



Bringing products to market

TOP-TOY's Performance Report 2013/2014



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About this report

The TOP-TOY Performance Report 2013/14 is our fifth annual report, produced as part of our effort to give stakeholders a clear account of our business performance.

Bringing products to market

Entitled 'bringing products to market', the report focuses on the core elements of our business, which aims to supply children in Northern Europe with great products. The report provides a holistic overview of our business, our progress in respect of commitments and goals, and initiatives underway to unlock future growth.

Our report is structured around three key focus areas vital to bringing products to market. These are:

- To build a competitive company by maintaining an efficient organisation, streamlined supply chain and dedicated workforce.
- To offer our customers a great portfolio of safe products and a pleasant experience overall.
- To contribute positively to society by working proactively with key stakeholders.

This year's report also incorporates a number of global themes, reflecting UN Global Compact issues relevant to our business and our stakeholders. The themes are:



Rights – We acknowledge our responsibility to respect human and labour rights through our business activities and operations.



Integrity – We strive to conduct our business with high integrity, strong ethics and respect for the law, wherever and with whomever we operate.



Environment – We aim to understand the impact of our operations on the environment and reduce our footprint.

Build a competitive company

TOP-TOY sells products in an ever more changeable and competitive market, where flexibility and responsiveness are key. We need to keep on adjusting and preparing ourselves for future challenges.

Offer the best possible products to our customers

We work continuously to improve our product offering in order to meet and exceed customer expectations. Our success depends on our ability to sell products that are fun, safe and of high quality.

Contribute positively to society

Through valuable collaborations with key stakeholders, such as our suppliers, we ensure that we make a positive impact on society by balancing the commercial and sustainable aspects of our business.

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



To capitalise on current market opportunities and maintain our leading position, we have taken a number of initiatives to streamline TOP-TOY and strengthen our ability to bring products faster to market.

Message from our Joint Managing Directors

During 2013/14, we have taken further steps to make our company leaner and more agile. Today, we are looking ahead and pursuing new ways to unlock growth for TOP-TOY – now and in the future.

TOP-TOY is one of the largest companies distributing and selling products to children in Northern Europe. Here, we operate in an ever-more competitive market, where constantly changing customer demands and emerging global concerns have become the norm.

To maintain our leading position, we need to evolve what we do and how we do it. That is why we are working hard to become even better at capitalising on the opportunities that our markets present. We have taken a number of actions to streamline TOP-TOY, strengthening our ability to bring products faster to market. At the same time, our innovative approach is ensuring that we continue to offer products in line with customer expectations and to develop successful business collaborations.

Current state of our business

Thanks to our people and the high-quality products in our range, we have delivered positive financial results throughout the financial crisis. In 2013/14, however, our financial performance has fallen below target. In response, we have implemented a series of initiatives to combat rising operational costs and restructure our organisation.

Today, we are happy to see that our key initiatives are moving ahead as planned and have already made good progress throughout 2013/14.

New initiatives within customer service include a self-service platform for wholesale customers and, during 2014/15, a click-and-collect service for retail customers. We continue to sharpen the BR brand in all stores as well as on our website. Wherever our customers meet us – both online and offline – we want them to experience us as consistent, transparent and easily accessible. This is the objective of our streamlined, multi-channel approach.

Financial performance

Changes in shopper behaviour have softened demand throughout Europe. This was reflected in our weaker sales during the Christmas season, which largely explain why our financial performance was below expectation. In this light, we are positive about developments in our sales overall and confident that we are taking the right steps to support our future growth.

In 2013/14, our total revenue was 4.0 billion DKK. Despite a slight decline in our same-store sales, total revenue from our retail business remained stable due to the opening of new stores. However, revenue from our wholesale business fell. We expect to deliver an improved financial performance in 2014/15.

Addressing global themes

We are currently incorporating three global themes – environment, labour and human rights, and anti-corruption – based on UN Global Compact principles in our day-to-day operations. By embedding them in our decision-making, we will become more competitive and responsive to stakeholder needs, while ensuring we live up to our sustainability commitments.

Our plan is ambitious. However, we are in no doubt that our employees and business partners will rise to the challenge and deliver whatever is required to strengthen our business and unlock new growth.

Peter Gjørup and Lars Gjørup

Performance highlights 2013/14

 **5,156**
product safety inspections

43 million
products sold through
BR & TOYS"R"US

14 million
products sold through
NORSTAR

4.0 billion DKK
in total revenue,

122 million DKK
in profit of the year



Updated
BR brand



 **38,000**
likes on BR Facebook
Denmark
& Sweden
since launch

 **15,800**
products
in assortment



NORSTAR™

self-service
platform launched

customers served in BR & TOYS"R"US

19,000,000



For a full picture of our financial performance, please turn to pages 25-26.

Our business

TOP-TOY is an international company with a core focus on distributing and selling toys and other products for children.

We served approximately 19 million customers in 2013/14 through our two retail chains, BR and TOYS”R”US. For the TOYS”R”US chain, we hold an exclusive license to operate in the Nordic region. Through our wholesale company NORSTAR, we serve more than 4,500 retail stores – including large retail chains and small local stores – across four countries.

Our retail and wholesale businesses make us one of the largest toy distributors in Northern Europe. In 2013/14, we sold approximately 43 million products to retail customers and 14 million to wholesale customers across our markets. This generated approximately 4.0 billion DKK in total revenue and 122 million DKK in profit of the year.

We employed 5,559 employees in 2013/14 (corresponding to 2,258 full-time positions) in Denmark, Sweden, Norway, Finland, Iceland, Germany and Hong Kong. Our main offices are located in Denmark and Hong Kong.



2,258 full time employees



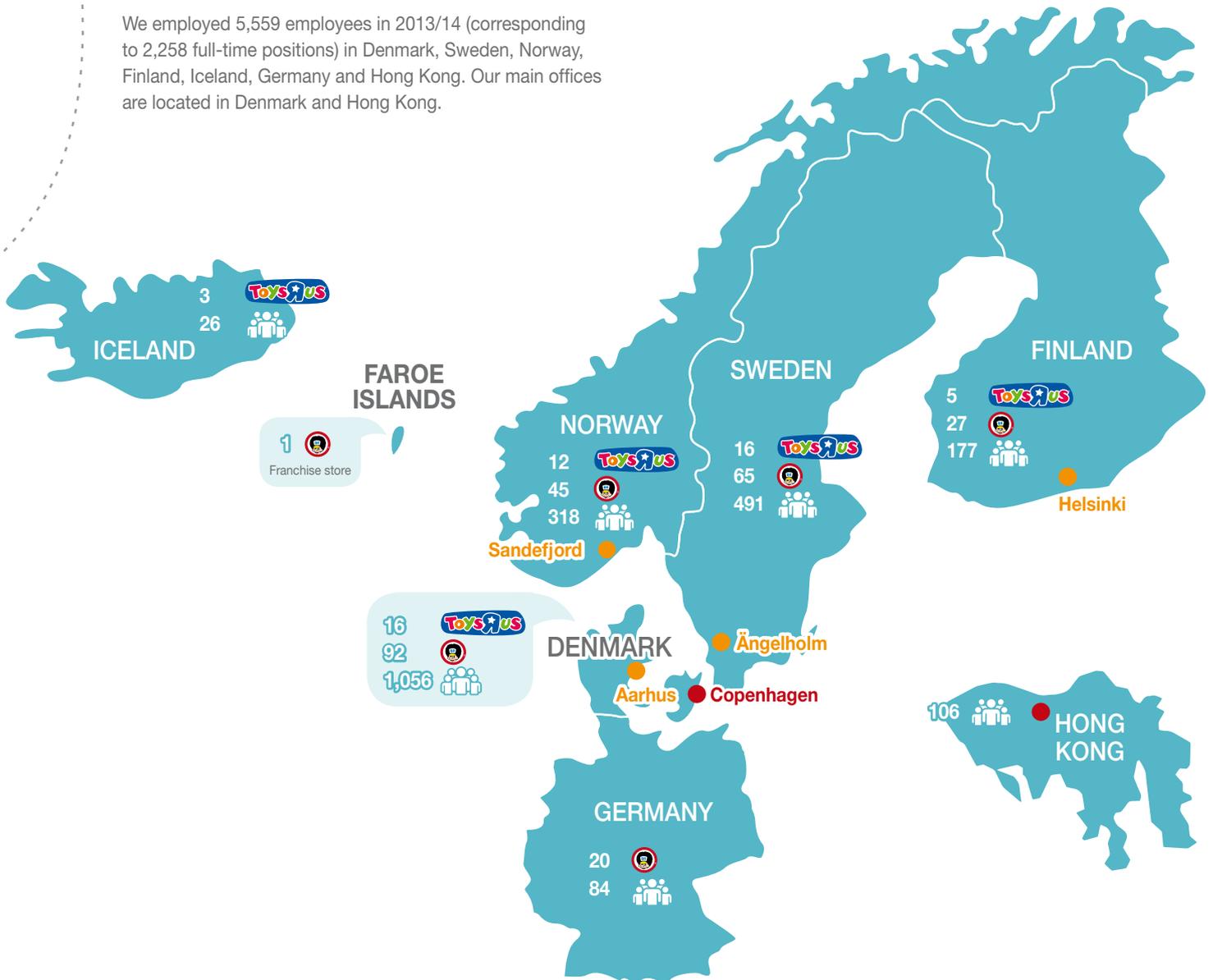
250 BR stores



52 TOYS”R”US stores



4,500 retail stores served by NORSTAR



- NORSTAR showroom and office
- Main offices

Building a competitive company

Our goal is to build a resilient and agile company, with a focused set of priorities and the capability to respond rapidly to changes, challenges and opportunities – a company built on processes that facilitate flexibility and speed. We are building an efficient organisation where the innovation and excellent customer service provided by our skilled workforce and optimised logistics are helping us towards market leadership.

Efficient organisation

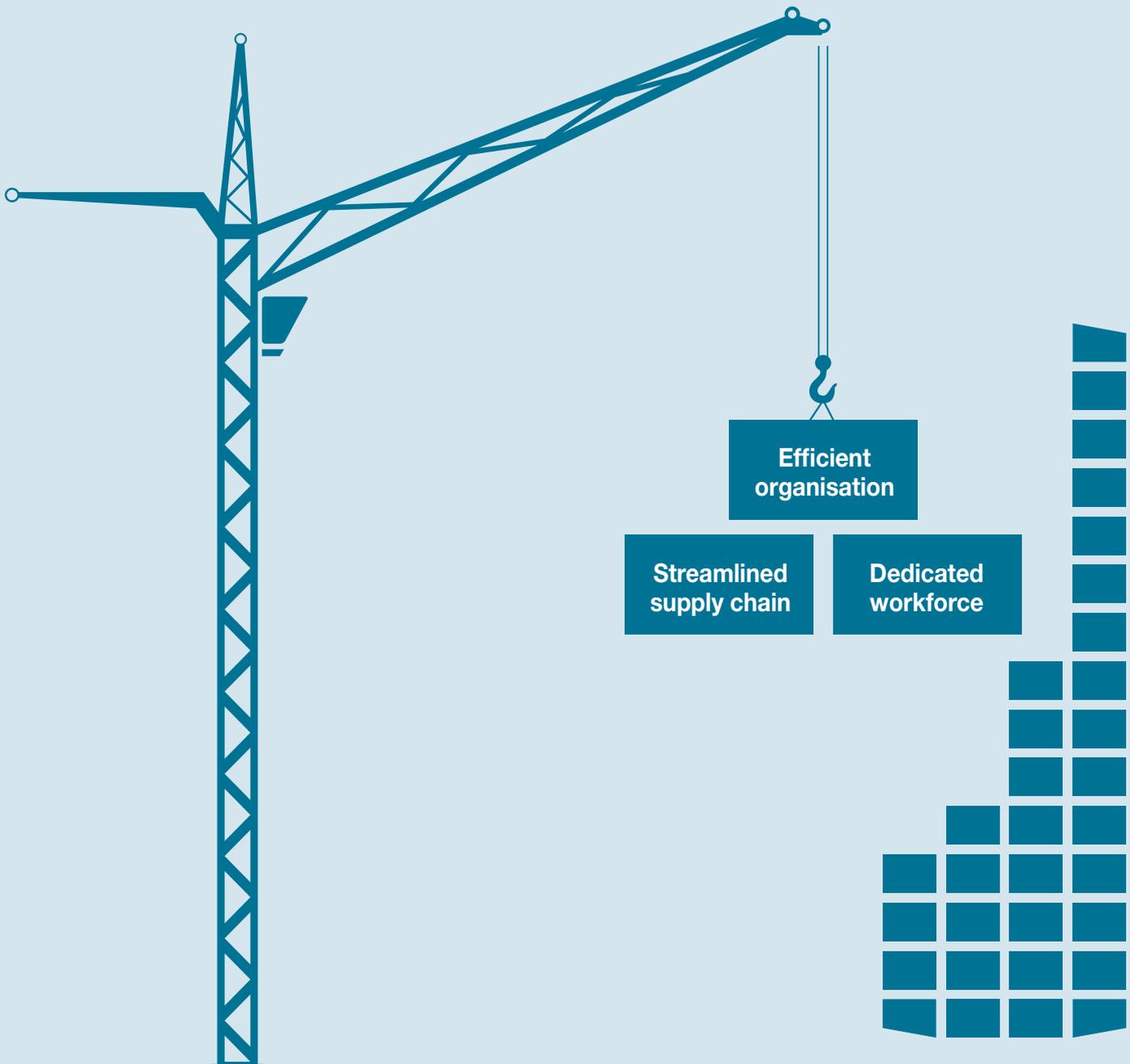
We aim to 'do things smarter' by simplifying our organisational structure and optimising our internal processes. In 2014, we initiated this process by consolidating departments and strengthening our planning, marketing and purchasing processes. These actions will continue into the next financial year.

Streamlined supply chain

The right infrastructure is paramount to improve the way we bring products to market. For this reason, we are streamlining our supply chain through smooth transportation, efficient storage and new distribution channels. Significant progress has been made, including the implementation of a new self-service platform for wholesale customers and an innovative click-and-collect service, which is in the pipeline for retail customers.

Dedicated workforce

People are behind every successful and sustainable company. We will continue to develop a strong and dedicated workforce. Through their skills and personality, we will foster a high performance, inclusive culture where differences are valued and opportunities equal. During 2013/14, we conducted our annual employee engagement programme, focusing on our ambition to deliver the right quality every day.



Efficient organisation

We aim to do things smarter by simplifying our organisational structure and optimising our internal processes. Through a leaner organisation, we will bring our products faster and more efficiently to market.

Executing faster and better

The profitability of TOP-TOY has been under pressure in recent years. Consequently, we have identified a need to simplify our organisation for faster decision-making and implementation.

In 2014, we took a major step in this direction with a reorganisation of our main office locations. Following the consolidation of our internal departments, our decision-making and approval processes have become leaner and cross-functional collaboration has increased, with fewer teams now operating with clearer roles and responsibilities.

Adjusting workforce scheduling

In order to manage seasonal impacts on our business, we make continuous efforts to manage and reduce our operating expenses in stores and distribution centres. To that end, we carry out workforce scheduling throughout the year, temporarily increasing our workforce during the Christmas season. We experience that many of our seasonal shop assistants come back to work for us year after year.

To ensure our ongoing profitability, we also took the difficult decision to let 35 employees go at the main office locations in Tune, Brabrand and Hong Kong. During the redundancy process, our key priorities were to ensure open and transparent information and provide outplacement support for affected employees.

Shaping up internal processes

Other profit-optimising activities during 2013 and 2014 have focused on strengthening our internal processes. We want to be able to strengthen business planning and enable a faster response to market developments.

As part of improving internal processes, we are investigating the introduction of a new ERP system to streamline our operations. With such an integrated control system in place, we expect to reap further rewards from a consolidation of our distribution centres, additional supply chain synergies, better business planning and improved data transparency.

During the year, improved forecasting and approval processes and a reassessment of our management priorities have optimised our procurement activities and inventory level. Our intention is to ensure that purchasing levels consistently match customer demands, optimising the turnover of products in our stores.

We constantly improve our sophisticated systems that track, analyse and process data in support of our decision-making and operational activities. Specifically, deeper insights into customer behaviour will give us a better understanding of needs and expectations. These key learnings will help us orchestrate more effective campaigns and bring more value to customers by focusing on the right sales and marketing activities.

In 2014, we took a major step towards simplifying our organisation for faster decision-making and implementation.



Streamlined supply chain

The right infrastructure is a prerequisite for improving the way we bring products to market and meeting customer needs. Streamlining our supply chain through improved planning, efficient storage and transportation and improved distribution channels remains core to our business.

Moving products from factories to warehouses

One of our key objectives has been to optimise the way we purchase products as well as transport them from factories to our warehouses. In 2013, we established a new consolidation point in China to enable better purchasing decisions through improved planning. The project was completed in 2014 and has resulted in significant inventory reduction and cost savings. It has also increased our flexibility and optimised the use of container space, thereby ensuring that we transport our products more efficiently with reduced impact on the environment.

Ethical considerations also contributed when selecting the partner to run our consolidation point. The choice of partner was based on an overall evaluation of price, performance, services and working conditions at the facility.

The reduction in our inventory has also significantly reduced our use of external storage in Denmark, beyond our own warehouses.

Moving products to customers

During the year, we have invested in making our products more easily available to customers by streamlining and digitalising our distribution system. Our objective is to meet our retail and wholesale customers where they are and when it is convenient for them. This involves introducing webshop solutions as a supplement to our traditional retail stores and our wholesale business.

The roll-out of our new digital self-service platform in all our Nordic wholesale markets was completed in August 2014. The platform eases and accelerates the ordering process, providing 24/7 access to the full NORSTAR product assortment. Initial results have been positive, and we expect the platform to become a cornerstone in our customer service.

During 2014/15 we also aim to introduce a click-and-collect service, which will enable our retail customers to buy items online and collect them later in a BR or TOYS"R"US store. The service will also help optimise the supply chain even further through the integration of retail stores and online customer satisfaction services.



Environment – Supply chain optimisation has a direct positive impact on our environmental footprint. By reducing our inventory, we minimise our use of storage space and cut down on transportation. Further environmental improvements have been achieved in our distribution centre throughout 2013/14, resulting in reduced CO₂ emissions.



We established a consolidation point in China, resulting in significant inventory and cost reduction.

Reducing our environmental footprint

Of course, when we move and handle goods, we have an impact on the environment. To address this, we continue our efforts to improve our environmental performance at our largest site – our distribution centre near Copenhagen, Denmark. During 2013/14, our LED lighting project, which was introduced last year, saved 710,000 kWh, corresponding to 400 tonnes of CO₂ emissions. Part of this work also focuses on changing employee behaviour.

Our waste management work remains a focus area, and we continue to optimise this area in terms of sorting and volume. Since 2012/13, we have made efforts to improve packaging solutions when shipping from our distribution centre to our stores and expect to reduce waste by introducing a thinner wrapping foil by the end of 2014.

Inventory by the end of the financial year



Rights – We take human and labour rights issues into account whenever selecting new business partners, such as the partner chosen to run our consolidation point.

Dedicated workforce

A successful company is about people. We will continue to develop a strong workforce to foster a high performance and inclusive culture.

Employing the right people

Our employees are the most valuable asset in our journey to drive the business forward. The majority of our staff, many of them young, work in our retail stores. We aim to attract the right people to our stores and offices by offering them a motivating, engaging workplace with ample opportunity to work with new challenges. A workforce aligned with the TOP-TOY culture and core values, all sharing the same performance goals.

Engaging our workforce

At TOP-TOY, we have always worked to preserve a strong family-oriented culture. Our core values – business sense, responsibility, family tree, top performance and toy fun – are engrained in the company and in each of our employees.

Launched in 2012, our Code of Conduct is based on our core values and provides a framework for guiding employees with regard to ethical behaviour and shaping a culture based on personal accountability. This includes guidance on how to balance our values and make the right decisions as a TOP-TOY employee.

Through our employee engagement programme, we work on improving our ability to deliver high performance. Each year we focus on a new theme, which is addressed at company and team level. All teams in the organisation define team goals, prepare action plans and follow up on agreed improvements. Following last year's focus on relations, this year we turned our attention to quality, reflecting our ambition to deliver the right quality every day to strengthen customer loyalty.

Encouraging diversity

Being an international company that operates in many markets, diversity is naturally evident at all levels of our organisation. Our workforce ranges from employees with a university degree to unskilled workers and from employees recently employed at TOP-TOY to employees with more than 40 years of seniority – and with various cultural backgrounds. This is invaluable as it gives us a broad range of experiences, knowledge and perspectives and the ability to work across cultures and serve diverse consumers and customers.

| Goal | By when | Progress |
|---|----------|---|
| Develop a Code of Conduct and supporting policies | End 2014 | Implementation of the Code of Conduct is complete, but there is more to do regarding the development of supporting policies |

The TOP-TOY Board of Directors comprises one woman and five men – all of them members of the family that owns the company. Two members of our three-man executive team are also family members. For this reason, we have not set targets to alter the gender balance of the board and executive team, nor do we currently focus on setting targets in other management levels in the organisation. At this point in time, we consider the balance of women and men in management positions to be fairly good, and we will continue to encourage diversity, while keeping our focus on hiring and promoting the people who are most competent and qualified.

| | Women | Men |
|--------------------|-------|------|
| Board of Directors | 17% | 83% |
| Executive Team | 0% | 100% |
| Top Managers | 20% | 80% |
| Middle Managers | 24% | 76% |
| Store Managers | 67% | 33% |

Our core values – business sense, responsibility, family tree, top performance and toy fun – are engrained in the company and in each of our employees.



Integrity – We provide our employees with a workplace based on mutual respect, trust, loyalty, fairness and free from any type of harassment.



Rights – As an equal opportunity employer, we do not accept unlawful discrimination of any kind and base our hiring decisions on an objective assessment of each candidate's competences.

Great product portfolio

It is critical to our success that we offer products in line with the rapidly changing demands of our customers. This is why we constantly seek new ways to strengthen and diversify our product portfolio.

Continuing commitment in a changing environment

For more than 50 years, TOP-TOY's aim has been to make children happy and have a positive impact on their lives and development. Offering children fun and educational products, which they can enjoy at each stage of their childhood, remains our core objective. This means we must continuously renew our approach to our portfolio.

Today, our portfolio comprises 15,800 products, building on the varying tastes and preferences of children at all ages and levels of development. The products are either selected from our worldwide supplier base or developed in-house by our own product design and development team.

Diversifying our product portfolio

Back in 1963, our business began by selling classic toys and games. Today the concept of play is entering new areas as children's playing patterns change. Increasingly, we need to take a more holistic approach, recognising that play can be many things at different occasions. At bedtime, for example, play may be sleeping in DISNEY FROZEN bed linen, while a BARBIE pencil case can give schoolwork a play-like feel. Play is also about practising the latest moves on a skate scooter or inviting your friends to a birthday party with fun invitation cards.

We want our product portfolio to reflect this reality. In response, we offer many different types of product for children, including pools, bicycles, fancy dress costumes and everyday clothes, home textiles and lamps, as well as books and computer games. In addition, we continue to work with licensors in order to offer products that are popular among children, such as TURTLES and DOC MCSTUFFINS.

Our choice of product offerings should also reflect an understanding of the potential impact they may have on children. In our ethical product offering policy, we define the types of products we do not wish to sell in our stores. We want to ensure our product portfolio has a positive influence on children and to avoid exposing children to products that may cause them emotional and physical harm. For example, we do not offer products which can be perceived to promote the use of tobacco or alcohol.

Offering new BR products

As part of revitalising the BR brand, over the past year, we have invested in the development of a new own-brand line of exciting BR products. Our new BR products are designed to inspire and guide parents to make the best choices for their children, focusing on physical development, learning abilities and creative thinking for 0 to 4-year-olds. Our first line of products, scheduled for launch in autumn 2014, is made from FSC certified wood and will be exclusively available in our BR stores. More product lines are in the pipeline for 2015 and onwards.



Environment – We ensure that all new BR wooden products are made from FSC certified wood.



Rights – We protect children by not exposing them to product offerings that may affect them in a negative manner.

The first line of FSC wooden products in our new BR brand is scheduled for launch in autumn 2014, focusing on physical development, learning abilities and creative thinking for children up to the age of four.



Safe products

Safety always comes first. We will continue to work systematically and actively with safety to maintain the trust of parents and guarantee children's safety when playing with our products.

Creating safe playing experiences

Selling products for children is a great responsibility. They are vulnerable consumers who need safety and protection. This is why toys are one of the most strictly regulated consumer goods in the EU through the EU Toy Safety Directive. Stricter rules apply to a plastic 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 were a toy, it would need to carry a safety warning because of its fragrance.

In our product integrity policy, we set out our standards for ensuring that all the products we source worldwide meet relevant requirements – including those in the newest product categories.

Our approach is to make sure that every product we offer is subject to a thorough quality and safety assurance procedure, which is embedded throughout the product's lifecycle.

Embedding safety in a product's development

Safety considerations are integrated from the very first stages of a product's design. During the development phase, product specifications are developed and concepts evaluated to ensure that relevant safety and quality standards are met. Often, the product goes through a number of changes and improvements before its design and safety are finally approved.

For the majority of our products, we are not part of the development process but buy finished products from a supplier. Here, we check that all relevant documentation is in place before they reach our customers. In this way, we ensure that these products have been through a comprehensive safety assessment process.

Ensuring quality control during production

During mass production, quality checks are performed at critical points to ensure potential problems are identified and addressed as early as possible.

All finished products are subject to a number of mechanical and chemical tests performed by accredited third party laboratories and, in many cases, by TOP-TOY. This ensures they comply with relevant international standards for mechanical and chemical safety, functionality and durability.



Rights – We respect the right of children to play safely. Our thorough product safety and quality assurance procedure aims to ensure the highest safety standards for children's protection.



Every product we offer is subject to a thorough quality and safety assurance procedure to guarantee children's safety.

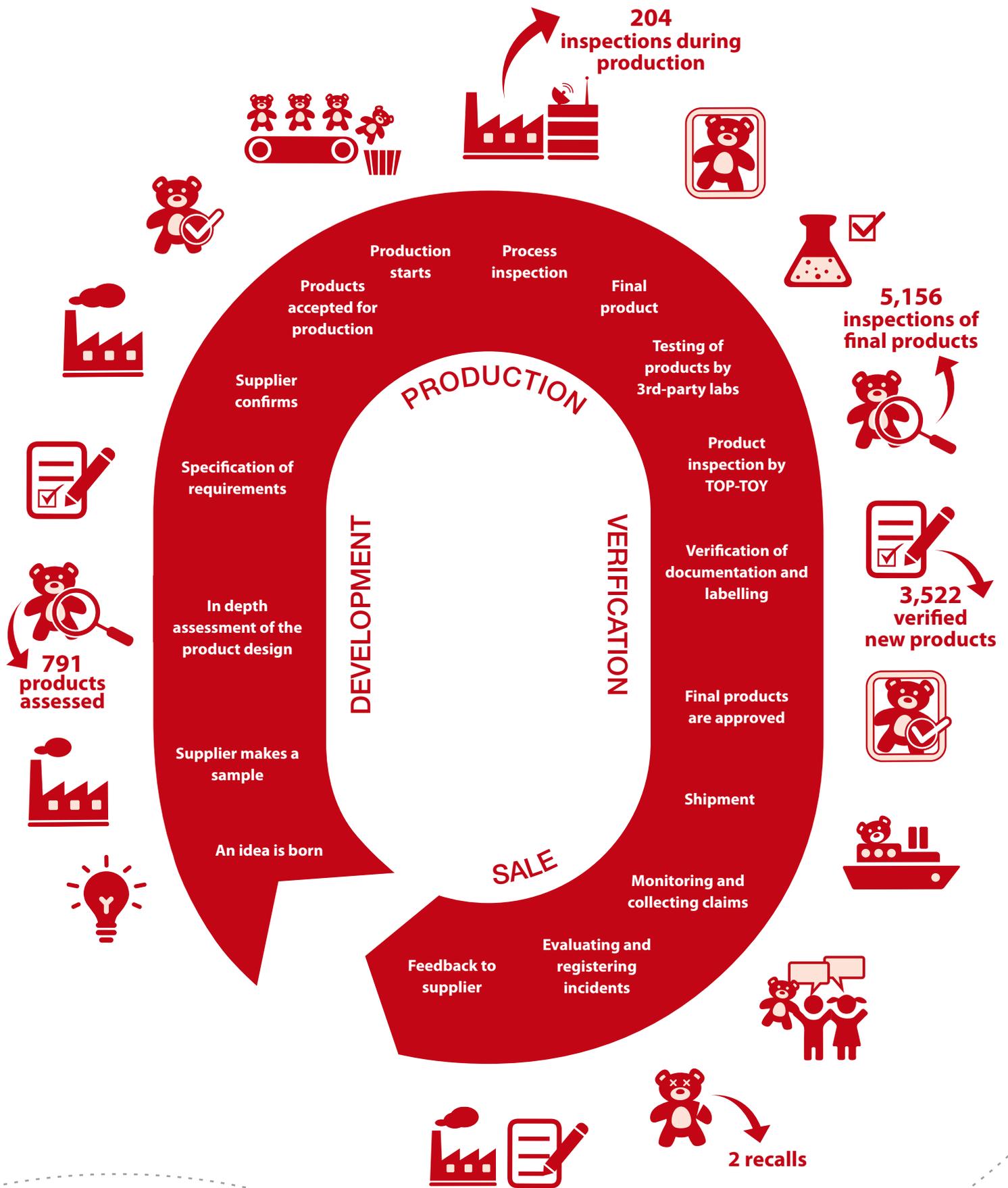
Managing safety after sales

The safety process does not stop once products are distributed for sale. We continue to monitor product performance by collecting information such as claims from consumers, keeping up with new legal requirements and following relevant official safety notifications.

Despite all the precautions we take to ensure the quality and safety of the products we sell, there are still times when something goes wrong. If it appears that a product poses a risk or fails to comply with legislation, we initiate a recall. At TOP-TOY, our objective is zero recalls. However, during 2013/14, we decided to initiate a recall of two products – the DISNEY PRINCESS shoes, because the white soles underneath the shoe contained the banned phthalate DEHP, and the RAPUNZEL wig, which did not meet the flammability requirements of the Toy Safety Directive.

| Goal | By when | Progress | | | |
|--------------|---------|----------|---------|---------|---------|
| | | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
| Zero recalls | Ongoing | 4 | 4 | 1 | 2 |

TOP-TOY's safety process



Excellent customer experiences

Wherever our customers meet us – face-to-face or online – we want them to have a great shopping experience.

A series of initiatives are easing accessibility, enhancing convenience and enabling responsible communication about our products.

Strengthening our retail chains

In our BR and TOYS”R”US stores, we meet our retail customers in person – children, parents, grandparents and others shopping for children’s products. These stores remain core to our business and to our effort to build strong personal relations with our customers. This is why we continuously optimise our store concepts in line with the BR and TOYS”R”US brands.

We wish to make BR the customers’ favourite local store, perceived as personal, trustworthy, inspiring and engaging. Over the past year, we have started a stepwise renovation of our BR stores as part of a programme to provide better in-store guidance that will improve the customer experience. More BR stores will be upgraded during autumn 2014. During 2013/14, all German BR stores were also upgraded based on pilot tests performed in Germany. We think about the environment when redoing our stores. We switch over to LED light bulbs whenever we upgrade a BR store, cutting CO₂ emissions and costs at the same time. We will continue switching over to LED bulbs in our remaining BR and TOYS”R”US stores.

We also re-opened our TOYS”R”US store in Kungens Kurva, Stockholm as a new flagship store. The store has been completely transformed providing customers with a new shopping experience and many pleasant surprises that encapsulate the TOYS”R”US concept: “It doesn’t get bigger than this”.

Increasing digital shopping possibilities for our retail customers

The digital world is having a growing impact on our customers’ shopping behaviour. We are responding with a number of initiatives to give customers a seamless and effortless online shopping experience. At the same time, we are making use of the many digital possibilities to inspire and guide parents in choosing the right products.

During 2013/14, we re-launched our BR webshop, featuring a simplified navigation and guidance icons such as ‘Top 3’ and ‘Hot news’. Future online initiatives include further development of the BR wish list app and the BR and TOYS”R”US click-and-collect service, which will be launched during 2014/15. Our BR Facebook page, already implemented in Denmark and Sweden, will soon be launched in Norway and Finland and now has 38,000 likes.

Creating value for our wholesale customers

Our wholesale business NORSTAR serves more than 4,500 retail stores across the Nordic countries, where it supplies and promotes a number of well-known brands such as BARBIE and TURTLES, which help bring traffic and demand to our customers’ stores. Throughout 2013/14, we trained all our key account managers to ensure a continuous good business relationship with our larger customers. We also implemented a digital self-service platform for easier accessibility and increased convenience, and a new trade marketing organisation has been introduced over the past two years.

Communicating responsibly to children

Advertising demands a highly responsible approach. Towards parents, we must communicate the right kind of information to help them buy the right products. Product advertising aimed at children should be appropriate, responsible and consider the sensitivity of this young consumer group.

One particular focus of our marketing effort is to promote equal play for both genders. Since 2012, we have changed the way we portray boys and girls in our printed BR and TOYS”R”US catalogues and other advertising and communication. Our aim is to show boys and girls in real-life play situations, avoiding stereotypes. This has resulted in a more gender-neutral approach in our marketing.



Environment – We are introducing LED lighting in our upgraded BR stores, reducing our environmental footprint while saving costs.



Rights – We work systematically to protect children from misleading, exploitative or aggressive marketing practices.



Contributing positively to society

Our wish to make a positive contribution to society includes our commitment to purchasing products that are manufactured under responsible working conditions, as well as our aim to respect children's rights and well-being. These are not easy areas. For this reason, we collaborate with others to help us meet this goal.

Ethical factory conditions

Over the years, we have worked with suppliers to improve working conditions on the factory floor. This remains an integrated part of our supply chain management. Our approach is to build good, long-term supplier relationships, where we support factory improvements, ensure safe and healthy working conditions and create an environment where the rights of the people working in the factories are respected. During 2013/14, we have worked with 788 factories as part of our factory compliance programme.

Resourceful collaboration with industry

In addition to working directly with our main suppliers, we acknowledge the importance of improving standards across the industry as a whole. We are, therefore, in dialogue with relevant industry associations and authorities in the Nordic countries and the EU in order to share knowledge and stay up-to-date with industry developments. In 2013/14, we have focused on advocating strict and meaningful product safety regulations and continued our work with human and labour rights at factory level.

Partner with external stakeholders

At TOP-TOY, we acknowledge our role as a corporate citizen. We want to do it right and with the right impact. This is why we share knowledge with peers, partner with NGOs to obtain their advice and make donations to organisations that help people in need. In 2013/14, we maintained our commitment to the UN Global Compact and initiated collaboration with Save the Children, Sweden to analyse our current activities in relation to children's rights. We also started our search for a new community project to invest in by the end of 2014.



Ethical factory conditions

Collaborating with factories to improve working conditions remains an integrated element in our supply chain management. We will continue to build trusted supplier relationships to drive factory improvements.

Managing our supply chain successfully

With our factory compliance program, we aim at promoting responsible working conditions throughout our supply chain by sourcing only from suppliers who are willing and committed to working transparently with us to improve their social practices.

At TOP-TOY, we do not own any of the 788 factories that manufacture our products, so we do not have direct control over what takes place on the factory floor. These factories are either owned by or have a contract with one of our 402 suppliers. This makes supplier collaboration vital to successful supply chain management with a strong focus on high quality and ethical standards.

Sourcing from Asia

Our key sourcing market is China and several other Asian countries. Some 70% of the volume of our products comes from these markets, which are also where the biggest toy producers in the world are located. The toy industry is very labour intensive, contributing to job creation and substantial economic growth. At the same time, there are several challenges related to labour standards and human rights. By concentrating our efforts in Asia, we believe we can have the biggest impact on driving factory improvements.

Driving factory improvements

We set high standards for our supplier factories and regularly monitor their performance via social audits. As part of our factory compliance program, we only allow production to take place if suppliers and factories commit to our Factory Compliance Standards.

| Goal | By when | Progress |
|--|----------|----------|
| To roll out a factory evaluation programme | End 2013 | Done |

| Status of factories audited by TOP-TOY | 2011/12 2012/13 2013/14 | | |
|---|--------------------------------|----|----|
| | Total no. of factories audited | 64 | 70 |
| No. of factories approved | 39 | 58 | 60 |
| No. of factories not approved | 23 | 11 | 42 |
| No. of factories pending for final decision | 2 | 1 | 1 |



Before we place an order, each factory undertakes a step-wise approval process.

- **Review of documentation**
Suppliers must submit relevant factory documentation. Audit reports are requested for factories in high risk countries.
- **Factory audit**
We monitor performance and progress during regular audits. Occasionally, we conduct the audits ourselves. In most cases, we require factories to be audited in line with internationally recognised auditing standards, such as the ICTI Care Process, SA8000 Certification and the Business Social Compliance Initiative (BSCI).
- **Re-audit if not acceptable**
If an audit reveals issues of high concern, factories are asked to submit a corrective action plan. This must then be verified during a re-audit before an approval can be issued and an order placed.

Our factory approval depends not only on the content of the audit report, but also on factories' willingness to improve. By strengthening their ability to take ownership of audit findings, we ensure factories are committed to making lasting change and continuous improvements.

Of the 103 factories audited during 2013/14, we approved 60 and rejected 42. A final decision is still pending on one factory.



Integrity – Our factory compliance programme helps drive factory improvement. However, challenges regarding standard audit procedures, faked records and bribery do, unfortunately, occur in rare situations. We do not accept any such practices and work systematically to prevent this.



Environment – While we maintain a focus on labour and human rights, factory audits also look at general environmental issues such as waste management, chemical handling and local official permits. This is an area that we will investigate more closely in the future.

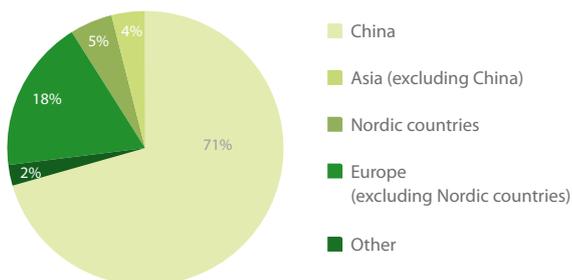


Rights – In our factory compliance programme, we work systematically to ensure the human and labour rights of people who work in the factories.

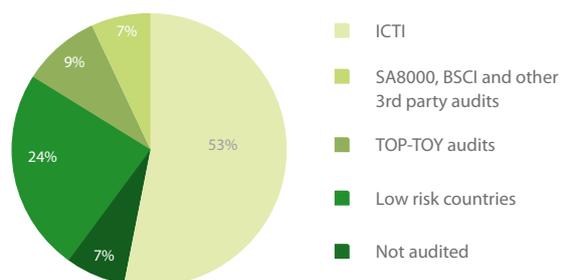
TOP-TOY's factory compliance process



Geographical distribution of factories 2013/14



Factory certification and audits 2013/14



Resourceful collaboration with industry

We acknowledge the importance of improving standards across the industry. In our own efforts to achieve this, we engage with relevant industry associations and authorities.

Working together

In a global context, TOP-TOY is a small player, accounting for less than 1% of the international toy market. However, as one of the largest companies selling toys in Northern Europe, we believe it is our responsibility to take part in developing an accountable industry that customers can trust. This is also the reason why TOP-TOY has, for many years, collaborated with industry peers and relevant authorities in the Nordic countries and the EU.

We believe that, by working proactively with a variety of key industry stakeholders, we have a better chance to shape meaningful standards, tackle challenges and create a level playing field. Our continuous involvement also enables us to stay up-to-date with emerging issues and developments.

Advocating strict and meaningful safety regulations

Our support for the European Committee for the Standardisation of Toys (CEN TC 52) and the Danish Standardisation Agency reflects our commitment to taking an active role in improving and raising the bar for safety.

Toys are one of the most regulated consumer products in Europe. Legislation and standards related to toys alone cover more than 2,000 pages. The regulations are continuously adjusted to ensure a high level of safety for children. Adjustments may apply to the mechanical and chemical safety of toys and correct labelling in accordance with EU standards.

In 2013, the European Toy Safety Directive introduced even more stringent requirements for documentation and limits for chemical substances in toys. At TOP-TOY, we work hard to ensure that all our products comply with these new requirements. Through our training programme, we help our suppliers towards a stronger understanding of the latest toy safety standards, chemical safety assessments and so on. During 2013/14, we trained 75% of our new suppliers in Asia.

Promoting improved labour and human rights

In China, TOP-TOY works closely with industry peers to address some of the key, factory-level labour and human rights issues through the ICTI Care Process – a compliance system promoting ethical manufacturing practices. Our active participation in the technical advisory committee contributes to further development of the process.

We also support the Business Social Compliance Initiative (BSCI) and Social Accountability International Standard (SA8000).



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.



Rights – Through resourceful collaboration with industry peers, we work to ensure high safety standards that protect the rights of children and promote improved labour and human rights for people who work in the factories.

Partnerships with external stakeholders

At TOP-TOY, we acknowledge our role as a corporate citizen. To maximise our impact, we share knowledge with peers, partner with NGOs and make donations to organisations that help people in need.

Continuing our commitment to the UN Global Compact

As a family-owned company, we have always focused on being a good corporate citizen. That was also the reason why sustainability became one of TOP-TOY's strategic priorities back in 2009, when Lars and Peter Gjørup were appointed Joint Managing Directors. As part of the commitment to work more systematically with sustainability, we became a signatory of the UN Global Compact during this same period.

Five years later, our sustainability progress reflects our ongoing efforts to integrate the ten Global Compact principles in our daily work. We also continue our membership of the Global Compact Nordic Network, where we are part of the steering group.

Initiating a child rights approach

Our drive to work with children's rights has its outset in the ten Children's Rights and Business Principles.

Developed by the UN Global Compact, Save the Children and UNICEF, these principles provide companies with guidance on how they can respect and support children's rights in the marketplace, workplace and community. This is highly important to us, as selling products to children is our core business.

We are committed to respecting the rights of our consumers – the children – and having a positive influence in the countries where we operate. In order to determine how we should work with this area in the future, we want to improve our understanding of our role and impact.

To that end, we have initiated collaboration with Save the Children, Sweden, as part of a broader human rights impact assessment and policy development for TOP-TOY. Here, we use the ten principles as a guide to promoting and supporting the children's rights agenda through our core business activities and operations. This work is still in its early stages.



Our drive to respect children's rights has its outset in the ten Children's Rights and Business Principles.

Searching for a new community investment project

From 2009 to 2014, we have supported SOS Children's Villages in Nanchang, China, primarily by selling plush dogs in our BR stores. We chose this project based on a wish to focus on less fortunate children in an area where many of our suppliers are located. SOS Children's Villages gives these children the opportunity to develop like other children through play and education.

During this period, we have donated approximately 11.5 million DKK. After four years of partnership with SOS Children's Villages, we are now looking into new ways to contribute to local development in the countries where we operate. This is part of our upcoming social investment policy and strategy.

| Goal | By when | Progress |
|--|----------------|----------------------------|
| To assess human rights impact and develop a policy | During 2014/15 | More work needs to be done |
| New goal | By when | |
| To support a new community investment project | During 2014/15 | |



Rights – We collaborate with Save the Children, Sweden, to develop an approach where children's rights are systematically integrated in our daily business operations.

Global theme – Rights

We acknowledge our responsibility to respect human rights through our business activities and operations.

Why are rights important?

TOP-TOY is a signatory of the United Nations Global Compact. The first six principles of the Compact are about rights. The endorsement of the UN Guiding Principles brings a new, far more explicit framework and guidelines on how enterprises should work with the first six principles in the UN Global Compact.

This has required us to review our role and impact on human rights. Throughout our value chain, we interact with many different stakeholders, such as the people who work in the factories that manufacture our products, our employees who help sell our products, and the children who play with our products. Because children are among our main stakeholders, it is only natural that we have a specific focus on children's rights.

Dealing with human rights is a complex area with many dilemmas. This is why we need to develop our strategic approach. Our first step is an analysis of current activities to identify human rights areas where we need to improve.

Where we work with rights

We recognise that we have an impact on human rights through our business activities. One of our aims is to integrate human rights in the way we buy and sell our products. Through this, we wish to become better at managing the risk of human rights infringement in our value chain.

We have initiated a human rights impact assessment and policy development, which we aim to complete in 2014/15.



Today, we already respect and support human rights in many ways. In our product integrity policy, which was rolled out in 2014, we expressed our commitment to ensuring children can play with safe products that have been produced under responsible conditions. The policy is supported by our compliance program, which turns our commitment into actual processes through a set of standards and requirements. This helps us to identify and manage the risk of infringing labour rights.

Another example is our ethical product offering policy and our marketing policy, which provides guidance and direction on how to protect children from exposure to certain products in our BR and TOYS"R"US stores and from any marketing efforts that may have a negative effect.

How we want to work with rights in the future

Moving forward, we will establish a framework for the systematic integration of human rights in our buying and selling processes.

During 2012/13, we began developing a human rights approach, where an impact assessment of our value chain is a key component. Our aim is to identify potential risks and opportunities and, based on that analysis, develop a new policy and strategy. Specifically, we want to identify opportunities to play a positive role in protecting children's rights.

Our initial intention was to finalise this work by the end of 2013/14, but it has proven to be a more complex task. To make sure we do it right, we have moved our deadline to 2014/15. A first step will be to develop our human rights policy. This will reflect our commitment to the UN Global Compact, UN Guiding Principles and Children's Rights and Business Principles and support the establishment of a human rights due diligence process.

We are also a member of the Danish Business Network for Human Rights where we play an active role in the steering group.

| Goal | By when | Progress |
|--|----------------|----------------------------|
| To assess human rights impact and develop a policy | During 2014/15 | More work needs to be done |

Global theme – Integrity

We strive to conduct our business with high integrity, ethics and respect for the law, wherever and with whomever we operate.

Why is integrity important?

Integrity is the backbone of our business – the foundation on which we have built the company. We believe that conducting our business in a way that is honest, ethical and accountable will ensure our continued growth, maintain our reputation as a responsible company, and help achieve our mission of enriching children’s lives.

Business sense, responsibility, family tree, top performance and toy fun are TOP-TOY’s core values. They play a key role in shaping our business conduct and retaining our ethical business culture. They continuously guide our actions as we conduct our business.

Our reputation is based on the relationships we have with our customers, colleagues, suppliers, business partners, regulators and other members of society. We continuously strive to meet our customers’ needs, make TOP-TOY a great place to work, and operate as good corporate citizens. Each TOP-TOY employee is an ambassador of our company’s reputation. So, it is up to every one of us to preserve the trust of our stakeholders.

Where we work with integrity

While we strive to live up to our reputation in a competitive global environment, there will be times during our daily activities when dilemmas arise and our integrity is put to the test. The ethical and behavioural framework behind our operations is outlined in our Code of Conduct ‘The TOP-TOY way – Promoting a culture of responsibility’. This helps us understand how we put our values into practice every day.

The responsibilities and expectations expressed in Code-related policies are the backbone of our ethical culture. The Code embodies the TOP-TOY commitment to conducting business in accordance with the highest ethical standards and in compliance with all applicable laws, rules and regulations.

Everyone working at TOP-TOY is subject to the Code, which guides employees in the pursuit of ethical behaviour. Employees can refer to the Code for support when faced with a difficult situation in their daily work. The Code focuses on the eleven issues that are most critical to our business, for example misuse of company assets, breaches of information firewalls between our wholesale and retail business units, bribery risks related to gifts and entertainment, and inaccurate and misleading advertising towards children.

Employee training, in the form of workshops and e-learning programs, has focused on building knowledge of these eleven issues and avoiding non-compliance. The training sessions have been held for all employees in our main offices and in our stores.

How we want to work with integrity in the future

To support the Code, we are launching a number of global policies that set our overall direction on key issues, such as product safety, responsible marketing and the environment. During the autumn of 2014, employees will be informed about these policies and receive training from policy owners. All employees must follow the policies.

| Goal | By when | Progress |
|---|----------|---|
| Develop a Code of Conduct and supporting policies | End 2014 | Implementation of the Code of Conduct is complete. More work remains to develop supporting policies |

To support our Code of Conduct, we are launching a number of global policies that set our overall direction on key issues, such as product integrity, responsible marketing and the environment.



Global theme – Environment

We will develop a new environmental policy by the end of 2014. This policy is part of our objective to assess and address our environmental impact throughout our value chain and outline our commitment.

We aim to understand the impact of our operations on the environment and reduce our footprint.

Why is the environment important?

The world is facing significant environmental challenges as a result of rising human activity and economic growth. Climate change, pollution, waste production and disposal, water scarcity, chemical use and more are forcing societies and companies to find ways to sustain growth and development with fewer resources.

In the past, our sustainability work has mainly focused on improving our social performance in our value chain. This has ensured that our products are safe and produced under responsible conditions. However, as an international company that buys and sells products, we also recognise our impact on the environment. This is an area we must address and work with by adopting an integrated strategy aimed at managing risks and improving our environmental performance.

Where we work with the environment

During 2013/14, we have undertaken a number of initiatives to improve our environmental performance.

We have made progress on our goal to establish a baseline for energy consumption. So far, we have implemented an LED lighting project in our distribution centre near Copenhagen, Denmark and have started to introduce LED in our upgraded BR stores and some TOYS”R”US stores in order to cut CO₂ emissions. Going forward, we will ensure a more systematic approach to the area by initiating measurement of our consumption of energy and setting targets for optimisation of the use of energy in stores, warehouses and office premises.

In 2012/13, we set a goal to find more eco-friendly packaging options for some of our own-brand products to be initiated during 2013/14. With the development of our new BR product line, we are currently looking at integrating environmental considerations in the product packaging. This is an area that requires more work. For this reason, we have moved our implementation deadline to 2014/15.

Throughout 2013/14, we have continued our efforts to reduce our environmental footprint at our distribution centre near Copenhagen, Denmark – our largest site. Our initiatives focus particularly on managing waste, recycling transportation packaging and reducing CO₂ emissions through the LED lighting project.

How we want to work with the environment in the future

One of our future goals is to assess our environmental impact throughout our value chain. This will enable us to focus our efforts even more sharply on the areas where there is the highest potential to make a real difference.

As a first step, during 2013/14 we have conducted an environmental analysis based on input and comments from internal and external stakeholders, which we received during a materiality assessment process in May 2013. Here, many exciting proposals were put forward to drive environmental performance. These include integrating sustainability in our own-brand products and reducing waste from toys, plastic bag and batteries. During 2014/15, we will look into these suggestions in more detail and implement our new environmental policy, which will outline our commitment.

Another area for future investigation is how we can reduce the environmental footprint of our products’ manufacture by broadening the scope of factory audits and working with suppliers. Today, general environmental issues are included in our auditing process.



| Goals | By when | Progress |
|--|----------|---|
| Evaluate new direct-to-store concept | 2013/14 | Done |
| Establish a baseline for energy consumption | Ongoing | LED lighting project in Greve distribution centre has been completed. We are also introducing LED lighting in our new upgraded BR stores and TOYS”R”US stores |
| Find eco-friendly packaging options | 2014/15 | More work remains to be done |
| New goal | By when | |
| Develop and implement our environmental policy | End 2014 | |

Financial performance

The European business environment is still going through difficult times, also in the Northern European markets where TOP-TOY has its primary commercial activities. Shopper behaviour is changing, showing a general decline in spending and an increase in online purchases, including across international borders.

This year's operating profit before non-recurring items was 156 million DKK compared to 164 million DKK in 2012/13. The main reason for this decline is lower than expected store sales during the important Christmas season. On the positive side, there was a very strong result in the spring and summer due to good weather in our markets, from which the organisation was able to benefit fully.

In view of this situation and our ongoing investments in the future, we are satisfied with the result, despite our weaker than expected financial performance.

In May 2014, we implemented a new, more effective organisation, which unfortunately entailed letting 35 skilled employees go. In combination with other projects to reduce overall costs, this organisational change will help us secure a more competitive platform for TOP-TOY.

Profit after tax was 122 million DKK compared to 57 million DKK in 2012/13. The result shows the positive influence of foreign exchange adjustments and divestment of real estate. Last year, on the other hand, was negatively influenced by non-recurring costs related to our decision to consolidate two distribution centres.

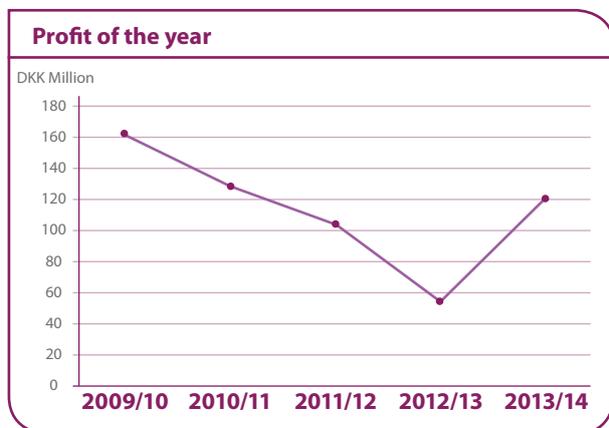
Cash flow from operations developed positively from 117 million DKK in 2012/13 to 335 million DKK, primarily due to reduced net working capital in receivables and inventories, achieved through systematic improvement activities. Total assets were reduced by 98 million DKK to 2.7 billion DKK.

Over the past year, the total revenue from our retail business has remained fairly stable. The opening of new stores and webshop growth came close to offsetting the impact of store closures, exchange rate fluctuations and slightly declining same-store sales in some markets. Revenue from our wholesale business, however, has declined.

The following events can be highlighted in our retail business

- Our total revenue decreased slightly from 3,389 million DKK to 3,335 million DKK due to the negative exchange rate impact of the Swedish and Norwegian kroner. Total revenue in local currency, on the other hand, slightly increased.
- The BR and TOYS"R"US webshops experienced strong growth in traffic, as well as revenue, and very high customer satisfaction.

- We launched a new BR store concept in selected test stores. This has been well received and the new concept will be implemented in a significant number of stores across our markets in 2014/15.
- We increased the number of stores from 299 to 302 by opening one TOYS"R"US store and nine BR stores in existing markets. At the same time, seven BR stores were closed.



Financial performance

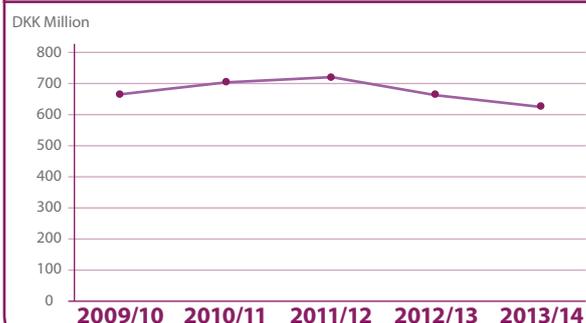
Some important events in our wholesale business

- Revenue fell from 677 million DKK in 2012/13 to 629 million DKK in 2013/14 (-7.1%).
- In spring 2014 we launched a business-to-business self-service platform for wholesale customers in Norway, which allows customers to place orders at their own convenience. The solution was well received and will be implemented in all markets during 2014/15.

Looking to the future

In the year ahead, we will increase our focus on margin improvement, permanent cost reduction and activities to support our sales. At the same time, we will invest in strategic areas to ensure long-term profitability and continued growth.

Revenue in wholesale



TOP-TOY Key Figures And Financial Ratios

| Five-year key figures in DKK million | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---------|---------|---------|---------|---------|
| Revenue | 3,593.1 | 3,954.1 | 4,044.4 | 4,100.3 | 3,972.1 |
| Adjusted EBITDA | 362.7 | 312.7 | 274.2 | 239.9 | 218.6 |
| Adjusted EBIT | 273.6 | 217.9 | 184.7 | 164.4 | 156.1 |
| Non-recurring items* | 0.0 | 1.3 | 15.0 | 56.3 | 0.0 |
| Profit | 162.7 | 128.2 | 105.7 | 56.8 | 121.6 |
| Balance sheet total | 2,769.5 | 2,891.5 | 2,804.2 | 2,783.6 | 2,685.7 |
| Equity | 1,180.5 | 1,265.9 | 1,363.0 | 1,395.7 | 1,469.1 |
| Employees and stores | | | | | |
| Number of employees | 2,128 | 2,261 | 2,358 | 2,352 | 2,258 |
| Number of stores | 274 | 286 | 297 | 299 | 302 |
| Key financial ratios | | | | | |
| Operating margin | 7.6% | 5.5% | 4.6% | 4.0% | 3.9% |
| Return on invested capital before non-recurring items | 12.2% | 8.3% | 6.9% | 6.3% | 6.3% |
| Equity ratio | 42.6% | 43.8% | 48.6% | 50.1% | 54.7% |

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

Our core values

Responsibility

We take responsibility for our actions throughout the value chain and for our most important stakeholders – the children who play with our products.



Business sense

We seek to give good service to our retail and wholesale customers by offering the right quality product at the right time and at the right price.



Family tree

We want to bring joy to children and families by selling good quality products that contribute to fun and memorable moments.



Toy fun

Fun is a key driver in our work. We are dedicated to bringing smiles to the faces of our customers and colleagues.



Top performance

We strive to be top performers. We want to do better than yesterday, and we do this by actively listening to relevant stakeholders and closely monitoring our performance.





TOP-TOY

Roskildevej 16, 4030 Tune
Denmark
Tel +45 4616 3656
www.top-toy.com

TOP-TOY Hong Kong

11/F, Central Plaza, 18 Harbour Road
Wanchai, Hong Kong
Tel +852 3143 8888
www.top-toy.com

NORSTAR

Sintrupvej 12, 8220 Brabrand
Denmark
Tel +45 8944 2200
www.norstar.eu

Methodology and reporting framework

Scope and reporting framework

This report focuses on our performance during the financial year from July 1, 2013 to June 30, 2014.

The report meets the criteria of the UN Global Compact, including the commitment to issue an annual Communication on Progress (COP) report. In addition, the report complies with the statutory statements on Corporate Social Responsibility by the Danish Financial Statements Act, sections 99a and 99b.

We also look to the Global Reporting Initiative (GRI) framework for inspiration, but 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 become more data driven.

Legal notices

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

TOP-TOY is a registered trademark of TOP-TOY (Hong Kong) Ltd. BR, the Guardsman in a circle device and Watermark device are registered trademarks of TOP-TOY A/S. NORSTAR is a registered trademark of NORSTAR A/S.

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All other marks referred to in this report are the property of their respective owners.

For more information about TOP-TOY and our performance, please visit: www.top-toy.com

Please forward any questions or comments to the Corporate Communications and Sustainability Department at com@top-toy.com

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The mark of responsible forestry



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