Committee and as an advocate for improved human and labour rights.”

Jens Hansen, Group Director Operations, Hong Kong

Supporting the improvement of standards

We support the ICTI Care Process, which is a common compliance system established by the toy industry to address human and labour rights issues at factory level in China. We contribute to the further development of the process by actively participating in the Technical Advisory Committee.

In addition, we are in regular dialogue with Social Accountability International, which has developed the SA8000 certification scheme, and actively participate in the Business Social Compliance Initiative (BSCI).



“Through our supplier training, we strengthen our suppliers’ understanding of the increased chemical requirements. They need to know how to make proper safety assessments and provide us with the right documentation.”

Clarence Wong, Quality Assurance Manager, Hong Kong

Raising the bar for safety

Through the Danish Standardisation Agency, we have taken an active role in the development of the EU Toy Safety Directive. The result is a great improvement in European toy safety. We also demonstrate our commitment to product safety by participating in the European Committee for the Standardisation of Toys (CEB TC 52).

We welcome strict and meaningful regulations and encourage the authorities to conduct market surveillance to ensure a level playing field and an accountable industry that customers can trust.

In response to the EU Toy Safety Directive, during 2012/13 we trained 42 of our core Asian suppliers in the new requirements for chemical substances. The aim of the training was to ensure the continuous sourcing of products that live up to safety requirements.

The training took the form of group sessions followed up by one-to-one meetings with the suppliers. In the one-to-one meetings, we gathered first-hand information about the individual suppliers’ knowledge of the EU Toy Safety directive and their preparation for the new chemical requirements. After the meetings, we have supported the suppliers in finding the best solutions to fill identified gaps.



ICTI CARE Foundation

HIGHLIGHT

A human rights approach

New principles in place

We expect the launch of the UN Guiding Principles on Human Rights and the framework for Children's Rights and Business Principles to influence businesses in the years ahead.

The new principles illustrate society's growing expectations of companies in terms of managing the human rights impacts that may arise from their business activities.

At TOP-TOY, we fully acknowledge our responsibility to respect human rights. For us, it is only natural that we focus on this area from a child rights based approach.

Taking our responsibility forward

During 2013/14, we will conduct our first human rights impact assessment in cooperation with relevant external stakeholders. This will result in a list of potential risks and opportunities that will provide the basis for developing a human rights policy to guide our future work and investigate possible means of improvement.

We recognise that this is not a one-off exercise but an on-going process that requires continuous monitoring and evaluation.

We hope to work with other companies in the process to optimise the overall positive impact on those who may be affected by our operations.

The UN Guiding Principles on Business and Human Rights

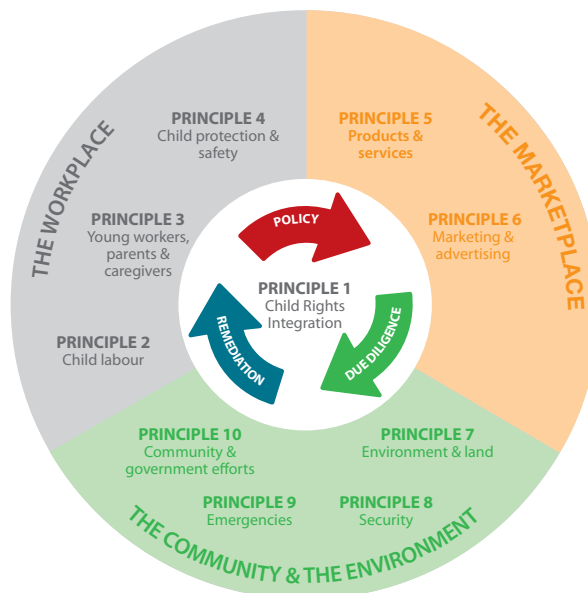
were adopted by the UN Human Rights Council in June 2011. The principles state that companies should respect human rights, establish a process to carry out 'Human Rights Due Diligence' and establish appropriate access to remedy.

The Children's Rights and Business Principles

provide a framework for child-friendly businesses and a guide for companies concerning actions aimed at respecting and supporting children's rights in the workplace, marketplace and community.

The Children's Rights and Business Principles

The map below outlines the 10 principles that businesses should follow in respecting and supporting children's rights.



Reference: Children's Rights and Business Principles, Save the Children, UN Global Compact and UNICEF.

6

Environment

We want to undertake initiatives that promote environmental responsibility. Our work to reduce our environmental impact is a win-win situation – good for the environment and good for the bottom line.



Addressing our environmental impact

At TOP-TOY, we are faced with growing expectations from stakeholders with regard to our environmental impact.

In the past, we have focused our efforts primarily on the social aspects of our value chain. However, we recognise that we need to pay increasing attention to the environmental impact of buying and selling our products. Our intention is to investigate where we need to focus our efforts and how to reduce potential risks.

A main focus of our environmental efforts so far is our distribution centre near Copenhagen, which is by far our largest site and, as such, the location with the greatest environmental impact.

Engaging our employees

During 2012/13, we have involved our employees in

a dialogue to determine how we can best address our environmental impact. Our employees are our most important stakeholders in such a discussion. In their daily work, they come across many areas where just a small change can have a positive effect.

The first step in this dialogue was to send a survey to all our retail store managers and office employees. In this, we asked a number of questions concerning the environment, including open-ended questions where people were invited to express ideas and concerns. We were pleased to obtain a very good response rate and much useful input.

Following the survey, we arranged meetings with our store managers at district level. At these meetings, we also learned what our retail customers ask about with regard to the environment when visiting our stores.



"We should start thinking more actively about how we can work with the environment - both from the wider TOP-TOY perspective and on a practical day-to-day store-level basis. If all stores start working more systematically with recycling, for example, that would have a positive impact."

Angelica Alm, Store Manager, BR Toys, Sweden

The input obtained from the survey and meetings will be used as a source of inspiration and set the priorities for our ongoing environmental efforts. It is already clear that there are a number of low-hanging fruits we can pluck in our environmental work and other areas where we can make a real long-term difference.

Our environmental initiatives

At present, the two main areas that we address are packaging and transportation. In the near future, we will expand our environmental initiatives to cover further aspects of our work.

Packaging

Packaging plays a significant role in the toy industry. We use transportation packaging to protect our products during transport and retail packaging for labelling and customer information purposes as required by law.

Our distribution centre near Copenhagen puts considerable effort into recycling transportation packaging. At store level, we also collaborate with municipal services to recycle as much cardboard wrapping as possible.

We plan to find more eco-friendly packaging options on our own brand products as this is where we can have the greatest impact. Using this, we will set targets for further environmental improvements.

Transportation

The majority of the products we sell are manufactured in Asia. We aim to transport our products in the most cost-efficient and environmentally friendly way. For this reason, we strive to avoid air freight and, instead, transport our products to Europe by sea. On their arrival at the harbour, we transport products by truck to our distribution centres.

Consolidating containers in Asia

We are currently testing a direct-to-store approach. This involves sending products directly to our TOYS"R"US stores from the factories or through a designated consolidation point in China in accordance with our sales forecasts. In this way, we are able to reduce both our logistic costs and our CO2 emissions, as products no longer need to pass through our distribution centre near Copenhagen.

CODE OF CONDUCT HIGHLIGHT

We want to understand our impact on the environment

In our Code of Conduct we address the environment, which focuses on:

- Undertaking initiatives within packaging, CO2 reduction and waste management

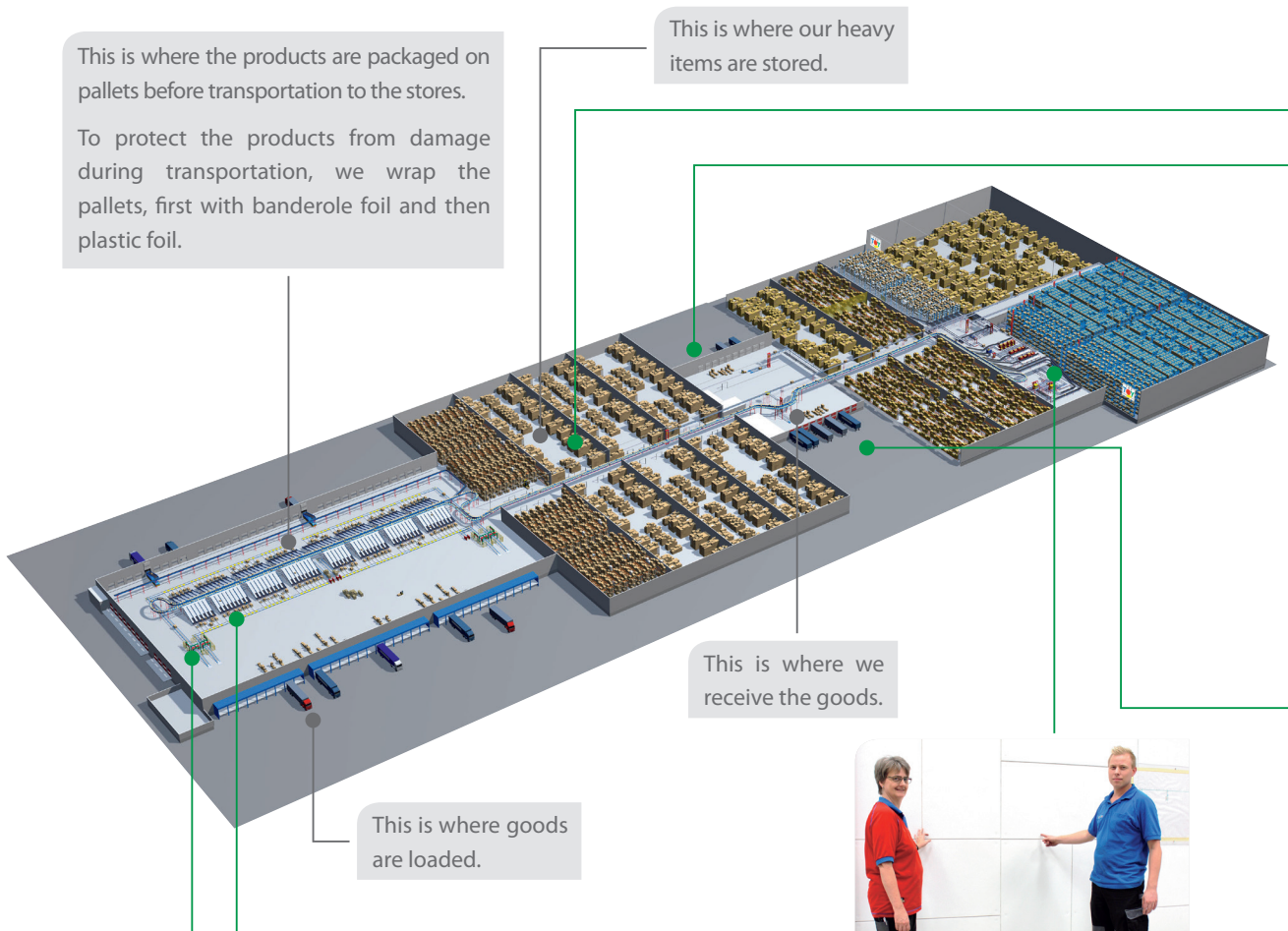
»» We encourage our employees to take an active part in protecting the environment, making suggestions for environmental improvements and passing on any environmental concerns related to our business activities.



HIGHLIGHT

Our distribution centre

TOP-TOY operates a 60,000m² distribution centre near Copenhagen - our largest site. Here we have implemented various initiatives during 2012/13 to address our environmental impact and the health and safety of our 111 employees.



Saving wrapping material

To save costs while benefiting the environment, we have introduced a more environmentally friendly and longer-lasting banderole foil. We are also testing thinner wrapping foil (16 micron).

- 50% reduction in use of banderole foil
- Reduced use of wrapping foil due to thinner quality



Noise reduction

We have invested half a million DKK in rockwool pads to reduce the noise in the packaging area.

- General improvement of the acoustics

Health & safety – less heavy lifting

Manual lifting of heavy items, such as trampolines and pools, is a health and safety challenge.

To protect our employees, we have installed automated vacuum tube lifters for handling heavy items.

- Total abolition of health-damaging lifts, eliminating approx. 800 tonnes of lifting



Managing our waste

The largest sources of waste are cardboard, plastic and other material used for protecting products during transportation to the distribution centre.

To improve our waste management, we have teamed up with ISS for guidance in addressing this area.

- We expect to reduce waste by 200 truckloads a year



Introducing LED lighting

We have rolled out an LED lighting project to cut CO2 emissions and costs and improve employee well-being. This has involved changing all indoor and outdoor light bulbs - an investment with an anticipated 5-year payback time.



- We expect to save 710,000 kWh annually, equivalent to 400 tonnes of CO2 emissions
- Better lighting will improve the well-being of our employees, particularly those working the night shift

REPORTED INJURIES DURING 2012/13

Injuries

Fell backwards

Truck ran over foot

Tripped over truck guard

Cardboard fell on hand

Pallet fell down when unloading a container

NOTE: All injuries during 2012/13 were minor.

	2008/09	2009/10	2010/11	2011/12	2012/13
Injuries	9	4	5	2	5

7

TOP-TOY's value chain

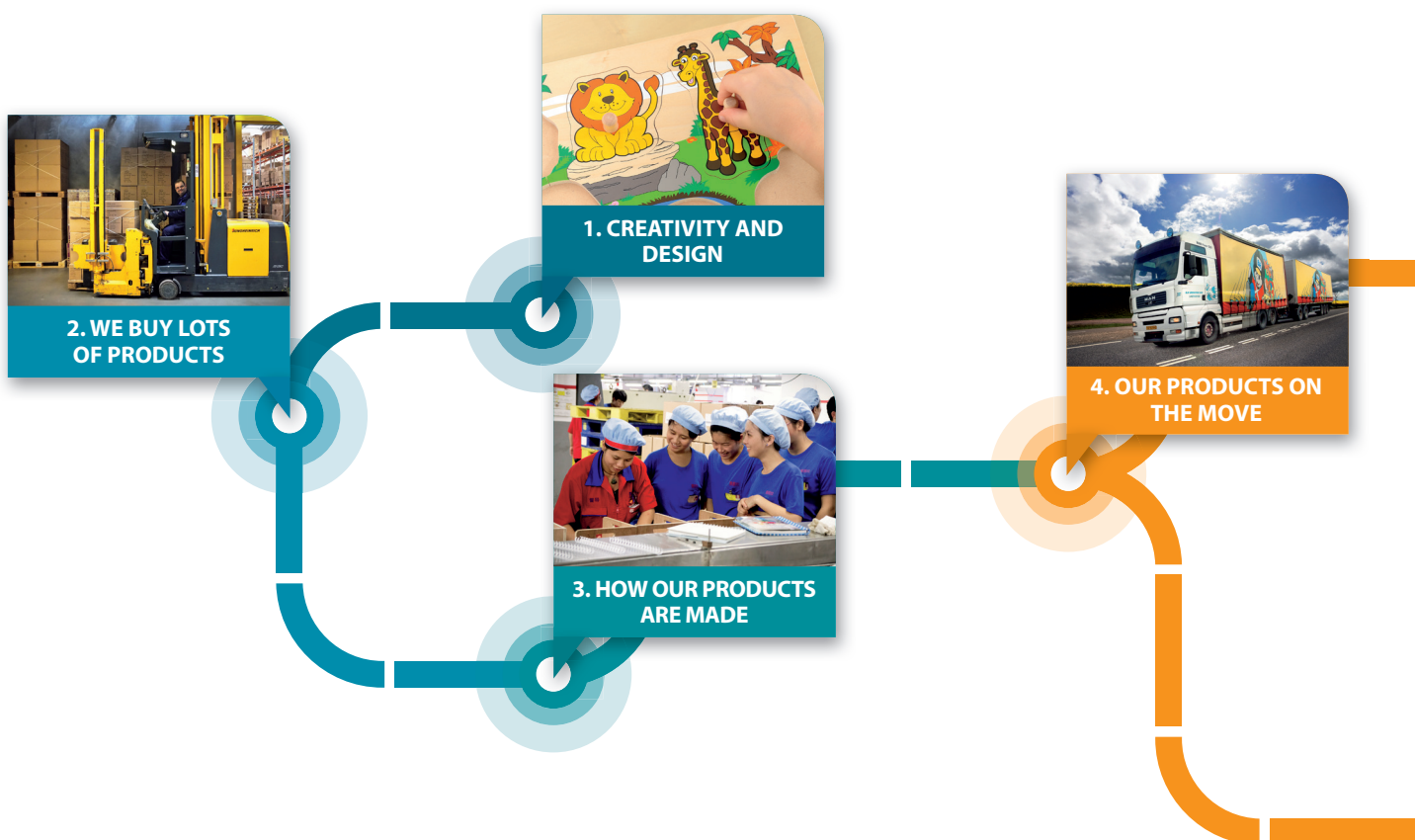
The value chain journey starts with the design of our products and ends when the products reach the children. Each step represents a value-adding activity.

1. CREATIVITY AND DESIGN

Our top priority is to offer a product range that contributes positively to child happiness and development. We want to create fun and happy childhood memories.

2. WE BUY LOTS OF PRODUCTS

Purchasing the right products is essential to our business. When we have decided on a great product that we want to sell, we start the purchasing process. This is a complex process that includes many stakeholders and challenges.



3. HOW OUR PRODUCTS ARE MADE

Our products are manufactured at 760 factories across 40 countries. While we do not own any factories and, therefore, cannot fully control what happens on the factory floor, we still work hard to ensure decent working conditions.

4. OUR PRODUCTS ON THE MOVE

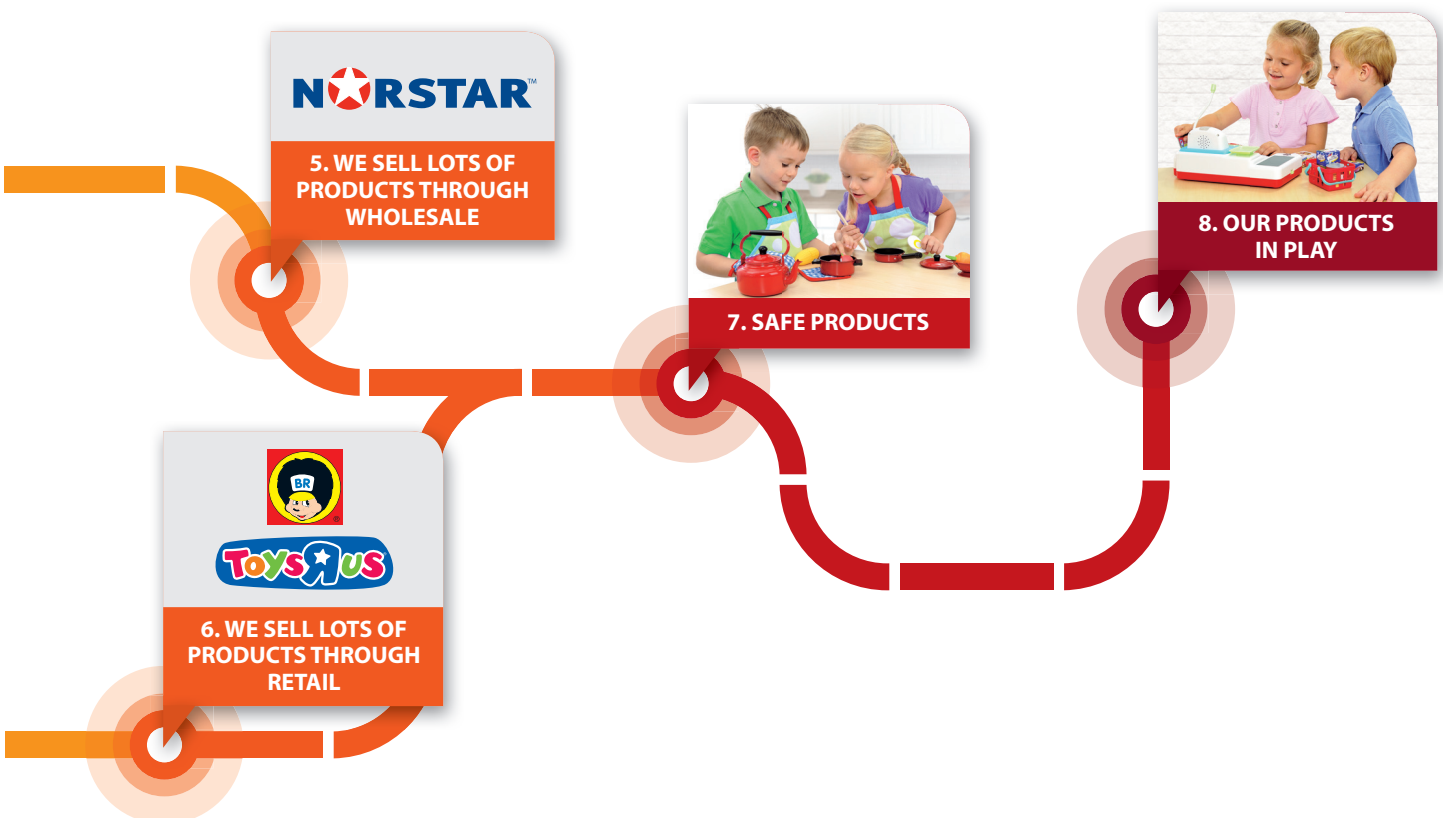
Transporting our products from the factories to our customers requires careful planning, environmental considerations and a constant focus on the health and safety of our employees.

5. WE SELL LOTS OF PRODUCTS THROUGH RETAIL

We sell our products through our BR Toys and TOYS"R"US stores. Our goal is to meet the expectations of our customers through the products we sell and the service we provide.

6. WE SELL LOTS OF PRODUCTS THROUGH WHOLESALE

We sell products for children through NORSTAR. We always strive to be a trustworthy business partner for our wholesale customers and add value to their business.



7. SAFE PRODUCTS

Product safety is a key stakeholder concern and also a key priority for TOP-TOY. We want to make sure that our customers can trust our products, whether they are parents and children shopping in our retail stores or wholesale customers.

8. OUR PRODUCTS IN PLAY

Our best achievement is when children play with our products, bringing a smile to their faces.



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

Methodology and reporting framework

Scope and reporting framework

This report focuses on our financial and sustainability performance during the financial year covering July 1, 2012 to June 30, 2013.

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 to the Global Reporting Initiative (GRI) framework for inspiration, but we do not follow the guidelines in full.

Data

This report is based on quantitative and qualitative data collected from internal systems and key people across the organisation.

Statements and data have been verified for correctness by responsible managers to ensure the report is an accurate reflection of TOP-TOY's performance.

We work continuously to improve our data collection and verification systems and to become more data-driven.

Legal notices

Throughout this report references are made to the TOP-TOY, which means TOP-TOY Holding A/S and its subsidiaries: TOP-TOY A/S and TOP-TOY Ejendomme A/S.

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