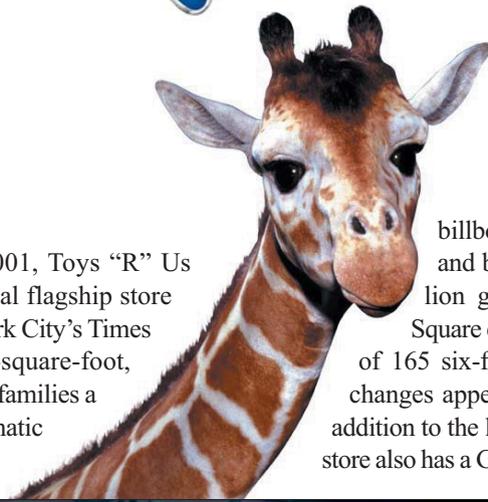


TOYS "R" US®



THE MARKET

According to the Toy Industry Association, Inc., consumers spent more than \$34 billion on toys in the United States in 2001, compared to \$31 billion in 2000.

While many of the same toys parents played with as kids are still on the market today, the toy industry has broadened and expanded over the years to include new and exciting toys — such as interactive, high-tech toys — and the explosion of the learning/educational toy category. The rapid growth of the Internet had a substantial impact on the toy retail business as more and more consumers choose to shop online.

But whether consumers shop online or in stores, the fact is that the toy market is unique. More than half of all toy sales occur during the fourth quarter, driven primarily by holiday season spending. Furthermore, only a few of the hundreds of thousands of toys sold actually become hot sellers. Fewer still remain popular for more than one or two years.

As one of the world's leading retailers of toys, children's apparel, and baby products, Toys "R" Us, Inc. has more than 1,600 stores worldwide, including Toys "R" Us, Kids R Us, Babies "R" Us, Imaginarium, and Geoffrey stores, and Internet sites at www.toysrus.com, www.babiesrus.com, www.imaginarium.com, and www.giftsrus.com.



ACHIEVEMENTS

On November 17, 2001, Toys "R" Us opened its international flagship store in the heart of New York City's Times Square. The 110,000-square-foot, multilevel store offers families a vast array of toys, dramatic retail attractions, and



distinctive feature shops. The centerpiece of Toys "R" Us Times Square is a 60-foot indoor Ferris Wheel, which includes 14 individually themed cars, each inspired by a favorite children's toy character.

The store also features more than 20 attractions including a 4,000-square-foot, two-story Barbie Dollhouse; a Jurassic Park Exhibit with a 5-ton, animatronic T-Rex dinosaur measuring 20 feet high and 34 feet long with a mighty roar and realistic moves; Baby Land General Hospital — the official adoption site for Cabbage Patch babies and kids — with a 17-foot-high tree and tree house; a Candy Land Shop, which is like walking into the actual children's board game and finding yourself among tempting aisles of chocolate, candy, and other colorful confections; plus much more.

The store's entire external façade consists of glass panels that reveal an expansive scrolling

billboard system that unveils timed toy and branding messages for the 1.5 million guests who travel through Times Square every day. The billboard, consisting of 165 six-foot-by-five-foot scrolling panels, changes appearance in a matter of seconds. In addition to the large external billboard system, the store also has a Geoffreytron™ video display, which

is a 20-foot LED screen that entertains passersby by displaying toy trivia highlighting the hottest toys and special events in the store.

The international flagship store has received many awards since opening. Toys "R" Us received a Gold Clio award for the exterior design of the Times Square scrim system. In addition, Toys "R" Us Times Square was named "Store of the Year" in *Chain Store Age's* 2001 Retail Store of the Year design competition. The store also earned the publication's two First Place awards for "Best Exterior" and "Hard Lines Store Greater than 30,000 Sq. Ft.," and *Business Week* featured Toys "R" Us Times Square as a winner of its 6th Annual

Business Week/Architectural Record Awards in November 2002.

HISTORY

In 1948, 22-year old Charles Lazarus transformed his father's Washington, D.C., bicycle repair shop into a baby furniture store to meet the needs of the postwar baby boom. When customers told him they were also looking for baby toys, Charles listened and added toys to the products he sold. That policy of determining customer needs by simply listening was to become a key ingredient in Lazarus' success.

By 1957, Lazarus' baby furniture store was transformed and christened Toys "R" Us, complete with its distinguishing backwards "R." Nine years later, Lazarus had four toy stores posting sales of \$12 million per year. To expand his business, he sold the stores to a large retail conglomerate, Interstate Sales. Lazarus continued to run the Toys "R" Us stores, which prospered. When Interstate filed for bankruptcy in 1974, Lazarus took over the entire company. Four years later he led Interstate out of bankruptcy and renamed the company Toys "R" Us, Inc.

Toys “R” Us, Inc. has grown and expanded significantly since then. In 1983, Toys “R” Us, Inc. added a children’s clothing division when it opened the first Kids R Us clothing store. Global expansion of Toys “R” Us stores followed a year later with the opening of toy stores in Canada, England, and Singapore. Expansion continued into baby products when the first Babies “R” Us store opened in 1996. A year later, Toys “R” Us acquired Baby Superstores and merged it with Babies “R” Us, becoming the leader in the juvenile industry.

Toys “R” Us moved into the cyber world in 1998 when it established www.toysrus.com, the company’s first online toy store. The online site gained significant momentum two years later when it entered into a strategic partnership with *Amazon.com*, becoming a premier online toy, video game, and baby products store. With a customer base now rapidly approaching 6 million, *toysrus.com* was the most visited e-commerce destination for toys, video games, and baby products during the October 2001–July 2002 time period.

Today, more than 50 years after Charles Lazarus opened his first baby furniture store, Toys “R” Us, Inc. continues to meet his goals of providing customers with exceptional value and selection. At the same time, the company never forgets its founder’s most important rule of business: listening to the customer.

THE PRODUCT

Toys “R” Us, Inc. is one of the world’s largest retailers of toys, children’s apparel, and baby products. The company’s stores feature thousands of items that appeal to every guest: infants, teenagers, and even adults.

The chain offers a wide array of products, including items that are exclusive to Toys “R” Us like Animal Alley plush, Home Depot tools for kids, Cabbage Patch Kids, Scholastic Products, Pavilion Games, and more.

Toys “R” Us stores stock toys and games for kids and adults, ranging from classic standards to the latest innovations. Vast selections of well-known brand names like Barbie, Hasbro, and LEGO share the shelves with the latest novelty toys. Toys “R” Us has an extensive selection of family recreational items, learning toys, action figures, and dolls.

RECENT DEVELOPMENTS

Exciting changes are taking place at Toys “R” Us. A redesign of the stores was completed in 2002. The new format focuses on delighting guests in a store that’s more convenient, open, and easy to shop.

A number of the Kids R Us stores are also sporting a new look and feel. The new KRU

stores feature clothes that are trend-right and affordable, along with a lifestyle shop that contains fashion accessories, bath and body products, cosmetics, home décor, and more.



In September 2002, the first of four stores called “Geoffrey” opened in Wisconsin. A new concept in children’s retail, Geoffrey offers toys, clothing, baby items, Imaginarium products, and video game hardware and software, among other related items. The Geoffrey store features special attractions such as “Studio G,” the centerpiece of the store, which offers daily activities. Children can celebrate birthday parties in the “Giraffe Party” section of the stores, and teens can visit the “R” Zone to test the latest video games.

Also in 2002, *Toysrus.com*, LLC launched several new sites that enhance the “R” Us family of brands on the Internet. The addition of *Imaginariumbaby.com* introduced parents to toys that teach or foster learning at every stage of a baby’s development through different colors, textures, and sounds. *Collectors@Toysrus.com* (www.toysrus.com/collectors) features the most

sought-after first-run collectibles, from action figures and dolls to die-cast models. *Giftsrus.com* (www.giftsrus.com) allows shoppers to create

personalized gifts for all of their special occasions such as personalized baby blankets, stuffed animals holding a personalized heart, and much more.

PROMOTION

From the days when Geoffrey the Giraffe had both children and adults singing, “I don’t wanna grow up, I’m a Toys “R” Us kid!” Geoffrey’s never lost his appeal to children and families. In 1960, company executives chose the giraffe as their mascot because they liked the idea of having a large, friendly animal represent their large, friendly store. He was named Geoffrey when an associate suggested it in a contest in 1970.

Since that time, Toys “R” Us branding and marketing efforts have broadened to include in-store promotions such as sweepstakes, sponsorships, and movie tie-ins. Eager to reach families, Toys “R” Us seeks out marketing projects with world-class partners encompassing areas that include entertainment and sports such as Universal Studios and NASCAR.

In 2001, Toys “R” Us featured a new animatronic Geoffrey in the company’s advertising

campaign, which introduced consumers to the “new” Toys “R” Us. In 2002, Toys “R” Us commercials featuring Geoffrey were listed among Intermedia Advertising Group’s (IAG) most effective advertising of the year; in fact, they were the number-one, number-three, and number-four spots out of 4,000 contenders. A spot called “Phone Call,” which featured Geoffrey on the telephone with a competitor checking in-stock items, was the number-one-ranked commercial on the IAG list.

BRAND VALUES

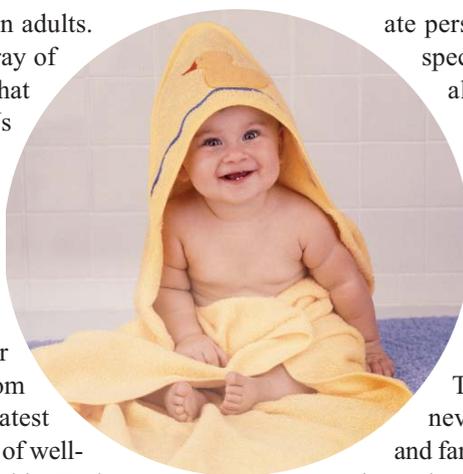
The essence of the Toys “R” Us brand is all about “kids, families, and fun.” You only have to watch a child’s eyes light up the moment he

or she sees the Toys “R” Us multicolored logo to understand the magic of one of retail’s most powerful icon brands.

The revitalized Toys “R” Us brand values remain squarely focused on the special relationship the store has with children throughout the



world, while also working toward being attentive to a family’s needs. This approach is evidenced by Toys “R” Us’ increased concentration in the areas of learning and child development. The brand values include a firm belief that products should have terrific play value and help children develop their skills. Exclusive relationships with brands like Animal Planet, Scholastic, and Home Depot help the company achieve this goal.



THINGS YOU DIDN’T KNOW ABOUT TOYS “R” US

- Toys “R” Us television commercials had the highest brand recall in 2002, according to Intermedia Advertising Group’s research.
- During the holiday season, Toys “R” Us, Inc. and ABC’s *Good Morning America* launched “A Time for Smiles,” a holiday toy drive benefiting The Boys & Girls Clubs of America. The event raised more than \$3.5 million in 2002.
- To kick off the holiday season, Toys “R” Us Times Square coordinates a toy procession that dazzles children as the world’s best-loved characters march down the streets of New York City to their favorite destination, Toys “R” Us Times Square.