



THE MARKET

U.S. consumers spent more than \$20.7 billion on toys in 2003 according to the Toy Industry Association, Inc. and the NPD Group. A revival of classic toys, growth in the expanding interactive, high-tech toy market, and the continued upsurge of the learning/educational category all contributed to these sales. The rapid growth of the Internet has also had a significant impact on the toy retail business as people choose to shop from the comfort of their homes.

The toy market is a unique, unpredictable, and exciting industry. More than half of all toy sales occur during the fourth quarter of the year, driven primarily by holiday season spending. Because only a small number of the hundreds of thousands of toys sold actually become hot sellers, and fewer still remain popular for more than a year or two, toy retailers constantly adapt to changing trends in order to maintain a loyal customer base.

As one of the world's leading retailers of toys and juvenile and baby products, Toys "R" Us, Inc. offers its customers more than 1,400 locations worldwide, including Toys "R" Us, Babies "R" Us, and Geoffrey's Toys "R" Us stores, and Internet sites www.toysrus.com, www.babiesrus.com, www.imaginarium.com, www.sportsrus.com, and www.personalizedbyrus.com.

ACHIEVEMENTS

The year 2003 was a landmark year for several of Toys "R" Us, Inc.'s divisions. The company experienced record sales and operating earnings performances in its Babies "R" Us and Toys "R" Us International divisions. Toysrus.com also continues to thrive, surpassing its own past performance.

Since its birth in 1996, the Babies "R" Us division has established itself as the leader in the juvenile industry and the largest baby products specialty chain store in the world. The store features an extensive selection of products for newborns and infants, including cribs and furniture, car seats, strollers, formula, diapers, bedding, clothing, plenty of gift ideas, and of course, toys. In addition to carrying the nation's leading brands, Babies "R" Us also offers private label and exclusive products that are staples of the business and which provide added value to customers. Babies "R" Us registers more expectant mothers

than any other retailer and continues to improve its popular Baby Registry system, an important means for new mothers to identify items they need. The division celebrated an important milestone with its 200th grand opening. Babies "R" Us continues to expand with plans to add 20 new stores and



remodel an additional 21 locations during 2004.

In 2003, the Toys "R" Us International division added two new Babies "R" Us stores in Japan, for a total of three in that country. Traditional baby products coupled with categories that Japanese consumers appreciate, such as a maternity shop, a baby shoe department, and Sekku shop that specializes in Hina dolls (a cultural tradition), have made these stores a huge success with customers.

Babies "R" Us is not the only brand in the Toys "R" Us International division that is expanding. The joy of being a Toys "R" Us kid is a universal concept. Today approximately 580 Toys "R" Us

company and franchise-operated stores are open outside of the United States, including locations in Canada, Central and South America, Europe, Asia, and Africa.

The company's growing Toysrus.com division makes at-home shopping possible. In alliance with Amazon.com, the division operates Toysrus.com, Babiesrus.com, and Imaginarium.com. The newest e-commerce sites include Sportsrus.com and Personalizedbyrus.com. Sportsrus.com carries more than 30,000 items ranging from authentic sporting goods to apparel, games, footwear, fitness equipment, collectibles, and many other categories. The wide selection makes this site the superior place for sports-related items. At Personalizedbyrus.com, visitors can browse hundreds of customized gifts from Toys "R" Us and Babies "R" Us, and add their own personalized messages that can be printed, monogrammed, hand-painted, or engraved. The continued success of Toysrus.com prompted *Internet Retailer* magazine to name it among their Top 50 Best of the Web retailers of 2003.

HISTORY

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

By 1957, Lazarus's baby furniture store was transformed and renamed 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 Interstate Sales, a large retail conglomerate. Lazarus continued to run the Toys "R" Us stores, and they 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.

The company has grown and expanded significantly since then. Global expansion of Toys "R" Us stores began in 1984 with the opening of toy stores



in Canada, England, and Singapore. The expansion of Toys "R" Us, Inc. 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 leading retailer in the juvenile industry.

In 1998, Toys "R" Us moved into the cyber-world when it established www.toysrus.com, the company's first online store. The online site gained significant momentum two years later after entering into a strategic partnership with Amazon.com and becoming a premier online toy, video game, and baby store. With a customer base that exceeds 10 million, Toysrus.com is among the most visited e-commerce destinations for toys, video games, and baby products.

Today, more than 50 years after Charles Lazarus opened his first baby furniture store, Toys "R" Us, Inc. continues to provide customers with exceptional value and selection while never forgetting its founder's most important rule of business: Listen to the customer.

THE PRODUCT

Toys "R" Us, Inc. is one of the world's largest retailers of toys, juvenile and baby products, and children's apparel. The company's stores feature thousands of items that appeal to guests of all ages. The chain offers a wide array of products including items that are exclusive to Toys "R" Us, such as Animal Alley plush toys, Home Depot tools for kids, Super Slicks racing vehicles, Scholastic products, Pavilion Games, and more.

Toys "R" Us stores stock toys and games for kids of all ages, ranging from classic favorites to the latest innovations. Wide selections of well-known brand names like Barbie, Tonka, 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 continue to occur at Toys "R" Us stores. A new open layout makes the store easier to shop and increases guest delight. The company continues to reinvent the toy store shopping experience in an ongoing way with special events and new services.

Toys "R" Us has significantly expanded its video merchandising in U.S. stores with a new fea-

ture called Geoffrey's Box Office. As "the place for family entertainment," the section carries an extensive DVD and VHS selection for parents and children. Geoffrey's Box Office represents a noteworthy step in movie merchandising for the toy chain.

Toys "R" Us, Inc. has also launched another unique toy shopping experience in neighborhood grocery stores and drug stores. In 2003, the company partnered with Albertsons, Inc., one of the world's largest food and drug retailers, to become that company's exclusive toy provider, using a "store-within-a-store" concept called Toys "R" Us Toy Box. In just one year, Toys "R" Us Toy Box was rolled out to more than 2,100 Albertsons locations in 31 states. Toy Box aisles offer parents name-brand toys and hot products, bringing the magic of Toys "R" Us to the place where customers shop most often.

PROMOTION

In its continuing effort to provide unique toy-buying experiences, Toys "R" Us is also offering more in-store activities for guests and bringing joy and entertainment to families.

Geoffrey's Funday is a free, in-store program that takes place on Saturdays year-round in all U.S. Toys "R" Us stores. Children and their families participate in craft activities, games, product demonstrations, and much more. Kids get the opportunity to use their imaginations while creating a variety of arts and crafts such as frames, books, and musical instruments. This exclusive initiative transforms the toy store into a welcoming environment and brings families back again and again for more fun.

Toys "R" Us has always found creative ways to excite their favorite guests: children. This year, Toys "R" Us launched Geoffrey's Birthday Club in an effort to make children feel like princes and princesses on their special day. Since September 2003, more than 1 million boys and

girls have become members. The program includes elements that parents and children both enjoy. Prior to the big event, parents receive a party planner with coupons for toys and party supplies. Children receive a birthday card and phone call from Geoffrey, a gift coupon, and an invitation to visit any Toys "R" Us store for special birthday treatment. At the store, children are treated like royalty, receiving a crown, a balloon, a Birthday Club shopping cart, plus a special birthday announcement over the store's public address system so that all shoppers can join in the celebration.

These unique elements and programs set Toys "R" Us apart from other toy retailers and create an inviting environment for parents and their children to interact and become closer through the magic of play.

BRAND VALUES

The heart of the Toys "R" Us brand lies within "kids, families, and fun." You only have to watch a child's eyes light up the moment he or she sees the multicolored Toys "R" Us logo to understand the magic of one of retail's most powerful icons.

The revitalized Toys "R" Us brand values include a firm belief that products should have terrific play value as well as help children develop vital skills. This approach is evidenced by the retailer's concentration of toys in the areas of learning and child development. Exclusive relationships with brands like Animal Planet, Scholastic, and Home Depot help the company achieve this goal.

The success of the Toys "R" Us brand has made it an integral part of the fabric of family life. The ongoing mission of Toys "R" Us is to ensure



that today's generation of young people has the opportunity to experience the same magic and joy of play that their parents and grandparents did, so that they too can appreciate the wonder and thrill of being a Toys "R" Us kid.

THINGS YOU DIDN'T KNOW ABOUT TOYS "R" US

- In 1960, Toys "R" Us, Inc. executives chose the giraffe as the company's mascot because they liked the idea of having a large, friendly animal represent their large, friendly store. The giraffe was named Geoffrey when an associate suggested it in a contest in 1970.
- Beginning in 2001, Jim Hanks, brother to actor Tom Hanks, became the voice of Geoffrey the giraffe.
- In 2003, The Toys "R" Us Children's Fund, Inc. entered into partnerships with Reading Is Fundamental, Gilda's Club, and the Starlight Foundation to further its charitable giving, helping children through literacy programs and hospital playrooms.
- Early in 2004, Babies "R" Us conducted its second annual "All About Mom Survey" and found that Mom's most memorable moment is feeling her baby's first kick.
- Toys "R" Us, Inc. offers guests three ways to shop: in-store, online, and by phone.