ANNUAL REPORT
2017/2018

TOP-TOY Holding II A/S
Delta Park 37, 2665 Vallensbæk, Denmark
CVR: 37 25 47 03


SPIRE

CONTENT

MANAGEMENT STATEMENT

Today, the Board of Directors and the Executive Board have discussed the annual report of TOP-TOY II A/S, including going concern and approved the annual report of the Group and the Parent Company for the financial year 1 July 2017 – 30 June 2018.

The annual report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Danish disclosure requirements.

The condition for going concern is as stated in Management's Review not fulfilled.

Due to the significant uncertainty regarding going concern of the subsidiary TOP-TOY A/S in reconstruction, TOP-TOY A/S in reconstruction may be unable to realise its assets and settle its obligations in the ordinary course of business. We have not been able to quantify the impact on the financial statements for TOP-TOY A/S in reconstruction and the impact of Group and the Parent company for TOP-TOY Holding II A/S. We are consequently not able to express an opinion on whether the financial statements for the Group and the Parent company give a true and fair view of the financial position of the Group and the Parent Company at 30 June 2018 and of the results of the Group and the Parent Company's operations and cash flows for the financial year 1 July 2017 – 30 June 2018 considering the above circumstances.

In our opinion, the Management's Review gives a fair review of the development in the Group and the Parent Company's operations and financial matters and the results of the Group and the Parent Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Vallensbæk Strand, 30 November 2018

Executive Board:

Pär Sigvardsson
CEO

Christian K. Hertz Jakobsen
CFO

Board of Directors:

Michael Hauge Sørensen
Chairman

Thomas Henrik Gjørup

Lars Gjørup

John Albert Gustafsson

Hans Frederik Steenbuch

Erik Carl Ragnarsson Lindgren

INDEPENDENT AUDITORS REPORT

To the shareholders of TOP-TOY Holding II A/S

Disclaimer of opinion

We have been appointed to audit the consolidated financial statements and the parent company financial statements of TOP-TOY Holding II A/S for the financial year 1 July 2017 – 30 June 2018, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statements and notes including accounting policies, for the Group as well for the Parent Company. The consolidated financial statements and the parent financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act.
We do not express any audit opinion on the consolidated financial statements and the parent company financial statements. Because of the significance of the matters described in the "Basis for disclaimer of opinion" section, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an opinion.

Basis for disclaimer of opinion

As stated in the "Statement by Management on the annual report", Management is not able to express an opinion on whether the consolidated financial statements and the parent company financial statements for 2017/18 give a true and fair view of the financial position of the Group and the Parent company at 30 June 2018 and of the results of the Group and the Parent's operations and cash flows for the financial year 1 July 2017 – 30 June 2018, due to the significant uncertainty regarding going concern.

As explained in note 2 of the financial statements, Management has negotiated with the Group's lenders to ensure sufficient financing as to continue its operations for 2018/19. It has not been possible to obtain commitments for additional financing and therefore Management of the subsidiary TOP-TOY A/S in reconstruction has filed a request with the Danish court for reconstruction under the Bankruptcy Act at 30 November 2018.

The Group has not obtained funding commitment from the lenders or shareholders to ensure sufficient financing to continue its operations for 2018/19, and accordingly, we have not obtained sufficient and appropriate evidence regarding the use of the going concern basis for accounting.

Due to the significant uncertainty regarding going concern of the subsidiary TOP-TOY A/S in reconstruction, the Group may be unable to realize its assets and settle its obligations in the ordinary course of business. We have not been able to quantify the impact on the consolidated financial statements and the parent company financial statements for TOP-TOY Holding II A/S.

Management's responsibilities for the consolidated financial statements and the parent company financial statements. Management is responsible for the preparation of consolidated financial statements and the parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group and the Parent company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and parent company financial statements
Our responsibility is to conduct an audit of the consolidated financial statements and the parent company financial statements in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark and to issue an audit opinion. However, because of the matters described in the "Basis for disclaimer of opinion" section, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an opinion on the consolidated financial statements and the parent company financial statements.

Independence

We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Statement on the Management's Review

As stated in the "Basis for disclaimer of opinion" section above, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an opinion on the consolidated financial statements and the parent company financial statements. Accordingly, we make no statement on the Management's Review.

Copenhagen, 30 November 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Bender
State Authorised
Public Accountant
MNE-no: 21332

Ole Becker
State Authorised
Public Accountant
MNE-no: 33732

KEY FIGURES AND FINANCIAL RATIOS

DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017	25 November 2015 – 30 June 2016[1]
Key figures			
Revenue	3,109.5	3,365.5	1,259.3
Gross profit	1,435.9	1,762.8	634.8
EBITDA before special items	-148.6	138.9	-126.5
Amortisation, depreciation and impairment lossses	-1,660.1	-62.5	-28.8
Operating result	-2,030.8	-16.0	-201.5
Financials, net	0.0	-29.6	-30.1
Result for the year	**-2,031.1**	**-38.7**	**-188.6**
Total assets	1,187.4	3,047.9	2,928.1
Investment in property, plant and equipment	66.0	35.2	41.5
Equity	**-907.7**	**959.7**	**1,010.9**
Cash flows from operating activities	-217.5	-107.4	-342.7
Cash flows from investing activities	-97.7	-124.3	-2,121.1
Cash flows from financing activities	971.0	-9.7	2,099.2
Total cash flows	**655.8**	**-241.4**	**-364.6**
Financial ratios[2]			
Gross margin	46.2%	52.4%	50.4%
Solvency ratio	-76.4%	31.5%	34.5%
Average number of full-time employees	**2,070**	**2,124**	**2,266**
Number of stores	**296**	**311**	**309**

1) As TOP-TOY Holding II A/S was established on 25 November 2015 and went into operation on 1 January 2016 last year's financial data covers from 1 January 2016 until the end of the financial year.

2) Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios, " Recommendations and Financial Ratios". For terms and definitions, please see the accounting policies.

MANAGEMENT'S REVIEW

We are investing heavily in our transformation plan, launched in January 2018. The plan will ensure a strong omni-channel profile for TOP-TOY with our customers and their needs in focus. We have also found a solution to the major challenges with our ERP system. We are therefore confident we will see significant improvements in financial performance by 2020, where we expect to see the full impact of our transformation plan.

TOP-TOY's revenue totalled DKK 3,110 million in the 2017/2018 financial year, which was below expectations. The decline was largely driven by substantial challenges related to the launch of our ERP system in March 2017, which required considerable internal resources and brought a number of operational challenges. This severely impacted our performance throughout 2017, including the important Halloween, Black Friday and Christmas season of the fourth quarter.

Our ERP system – a difficult launch

The ERP challenges brought considerable disturbance to our distribution setup and product availability. As a result, customers often did not find the products they intended to buy when they visited our online and physical stores. A lot of time was spent on internal issues like stock counting and manual reallocation of goods instead of customer service – an unfortunate situation in the face of increasing customer demands, especially on our web shops. For example, our web shops were struck by significantly limited search capabilities, lack of promotional pricing, poor checkout flow and excessive delivery times. Because many customers start their search online even when they intend to make their purchase in a physical store, our web shop challenges impacted sales in our physical stores as well. We also experienced poor handling, planning and execution of our campaigns due to the new ERP system.

The operational issues with the ERP system have been gradually resolved. At the beginning of 2018, we implemented a SAP acceleration benefit program to ensure the benefits of the ERP system are realised. This includes a broad training effort to ensure employees work correctly and efficiently with the system and efforts to identify ways to optimise our work processes. Consequently, our ERP system will not have a negative impact on our performance going forward.

Transformation plan

The Board of Directors and the Executive Management view the overall operational and financial performance in 2017/2018 as unsatisfactory. Consequently, the Board responded to the poor performance at the beginning of the year by securing a stronger and broader representation of our sales organisation in top management, along with new additions with extensive retail experience. The new top management has already launched a comprehensive transformation plan to restore performance.

As the transformation plan unfolds, a series of simple and tangible actions are being taken which increase the focus on customers, employees and execution. This includes a range of different initiatives such as electronic shelf labels, advanced planning system to improve availability of popular products in our stores, self check-outs, etc. We have also started to take daily measurements of customer satisfaction and will report back to customers when we initiate changes based on their feedback. However the transformation plan has not been sufficient to turn the performance around.

Investments in strong omni-channel benefits for our customers

We have decided to insource our online warehouse and move the activities from Poland to Demark to ensure that we offer our customers strong omni-channel benefits. This way we will be much closer to our customers and be able to deliver their orders faster. The new automated and robotics based set-up will be fully operational during 2019. In addition, we have automated and robotics based invested in a new platform for our web shops. This will create a much better user experience and agility in our online offer. The first improvements will be implemented before Christmas 2018.

Another key focus area is to optimise our store landscape. This means that we will focus on ensuring fewer and better stores at prime locations. In 2017/2018, we closed more stores than we opened – a trend we expect to continue in the future as a result of the changed buying pattern we see from our customers. Our objective is to integrate our physical stores with our online stores so customers can experience the benefits of both. For example, we have introduced our 'Click and Collect' service with great success. We will continue to develop this service to include more options for our customers.

Competition on prices is only becoming more fierce both online and offline. We have, therefore, strengthened our price offering, for example by introducing an 'everyday low price' initiative in TOYS"R"US. 'Everyday low price' means that our pricing robot scans thousands of products daily to ensure our customers always get a low and competitive price. For BR, we also monitor prices of popular products against relevant competitors to ensure we offer customers good prices. In addition, we aim to attract customers through good locations, good in-store service, Club BR, HAPPY Guarantee, gift wrapping and visible staff, who are always ready with good advice.

Revenue development

Total revenue for 2017/2018 was DKK 3,110 million, which were below the expectations. This was mainly driven by a decrease in same-store sales, as the opening of new stores almost sets off the impact of store closures.

The decline in same-store sales was largely caused by issues with our new ERP system. However, the underlying consumer preference for online sales clearly poses a longer term challenge to our physical stores. Consumers are increasingly doing their shopping online, which globally is changing the purpose and need for shopping experience in the physical stores – a challenge TOP-TOY is addressing by means of our transformation plan.

Development in earnings

The gross margin was 46.2%, which was below our expectations. It was impacted by significant inventory inefficiencies due to implementation of the new ERP system. Increasing price competition, especially on branded goods like LEGO, also had an impact on earnings.

Operating costs were DKK 1,585 million, representing 51.0% of revenue. The target is to reduce operating costs as a percentage of revenue – both in the store network as well as in all administrative functions.

EBITDA before special items amounted to DKK -148.6 million impacted by the low operational result after ERP going live. Operating result and result for the year showed a loss at DKK -2,030.8 million and DKK -2,031.1 million respectively. The result is positively affected by changes in exchange rates. The effect is DKK 86.4 million, hereof DKK 47.4 million from loans in foreign currency. Full impairment of goodwill, brand and customer club has had a negative effect of the result with DKK 1,579.4 millions.

Free cash flow and net interest-bearing debt

Net working capital increased due to the go-live of the new ERP system. This was due to a decision to fill up inventories before go-live on 27 March. Due to payment terms, most were paid for before year end.

Cash flow from operating activities was DKK -217.5 million. This was mainly driven by changes in working capital, which are expected to be normalized in the current financial year, and the higher interest expenses.

Cash flow from investing activities was DKK -97.7 million. The main asset acquired was the new ERP system, which has been fully capitalized and started to be amortised at go-live. From 2017/2018, investment activities will be more normalized and primarily focus on store openings and upgrades.

The interest-bearing debt increased from DKK 1,563.1 million in 2016/2017 to DKK 1,700.4 million in 2017/2018. The shareholders who hold 5% or more of the share capital (lead investors) have supported TOP-TOY with a shareholder loan of DKK 175 million, which was converted to share capital in March 2018. The RCF facilities have been increased by DKK 390 million, guaranteed by the lead investors.

Outlook for 2018/2019

A solution has been found to all the major challenges with our ERP system and our transformation plan is on track. We also expect our 2018/2019 financial performance to improve, followed by more significant improvements in 2020, when we expect to realize the full impact of our transformation plan. However, since we have not been able to obtain sufficient funding commitment to support the operations of the Group, the Board of Directors and Executive Management of TOP-TOY A/S in reconstruction decided to file for in court reconstruction on 30 November 2018.

The reconstruction plan for TOP-TOY A/S in reconstruction is being prepared and will be presented in a court hearing meeting within 4 weeks from filing date, according to applicable reconstruction procedures. At the court hearing meeting the creditors will vote on such reconstruction plan.

DIVERSITY

Women and men in top management

	2016/2017		2017/2018	
	Women	Men	Women	Men
Board of directors	0%	100%	0%	100%
Executive Management Team (EMT)	14%	86%	14%	86%
Top Management Team (TMT)	30%	70%	28%	72%
Middle managers	30%	70%	34%	66%
Store managers[1]	69%	31%	66%	34%
Entire top management	**60%**	**40%**	**58%**	**42%**

New appointments to managerial positions

	2016/2017		2017/2018	
	Women	Men	Women	Men
Board of directors	0%	100%	0%	100%
Executive Management Team (EMT)	50%	50%	0%	100%
Top Management Team (TMT)[2]	33%	67%	50%	50%
Middle managers	14%	86%	40%	60%
Store managers	44%	56%	50%	50%
Entire top management	**37%**	**63%**	**39%**	**61%**

To stay competitive, we must attract and retain an engaged and competent workforce, while embracing diversity in respect of gender, culture and experience.

Diversity in terms of background, nationality, gender and so on is a focus area when recruiting to managerial positions. In this, we aim to continue working towards our long-term commitment to hire and promote women. While qualifications will always be the most important factor for recruitment, we expect our internal hiring managers and external recruitment agencies to ensure a representative candidate list for each position.

Our long-term diversity target for our Board of Directors, Executive Management Team and Top Management Team is a more balanced gender distribution (40/60%) in 2021/2022. In 2017/2018, our Board comprised men only. A supervisor from the Gjørup family has replaced one of the family's board members, and therefore it has not been possible to fulfill the target of 40%/ 60%. The appointment was a new representative from the Gjørup family. Our female representation at other management levels remained similar to last year overall. In our Executive Management Team, diversity in terms of nationality increased.

1) In 2015/2016 assisting store managers were included. In 2016/2017 we excluded assisting store managers to give a more accurate picture of diversity in our top management.
2) Our TMT has been expanded this year to ensure a commercial focus. This means that among others category managers and marketing managers have been included in the TMT. Only new hires have been included in the table.

THE CHILDREN WHO PLAY WITH OUR PRODUCTS

Children and their families experience our marketing and products when they browse our catalogues and visit our stores. We have a great responsibility to ensure an ethical product offering and marketing.

Ethical product offering

For us at TOP-TOY, it is crucial that customers can browse our catalogues and visit our stores without worrying about exposing children to products that send out inappropriate signals or which may cause emotional or physical harm. This is why, in 2015, we developed our Ethical Product Offering Policy to define products that are unsuitable for our assortment.

Examples of our positions

Tobacco and alcohol: We do not offer products that can be perceived as promoting the use of tobacco or alcohol. This also applies to, for example, football trading cards and model vehicles with tobacco or alcohol-related logos.

*Toy weapons: W*e do not offer toy weapons that are realistic copies of modern firearms and can be associated with modern war, terror or street crime. However, we do recognise that many children are interested in role-play where 'the good' are up against 'the bad'. This is why we do sell toy weapons, such as cowboy guns, for use in role-play.

Responsible marketing

We recognise that marketing communications can influence children's behaviour. To guide our marketing in the future, we have developed a Responsible Marketing Policy that builds on our Ethical Product Offering Policy. Our goal is to ensure our marketing promotes safe, inclusive and active play.

Examples of our positions

Safe play: The use of relevant personal protection equipment is shown when promoting products such as bikes, skateboards and roller skates.

Right impression of product features: We promote products in a way that gives children a realistic impression of product features and ensures that reality and fantasy are clearly distinguishable.

Gender, marketing and product offering: We make efforts to avoid gender stereotyping in our marketing and store designs and strive to encourage customers to buy and play with the toys of their choice regardless of gender.

ENSURING PRODUCT COMPLIANCE

The safety of the children who play with our products is our highest priority. This is why we subject all products to our thorough safety procedure and work to ensure they are made under responsible conditions.

We integrate safety and responsible working conditions in the entire lifecycle of our products. This involves thorough testing to make sure our products comply with strict EU and national regulations for mechanical and chemical safety. In the case of chemical content and for certain toys aimed at children under the age of three, our TOP-TOY standards are higher than those of the EU Toy Safety Directive. In 2017/2018, 3,906 products went through our thorough product safety procedure.

Orders are only placed with a supplier once they have signed our social compliance standards. These ensure products are made under responsible conditions with respect for international human rights and labour standards, such as no use of child labour.

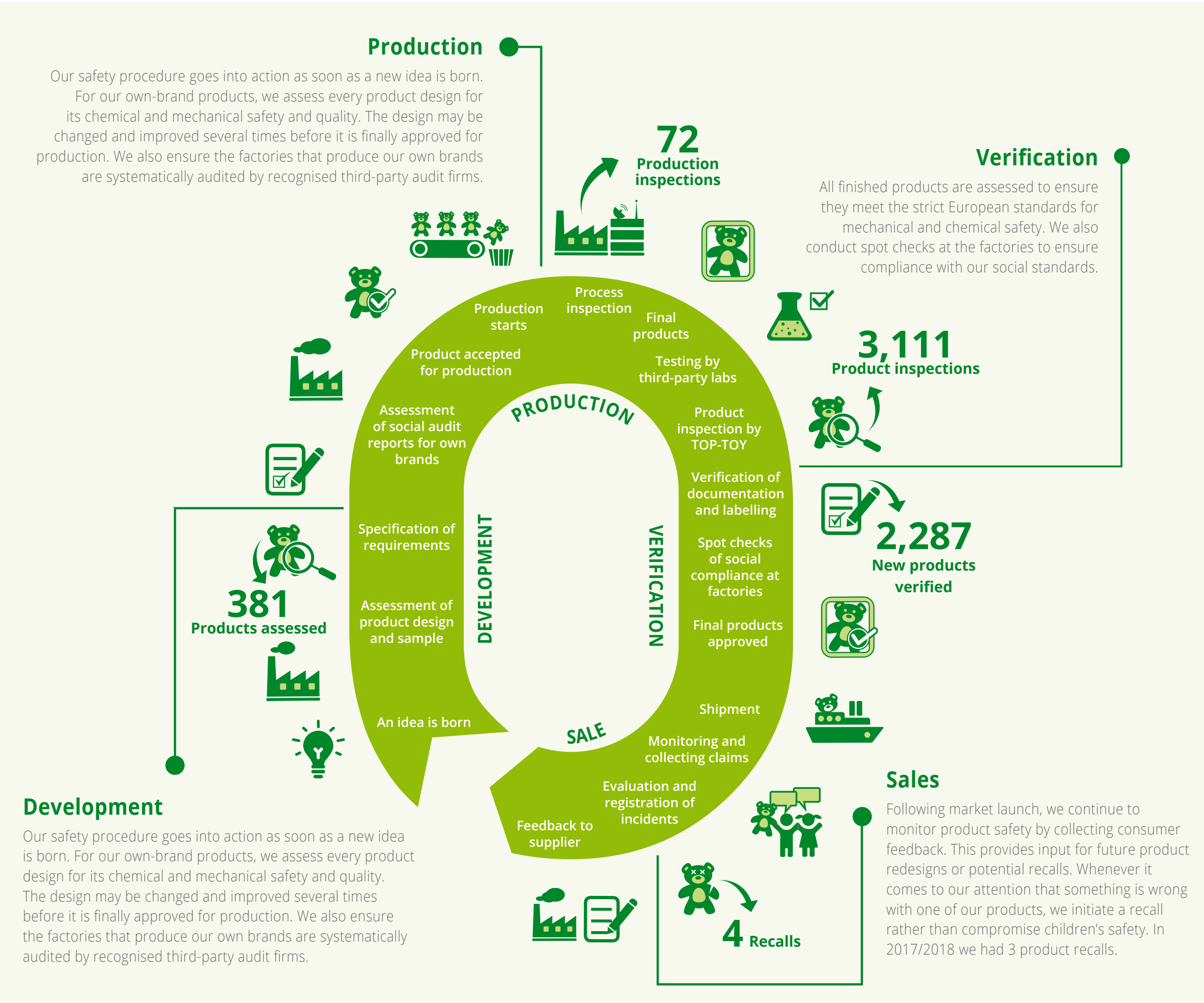
Support for industry-wide improvement

We have a proactive approach to organisations and initiatives that work to ensure responsible manufacturing practices along with good and meaningful safety regulations. We therefore support:

WE SUPPORT
The UN Global Compact
Signatory since 2010

ICTI CARE Foundation
The ICTI CARE Foundation
We are part of the ICTI CARE Committed Brands PLUS Program

In addition, we collaborate with the European Committee for the Standardisation of Toys (CEN TC 52) and the Danish Standardisation Agency. We encourage market surveillance by relevant authorities to ensure a level playing field.



Only the recall data covers the full financial year. The rest of the data covers the period from 1 July 2016 to 26 March 2017.

OUR ENVIRONMENTAL FOOTPRINT

Our environmental policy

As we own no production sites, our biggest direct environmental impact comes from our distribution set-up and stores. The six priorities of our environmental policy reflect the areas where we believe we can bring about the most positive change:

- Energy and emissions
- Product packaging
- Waste
- Transportation
- Product suppliers
- Investments and purchases

In 2017/2018, we carried out a series of initiatives in line with our policy:

Reducing waste by using bags instead of cardboard for web orders

We have reduced packaging waste by using plastic bags instead of cardboard for many of our web order deliveries. The plastic bags are made from recycled material – 10% post-consumer waste and 90% industrial waste.

Charging for plastic bags and changing to recycled material

The EU aims to reduce plastic bag consumption by 50% before 2025. We welcome this ambition and, therefore, introduced a charge for our plastic bags in the autumn of 2017. This has already led to a reduction in plastic bag sales. We will continue encouraging customers to reuse the bags they buy or consider other alternatives. We have also changed the type of bags we sell so they are now made from 100% recycled material – 80% post-consumer waste and 20% industrial waste.

Responsible own brands

We have integrated our environmental commitment in the development process for new own-brand products. This includes using recycled cardboard packaging with a water-based UV coating. In addition, our own-brand wood products are made entirely of FSC-certified wood. In 2017/2018, we sold more than 190,000 of these products.

LED lighting in our warehouse and stores

The switch to LED lighting is one of our most important steps to reduce energy consumption and emissions. We have introduced LED lighting in approximately 93% of our stores. Our BR stores have saved approximately 4.4 million kWh, corresponding to 1,800 tonnes of CO_2 and annual savings of DKK 3.2 million.

Stores with LED lighting at year-end

2014/2015	2015/2016	2016/2017	2017/2018
35%	75%	93%	93%

CORPORATE GOVERNANCE

Corporate governance practices at TOP-TOY

At TOP-TOY, we strive to comply with the generally accepted corporate governance principles of the Danish Companies Act, the Danish Financial Statements Act, the International Financial Reporting Standards and the internal rules and procedures described in the TOP-TOY Rules of Procedure for the Board of Directors and Executive Management. As TOP-TOY is primarily owned by EQT, which is a member of the Danish Venture Capital and Private Equity Association (DVCA), we also work to comply with the corporate governance guidelines issued by DVCA.

Power of attorney is shared between the TOP-TOY Board of Directors and Executive Management according to the common practices for Danish companies and as formalised by the company's Rules of Procedure. The Executive Management handles all day-to-day operations under the supervision of the Board of Directors, which also approves certain types of major decision and investment. TOP-TOY's Executive Management is supported by an Executive Management Team (EMT), which comprises seven members in addition to the Executive Management.

TOP-TOY's Board of Directors develops the corporate strategy in cooperation with the Executive Management. In addition, the Board oversees progress and financial development; assesses whether the necessary skills and qualifications are in place to support TOP-TOY's development and strategic business objectives; and ensures progress is made on implementing efficient and transparent business procedures.

The Board aims to have six board meetings a year. For each one, the agenda is determined by the Board's meeting schedule, which is updated and approved by the Board of Directors at the beginning of each financial year in dialogue with the Executive Management.

Board and Executive Management

The Board of Directors had six members in 2017/2018. Key topics of discussion related to TOP-TOY markets and sales development, ERP implementation, the omni-channel approach, cost reduction and corporate strategy.

During 2017/2018, Lars Gjørup became a member of the Board, replacing Peter Gjørup. In the Executive Management, Per Sigvardsson joined as the new CEO and Christian K.H. Jakobsen as new CFO in January and February 2018, respectively. In addition four new members joined the EMT, which now represents our sales organisation and retail capabilities more strongly and broadly.

Internal control systems

The Executive Management is responsible for maintaining an adequate and efficient internal control environment with regard to financial reporting. We continue to strengthen the control environment as part of our ongoing efforts to realise the full advantages of our new ERP system.

Ownership and capital structure

TOP-TOY's majority shareholder is the private equity fund EQT, which owns 73.6% of TOP-TOY, while the founding Gjørup family owns 24.5%. The remaining shares are owned by Board and management members.

RISK MANAGEMENT

The Executive Management works actively with risk management. Ongoing discussions and assessments ensure actual and potential risks are managed in a proactive and efficient way. This includes departmental follow-ups to drive risk mitigation and action plans. The ultimate responsibility for risk management lies with the Board of Directors.

Financial risk

Due to the nature of TOP-TOY's operations, investments and financing arrangements, the company is exposed to financial risks from fluctuations in foreign exchange rates and interest rate levels. Our policy is to address financial risks actively in order to mitigate potential material impacts on our financial position.

Currency risk

Our international activities expose our financial results, cash flows and equity to fluctuations in various foreign currencies. Exchange rate exposure relates primarily to the purchase of goods in foreign currency, mainly USD, and net cash flows from foreign subsidiaries, mainly SEK and NOK and debt in SEK and NOK. Our policy is to hedge foreign currency risk at least once every six months for minimum 75% of planned procurement prior to purchasing for each season. Exchange rate exposure is not hedged when related to the translation of financial results, debt and equity of foreign subsidiaries into DKK.

Interest rate risk

TOP-TOY is exposed to interest rate risk when borrowing funds at variable interest rates. We monitor this risk and use hedging to maintain a mix between fixed and floating rate loans in accordance with our treasury policy.

Liquidity risk

Management of TOP-TOY A/S in reconstruction has filed a request with the Danish court for reconstruction under the Bankruptcy Act at 30 November 2018. Please refer to note 2 related to the current financial situation.

Credit risk

TOP-TOY has limited credit risk exposure related to trade receivables as revenue transactions are settled by cash and credit or debit cards. We are not exposed to any major credit risk related to trade receivables from any single customer or other party. However, we do have credit risk in relation to cash held at financial institutions and unrealised gains on financial contracts.

Operational risk

TOP-TOY has identified key operational risks within the areas of:

- Market place
- Sourcing
- Legislation
- Infrastructure
- People

Market place

Competition

As a retailer, TOP-TOY is exposed to competition from specialist retailers with a similar value proposition and from more generalist retailers, such as hypermarkets. Increasing competition comes from online formats, including omnichannel players and pure online retailers. To mitigate such competition, TOP-TOY continues to invest and develop the BR and TOYS"R"US concepts to sustain an attractive value proposition to customers. Initiatives include the ongoing reinforcement of our creative capabilities within category management, product design and innovation, visual merchandising, marketing and branding as well as training of store staff to sustain and improve service levels.

Product assortment

In line with other retailers, our product assortment in BR and TOYS"R"US must meet customer preferences to remain relevant. Should we fail to select the right products at the right prices, then financial performance will be impacted. We review our assortment continuously and actively engage in category management to improve our trend spotting and stay up to date with market developments.

Product development

TOP-TOY depends on products developed by major toy suppliers. The industry is very trend driven and relies on demand created by new and popular global trends, including movie merchandise. The strength of popular trends varies from year to year and has a significant impact on demand within each of our categories.

Expansion

Our growth ambitions require strong performance in our physical and online stores. Failure to address performance issues in local markets may impact overall financial results. We work continuously to improve our monitoring, business reviews and control systems so we can proactively address any local market disruptions.

Sourcing and supply

Forecasting

Failure to assess demand correctly will have a negative impact on our financial results. Underestimation of demand causes availability issues and missed sales with limited opportunities for substitution. Similarly, overestimation causes inventory build-up and potential future write-downs on stock. To manage our top-level forecasting, we have a formal Sales & Operations Planning Process. In 2017/2018, we enhanced our product life-cycle process, which determines how long a product can be in stock and when it needs to be cleared. We also invested in a new IT system, which will improve our control of purchasing and supply at an operational level and, thereby, enhance our ability to ensure our online and physical stores receive the products that are most relevant for their customer base. We expect the new system to be fully implemented in the second quarter of 2019.

Suppliers

We source our products from external suppliers. If suppliers fail to comply with the TOP-TOY Product Integrity Policy, our reputation and brand may be jeopardised. We monitor compliance through our product integrity programme. See the section 'Ensuring product compliance' for further information.

Supply chain disruptions

Disruption in our supply chain may cause product shortages and/or prolonged lead times – with potential negative impact on our reputation and financial results. To mitigate this risk, we monitor the supply chain continuously and invest in sourcing and supply chain systems, processes and capabilities. Our main distribution centre in Greve, Denmark, is subject to an annual on-site risk management survey.

Legislation

TOP-TOY operates in the regulated market for selling toys to children and their families. As such, our marketing effort must comply with the legislation and standards that apply in our markets. Failure to comply with local regulations and standards may negatively affect our reputation and financial performance. For this reason, we have dedicated teams in place to focus on legal and compliance matters pertaining to our business model. We draw on external advisors as required.

Infrastructure

TOP-TOY's business model depends on a well-functioning IT infrastructure and automated logistics setup. Disruptions linked to our global ERP system may have a negative impact on our financial results. To mitigate such risks, we have strengthened our project organisation and project management capabilities. In addition, we have implemented a governance structure anchored with the Executive Management to ensure all departments allocate sufficient attention and resources to disruption prevention.

People

To meet our growth ambitions, we must continue to attract, motivate and retain highly qualified employees at all levels of the organisation – from store staff and managers to creative and administrative people at office locations. Our central HR function focuses on promoting and strengthening employee engagement and satisfaction in our stores and office locations. In all markets, HR managers are in place to support local sales management and implement initiatives for store employees. These initiatives include our new sales training and service concept, which we have introduced in all stores. We also actively monitor employee engagement and satisfaction through the Employee Net Promoter Score concept.

CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT

Note	DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
	Revenue	**3,109.5**	**3,365.5**
	Cost of goods sold	-1,673.6	-1,602.7
	Gross profit	**1,435.9**	**1,762.8**
	Other external expenses	-903.0	-927.6
4	Employee expenses	-681.5	-696.3
	EBITDA before special items	**-148.6**	**138.9**
5	Amortisation, depreciation and impairment losses	-1,660.1	-62.5
	Other operating expenses	0.0	-1.1
	Operating profit (EBIT) before special items	**-1,808.7**	**75.3**
6	Special items	-222.1	-91.3
	Operating result	**-2,030.8**	**-16.0**
8	Financial income	87.1	40.5
9	Financial expenses	-87.1	-70.1
	Result before tax	**-2,030.8**	**-45.6**
10	Tax on result of the year	-0.2	6.9
	Result for the year	**-2,031.1**	**-38.7**

STATEMENT OF COMPREHENSIVE INCOME

Note	DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
	Result of the year	**-2,031.1**	**-38.7**
	Other comprehensive income		
	Other comprehensive income to be reclassified to the result in subsequent periods (net of tax):		
	Exchange differences on translation of foreign entities	-20.7	-3.5
	Value adjustment of hedging instruments	12.0	-11.5
10	Income tax	-2.6	2.5
	Other comprehensive income/(loss) for the year, net of tax	**-11.3**	**-12.5**
	Total comprehensive income for the year, net of tax	**-2,042.4**	**-51.2**
	Attributable to:		
	Equity holders of the parent	-2,018.0	-51.2
	Non-controlling interests	-24.4	0.0
		-2,042.4	**-51.2**

BALANCE SHEET

Note	DKK million	30 June 2018	30 June 2017
	ASSETS		
	Non-current assets		
12	Intangible assets	172.0	1,773.0
14	Property, plant and equipment	167.2	171.4
11	Deferred tax asset	28.6	76.6
	Other non-current assets	6.9	7.2
	Total non-current assets	**374.7**	**2,028.2**
	Current assets		
16	Inventories	678.9	895.3
17	Trade and other receivables	29.8	22.1
	Income tax receivable	15.2	14.3
	Prepayments	39.0	48.9
18	Cash and cash equivalents	49.9	39.1
	Total current assets	**812.7**	**1,019.7**
	TOTAL ASSETS	**1,187.4**	**3,047.9**

BALANCE SHEET

Note	DKK million	30 June 2018	30 June 2017
	EQUITY AND LIABILITIES		
	Equity		
19	Share capital	11.6	11.6
	Hedging reserve	5.9	-3.5
	Foreign currency translation reserve	-27.2	-6.5
	Retained earnings	-898.0	958.1
	Proposed dividends	0.0	0.0
	Equity attributable to equity holders of the parent	-907.7	959.7
	Non-controlling interests	0.0	-
	Total equity	**-907.7**	**959.7**
	Non-current liabilities		
11	Deferred tax liabilities	0.1	58.2
21	Provisions	15.6	16.1
22	Credit institutions	819.8	834.5
	Total non-current liabilities	**835.5**	**908.8**
	Current liabilities		
21	Provisions	11.7	14.0
18,22	Credit institutions	818.6	687.2
23	Trade and other payables	387.1	420.6
	Income tax payable	6.2	10.6
	Joint taxation payables	0.0	27.0
	Deferred income	36.0	20.0
	Total current liabilities	**1,259.6**	**1,179.4**
	TOTAL EQUITY AND LIABILITIES	**1,187.4**	**3,047.9**

STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Hedging reserve	Foreign current translation reserve	Retained earnings	Proposed dividend	Total	Non-control-interest	Total equity
2017/18								
Equity 1 July 2017	11.6	-3.5	-6.5	958.1	0.0	959.7	0.0	959.7
Result for the year	0.0	0.0	0.0	-2,006.7	0.0	-2,006.7	-24.4	-2,031.1
Other comprehensive income								
Foreign currency translation of foreign entities	0.0	0.0	-20.7	0.0	0.0	-20.7	0.0	-20.7
Hedging instruments	0.0	12.0	0.0	0.0	0.0	12.0	0.0	12.0
Tax on hedging instruments	0.0	-2.6	0.0	0.0	0.0	-2.6	0.0	-2.6
Total other comprehensive income	0.0	9.4	-20.7	0.0	0.0	-11.3	0.0	-11.3
Total comprehensive income for the year	0.0	9.4	-20.7	-2,006.7	0.0	-2,018.0	-24.4	-2,042.4
Transactions with owners								
Issue of share capital/ debt convertion	0.0	0.0	0.0	175.0	0.0	175.0	0.0	175.0
Change of ownership with non-controlling entity	0.0	0.0	0.0	-24.4	0.0	-24.4	24.4	0.0
Total transactions with owners	0.0	0.0	0.0	150.6	0.0	150.6	24.4	175.0
Equity 30 June 2018	**11.6**	**5.9**	**-27.2**	**-898.0**	**0.0**	**-907.7**	**0.0**	**-907.7**
2016/17								
Equity 1 July 2016	11.6	5.5	-3.0	996.8	0.0	1,010.9	0.0	1,010.9
Result for the year	0.0	0.0	0.0	-38.7	0.0	-38.7	0.0	-38.7
Other comprehensive income								
Foreign currency translation of foreign entities	0.0	0.0	-3.5	0.0	0.0	-3.5	0.0	-3.5
Hedging instruments	0.0	-11.5	0.0	0.0	0.0	-11.5	0.0	-11.5
Tax on hedging instruments	0.0	2.5	0.0	0.0	0.0	2.5	0.0	2.5
Total other comprehensive income	0.0	-9.0	-3.5	0.0	0.0	-12.4	0.0	-12.4
Total comprehensive income for the year	0.0	-9.0	-3.5	-38.7	0.0	-51.2	0.0	-51.2
Transactions with owners								
Dividend distributed	0.0	0.0	0.0	0.0	0.0	-51.2	0.0	0.0
Total transactions with owners	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-51.2
Equity 30 June 2017	**11.6**	**-3.5**	**-6.5**	**958.1**	**0.0**	**959.7**	**0.0**	**959.7**

CASH FLOW STATEMENT

Note	DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
	Operating result	-2,030.8	-16.0
	Depreciation, amortisation and impairment losses	1,660.1	62.5
	Other adjustments of non-cash operating items	65.3	14.1
	Cash flow from operating activities before changes in working capital	-305.4	60.6
24	Change in working capital	200.8	-72.5
	Cash flow from operations	-104.6	-11.9
	Interest expenses, paid	-68.4	-62.3
	Interest income, received	0.7	0.2
	Cash flow from ordinary activities	-172.3	-74.0
	Income tax paid	-45.2	-33.4
	Cash flow from operating activities	**-217.5**	**-107.4**
	Acquisition of intangible assets	-28.4	-87.1
	Acquisition of property, plant and equipment and leasehold improvement	-69.7	-37.6
	Proceeds from sale of property, plant and equipment	0.2	0.1
	Change in rental deposits	0.2	0.3
	Cash flow from investing activities	**-97.7**	**-124.3**
	Repayment of borrowings	-28.6	-9.7
	Proceeds from borrowings	175.0	0.0
	Change in classification of Revolver Credit Facility	824.6	0.0
	Cash flow from financing activities	**971.0**	**-9.7**
	Cash flows for the year	**655.8**	**-241.4**
	Cash and cash equivalents 1 July	-605.9	-364.1
	Foreign currency translation of cash and cash equivalents	0.0	-0.4
18	**Cash and cash equivalents 30 June**	**49.9**	**-605.9**

The amounts in the Cash Flow Statement may not be derived solely from the published accounting records in the income statement and balance sheet.

NOTES

1 Accounting policies

The financial statements section of the annual report for the period 1 July 2017 – 30 June 2018 comprises both the consolidated financial statements of TOP-TOY Holding II A/S and its subsidiaries (the Group or the TOP-TOY Group) and the separate parent company financial statements. The comparative figures cover the period 1 July 2017 - 30 June 2018.

The Group is the leading retailer in toys and other children's products in the Nordic Region, with stores located in Denmark, Sweden, Norway, Finland, Iceland and North Germany.

TOP-TOY Holding II A/S is incorporated and domiciled in Denmark.

The consolidated financial statements of TOP-TOY Holding II A/S have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and Danish disclosure requirements for large reporting class C entities.

The Board of Directors and the Executive Board have on 30 November 2018 discussed and approved the annual report for TOP-TOY Holding II A/S. The annual report will be presented to the shareholders of TOP-TOY Holding II A/S for adoption at the annual general meeting on 30 November 2018.

Basis of preparation

The consolidated financial statements have been presented in Danish kroner, presented in million with one decimal.

This set of financial statements covers the third financial year of the TOP-TOY Group. In 2016/17 the TOP-TOY Group has chosen to early-adopt the following standard, which becomes mandatory for financial periods beginning on or after 1 January 2018:

- IFRS 9 Financial Instruments

The accounting policies set out below have been applied consistently in respect of the financial year and to comparative figures. For standards implemented prospectively, comparative figures are not restated.

Except for the presentation of the movement in the bank overdraft facility which in 2017/18 has been considered to be a financing activity and not a part of net cash as presented previously. The Management has considered this as a change in estimation and therefore the change is made in 2017/18.

Summary of significant accounting policies

Basis of preparation

The consolidated financial statements include the parent company TOP-TOY Holding II A/S and its subsidiaries at 30 June 2018.

Subsidiaries are entities over which the TOP-TOY Group has control. The Group has control over an entity, when the Group is exposed to or has rights to variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity.

Only potential voting rights that are considered to be substantive at the balance sheet date are included in the control assessment.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

The consolidated financial statements are prepared by combining uniform items. On consolidation, intercompany income and expenses, shareholdings, intercompany accounts and dividend as well as realised and unrealised profit and loss on transactions between the consolidated companies are eliminated. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements.

NOTES

1 Accounting policies (continued)

Translation of foreign currency

The Group's consolidated financial statements are presented in Danish Kroner (DKK), which is also the parent company's functional currency. For each of the reporting entities in the Group, including subsidiaries and foreign branches, a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the reporting entity operates. Transactions denominated in currencies other than the functional currency are foreign currency transactions.

On initial recognition, foreign currency transactions are translated to the functional currency at the exchange rates at the transaction date.

Foreign exchange differences arising between the rate at the transaction date and the rate at the date of payment are recognised in profit or loss as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rates at the date of the statement of financial position.

The difference between the exchange rates at the end of the reporting period and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in profit or loss as financial income or financial expenses.

In the consolidated financial statements, the statements of comprehensive income of foreign operations with a functional currency other than Danish kroner are translated at the exchange rate at the transaction date, and the statement of financial position items are translated at closing rates. An average exchange rate for each month is used as the exchange rate at the transaction date in so far as this does not significantly distort the presentation of the underlying transactions.

Foreign exchange differences arising on translation of the opening equity of such entities at closing rates and on translation of the statements of comprehensive income from the exchange rate at the transaction date to closing rates are recognised in other comprehensive income in a separate translation reserve under equity. On disposal of a reporting entity, the component of other comprehensive income relating to that particular reporting entity is reclassified to profit or loss.

Derivative financial instruments

Derivative financial instruments are recognised initially in the balance sheet at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Positive and negative fair values of derivative financial instruments are recognised as other receivables or other payables and positive and negative values are set off only when the Group has the right and the intention to settle several financial instruments net.

The Group uses derivate financial instruments, such as interest rates swaps, to hedge its interest rate risk and forward contract to hedge currency (cash flow hedge). Changes in the portion of the fair value of derivative financial instruments designated as and qualifying as a cash flow hedge that is an effective hedge of changes in future cash flows are recognised in other comprehensive income under a separate hedging reserve in equity until the hedged cash flows affect profit or loss.
If the hedged transaction results in gains or losses, amounts previously recognised in other comprehensive income are reclassified to the same item as the hedged item.

NOTES

1 Accounting policies (continued)

If the hedging instrument does no longer qualify for hedge accounting, the hedge will cease to be effective. The accumulated change in value recognised in other comprehensive income is reclassified to profit or loss when the hedged cash flows affect profit or loss or are no longer probable.

The portion of the value adjustment of a derivative financial instrument that is not included in a hedge is presented under net financials.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement as financial income or financial expenses.

Income statement

Revenue
Income from the sale of goods is recognised when it is probable that economic benefits will flow to the group and the income from the sale of goods can be reliably measured, despite when the payment is received. Income from sale of goods is measured at fair value of the received consideration or receivable, taking into account contractually defined terms of payments, excluding taxes and duty.

Cost of goods sold
Cost of goods sold comprises cost on goods sold and any write-downs on inventory. Cost of goods sold are recognised when revenue is earned.

Other external expenses
Other external expenses include costs and expenses for distribution, sale, advertising, administration, premises etc.

Employee expenses
Employee expenses comprises wages and salaries including pensions and other costs for social security etc. In employee expenses received refunds from public authorities are offset.

Other operating income and expenses
Other operating income and expenses comprise items secondary to the principal activities of the entities, including gains and losses on disposal of intangible assets and items of property, plant and equipment are calculated as the sales price less selling costs and the carrying amount at the time of disposal.

Special items
Special items consist of significant recurring and non-recurring income and expenses which management does not consider to be part of the Group's ordinary operations, primarily acquisition costs, restructuring and fundamental structural costs, as well as gains or losses arising in this connection. These items are classified separately in the income statement in order to give a more true and fair view of the Group's operating profit.

Financial income and financial expenses
Financial income and expenses comprise interest income and expenses, realised and unrealised capital gains and losses concerning securities, liabilities and transactions in foreign currencies. Furthermore, amortisation of financial assets and liabilities, as well as surcharges and allowances under the on-account tax scheme.

Income tax
TOP-TOY Holding II A/S is jointly taxed with all its Danish subsidiaries. The current Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprises current tax charge and deferred tax adjustments. The tax expense is recognised in profit or loss, other comprehensive income or directly in equity.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in other comprehensive income or equity is recognised there and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations, in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

Statement of comprehensive income

Other comprehensive income consists of income and costs not recognised in the income statement, including exchange rate adjustment arising from the translation from functional currency to presentation currency and fair value adjustments of hedging instruments.

In the event of the disposal of an entity, the accumulated exchange rate adjustment relating to the relevant entity is reclassified to the income statement.

NOTES

1 Accounting policies (continued)

Balance sheet

Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation (for intangible assets with finite lives) and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement as amortisation.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

A summary of the policies applied to the Group's intangible assets is as follows:

- Goodwill - indefinite
- Brand – indefinite
- Customer relationships - amortised on a straight-line basis over 8 years
- Leasehold rights - amortised on a straight-line basis over 5-10 years
- Licenses, rights and software amortised on a straight-line basis over 3-10 years
- Development projects no amortisation

Goodwill and Brand

Goodwill and BR-Brand are tested for impairment annually and when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill and Brand by assessing the recoverable amount being the highest of value in use and fair value less cost of disposal of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Development projects in progress

Development projects in progress clearly defined and identifiable, where technical feasibility, sufficient resources and where the Group intends to complete and use the individual project, are recognised as intangible assets provided that the cost can be measured reliably. When development projects are finalised they are transferred to the relevant group of assets and then depreciated over a straight-line basis.

Other intangible assets

Customer relationship, leasehold rights and Licenses, rights and software are measured at cost less accumulated amortisation. Leasehold rights are amortised over the duration of the lease contract. Customer relationship and Licenses, rights and software are amortised over the estimated useful lives of the assets which are estimated based on Management's experience.

Property, plant and equipment

Leasehold improvements and plant and equipment are measured at cost less accumulated depreciation. Cost comprises acquisition cost and expenses directly attributable to the acquisition until the time when the asset is ready to be used.

Where individual components of an item of plant and equipment have different useful lives, they are depreciated separately. Depreciation is provided on a straight-line basis and based on the estimated useful life of the assets:

Leasehold improvements	5-10 years
Plant and machinery	5-10 years

The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued. Depreciation charges are recognised in the income statement as a separate line item.

Gain or loss resulting from the sale of property, plant and equipment is measured as the difference between the sales price reduced by the selling costs and the carrying amount at the time of the sale. The profit or loss is recognised in the income statement under other operating income or expenses.

NOTES

1 Accounting policies (continued)

Other non-current assets

Other non-current assets include deposits of rent, which are recognised at fair value and subsequently measured at amortised cost.

Impairment of non-current assets

Goodwill and Brand are subject to annual impairment tests.

The carrying amount of goodwill and brand are tested for impairment together with the other non-current assets of the cash-generating unit or group of cash-generating units to which goodwill and brand are allocated. The assets of the cash-generating units are written down to the recoverable amount over the income statement if the carrying amount is higher.

The recoverable amount of a cash-generating unit is generally determined as the present value of the expected future net cash flows from the entity or activity (cash-generating unit) to which the goodwill and brand relates.

For goodwill the cash-generating unit is defined as per country in line with the internal model for monitoring and follow up on performance.

The carrying amount of other non-current assets is tested annually for evidence of impairment. When there is evidence that assets may be impaired, the recoverable amount of the asset is calculated. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use.

Value in use is the present value of the future cash flows expected to be derived from an asset or the cash-generating unit to which the asset belongs.

The carrying amount of other intangible assets and property, plant and equipment as well as investments in subsidiaries other investments is subject to an annual test for indications of impairment. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Recognition of impairment losses in the income statement
The impairment loss is recognised in the income statement as depreciation or amortisation, respectively.

Impairment of goodwill is not reversed. Impairment losses recognised in respect of other assets are reversed in so far as the assumptions and estimates underlying the impairment losses have changed. Impairment losses are reversed only in so far as the new carrying amount of the asset does not exceed the carrying amount that would have resulted (net of amortisation or depreciation) had no impairment loss been recognised in respect of the asset in prior years.

Inventories

Inventories comprising goods for resale are measured at cost based on weighted average prices. Cost comprises the purchase price plus delivery costs.

Where net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected sales price.

Financial assets

Receivables are classified as financial instruments measured at amortised costs, when both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets within this category are measured at amortised cost using the effective interest method, less any impairment losses.

The group recognises a provision for impairment for expected credit loss on financial assets measured at amortised cost.

The provision for impairment for trade receivables are always measured at an amount equal to lifetime expected credit loss.

Cash and cash equivalents comprises of short term cash, bank deposits and credit card receivables.

Prepayments

Prepayments recognised under assets comprise costs and expenses paid that concern the following financial year. Prepaid expenses are measured at cost.

NOTES

1 Accounting policies (continued)

Equity

Hedging reserve

The hedge reserve comprises the accumulated net change in fair value of hedging transactions which meet the criteria of hedging future cash flows and for which the hedged transaction is yet to be realised.

Foreign currency translation reserve

The exchange adjustment reserve in the consolidated financial statements comprises exchange differences arising on the translation of the financial statements of foreign enterprises from their functional currencies into Danish kroner, including exchange differences on financial instruments considered to be a part of the net investment or as hedging of the net investment. On realisation, accumulated value adjustments are taken from equity to financial items in the income statement.

Dividend

Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the year is disclosed as a separate item under equity.

Provisions

Provisions are recognised when the Group has a current legal or constructive obligation as a result of a past event at the balance sheet date and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions include warranty and sales returns, restoration of leasehold improvements etc.

Current and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as tax computed on the year's taxable income adjusted for tax on the previous year's taxable income and tax paid on account.

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Joint taxation receivable" or "joint taxable payable".

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting.

Financial liabilities

Amounts owed to credit institutions, etc. are recognised at the date of borrowing at fair value less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement under financial expenses over the term of the loan.

Other financial liabilities are measured at amortised cost.

Deferred income

Payment received concerning income in regards to the following financial years are recognised under deferred income recognised under liabilities.

NOTES

1 Accounting policies (continued)

Leases

For financial reporting purposes, lease liabilities are classified as finance lease liabilities and operating lease liabilities. A finance lease is classified as a lease which in all material respects transfers the risk and benefits associated with ownership of the leased asset to the lessee. All other leases are classified as operating leases. Currently, all leases entered into by the Group are classified as operating leases.

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

Fair value measurement

The Group uses the fair value concept in connection with certain disclosure requirements and for recognition of financial instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants ("exit price").

The fair value is a market-based and not an entity-specific measurement. The entity uses the assumptions that the market participants would use for the pricing of the asset or liability based on the current market conditions, including risk assumptions. The entity's purpose of holding the asset or settling the liability is thus not taken into account when the fair value is determined.

The fair value measurement is based on the principal market. If a principal market does not exist, the measurement is based on the most advantageous market, i.e. the market that maximises the price of the asset or liability less transaction and transport costs.

All assets and liabilities measured at fair value, or in respect of which the fair value is disclosed, are classified based on the fair value hierarchy, see below:

- Level 1: Value in an active market for similar assets/liabilities
- Level 2: Value based on recognised valuation methods on the basis of observable market information
- Level 3: Value based on recognised valuation methods and reasonable estimates (non-observable market information).

Cash flow statement

The Cash Flow Statement shows the cash flows of the Group for the year, distributed on operating activities, investing activities, and financing activities for the year, changes in cash and cash equivalents, and the cash and cash equivalents at the beginning and the end of the year, respectively.

The cash flow effect of acquisitions of businesses is shown separately in cash flows from investing activities. Cash flows from acquired businesses are recognised in the cash flow statement from the date of acquisition.

Cash flow from operating activities
Cash flows from operating activities are determined as profit for the year adjusted for non-cash operating items, the change in working capital and income tax paid.

Cash flow from investing activities
Cash flows from investing activities comprise payments in connection with the acquisition and sale of intangible assets, property, plant and machinery and financial assets.

Cash flow from financing activities
Cash flows from financing activities comprise change in the size or composition of the Groups share capital and related costs as well as borrowing, repayment of interest-bearing debt and payment of dividends to shareholders.

Cash and cash equivalents
Cash and cash equivalents comprise cash and short term marketable securities with a term of three months or less which are subject to an insignificant risk of changes in value.

Key figures and financial ratios
Key figures and financial ratios have been calculated as follows:

Operating profit before special items (adjusted EBITDA) is calculated as operating result with addition of amortisation, depreciation and impairment losses as well as special items, which the management find outside of the normal ordinary operation.

Gross margin $\dfrac{\textit{Gross profit} \times 100}{\textit{Revenue}}$

Solvency ratio $\dfrac{\textit{Equity,end} \times 100}{\textit{Total liabilities, end}}$

NOTES

2 Uncertainty about going concern

Management has negotiated with the Group's lenders to ensure sufficient financing as to continue the operations of the Group and the Company for 2018/19. It has not been possible to obtain commitments for additional financing for the current structure and therefore the condition for going concern is not fulfilled at 30 November 2018. Management of the subsidiary TOP-TOY A/S in reconstruction has therefore filed a request with the Danish court for reconstruction under the Bankruptcy Act at 30 November 2018.

Due to the significant uncertainty about going concern, including the outcome of the reconstruction of the subsidiary TOP-TOY A/S in reconstruction, it is further not possible to assess the valuation of the assets and liabilities at 30 June 2018 of the Group and the possible impact on the consolidated financial statements and the parent company financial statements for TOP-TOY Holding II A/S for 1 July 2017 – 30 June 2018.

Management's opinion is consequently that they are not able to express an opinion on whether the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent company at 30 June 2018 and of the results of the Group and the Parent company's operations and cash flows for the financial year 1 July 2017 – 30 June 2018 considering the above circumstances.

3 Significant accounting judgements, estimates and assumptions

When preparing the consolidated financial statements for the Group, Management undertakes a number of accounting estimates and judgements to recognise, measure and classify the Group's assets and liabilities.

The most significant areas subject to estimates and judgements are mentioned below.

Valuation of intangible assets

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement as amortisation.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The estimated value in use is computed on the basis of the expected free cash flow from the relevant cash-generating unit based on updated budgets for the next 5 years. The calculated value in use is based on a number of assumptions and is by nature subject to uncertainty. The key assumptions are disclosed and further explained in note 13.

Valuation of inventories

Write-down for obsolete inventories is carried out on the basis of an assessment of their recoverability at the reporting date. Inventories are analysed and written down based on analysis of inventory days and assessment of expected net realisable value. Movements in inventory write-downs are reflected in note 16.

NOTES

4 Employee expenses

DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
Wages and salaries	608.2	644.3
Pensions, defined contribution plans	40.6	42.5
Other costs for social security	64.4	65.7
	713.2	**752.5**
Capitalised salaries and wages related to development projects	0.0	-10.9
Salaries classified as special items	-31.7	-45.3
Total	**681.5**	**696.3**
Average number of full time employees	2,070	2,124

Management & Board of Directors remuneration

	1 July 2017 – 30 June 2018			1 July 2016 – 30 June 2017		
	Executive board	Board of directors	Other key management personnel	Executive board	Board of directors	Other key management personnel
Wages and salaries	19.7	0.7	8.2	9.0	0.7	13.7
Pensions, defined contribution plan	1.1	0.0	0.8	0.8	0.0	0.9
	20.8	**0.7**	**9.0**	**9.8**	**0.7**	**14.6**

Remuneration in 2016/17 and 2017/18 includes salaries to resigned Executive board and Other Key management personnel.
The Executive Board and key management personnel are eligible for bonuses, depending on result of operations and personal KPI's.

Key management personnel comprise the Chief Officers of Sales, Commercial, Operations, Procurement, eCommerce, Experience, and Marketing.

NOTES

5 Amortisation, depreciation and impairment

DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
Amortisation and impairment of intangible assets	1,604.8	10.6
Depreciation of property, plant and equipment	55.3	51.9
	1,660.1	**62.5**

6 Special items

Costs related to strategic review	1.7	5.7
Costs related to organisational restructuring	74.7	27.7
Costs related to new ERP	106.3	47.3
Costs related to winding down wholesale activity	0.0	0.4
Costs related to establishment of new management team	0.0	0.5
Costs related to buyout	0.0	5.3
Loss / gain on disposals of assets	33.5	1.3
Other special items, net	5.9	3.3
	222.1	**91.3**

7 Fees paid to auditors appointed at the annual general meeting

Fee related to statutory audit	1.0	0.9
Fee related to other assurance	0.1	0.0
Fees for tax advisory services	0.9	1.6
Other assistance	0.1	2.8
	3.1	**5.3**

8 Financial income

Interest and similar income	0.7	0.2
Exchange rate adjustments, net	86.4	40.3
	87.1	**40.5**
Interest on financial assets measured at amortised cost	0.2	0.2

NOTES

DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
9 Financial expenses		
Interest and similar expenses	77.4	62.2
Amortisation of borrowing costs	9.7	7.9
	87.1	**70.1**
Interest on financial liabilities measured at amortised cost	77.4	61.8

10 Income tax

Total tax for the year is specified as follows:		
Tax on result of the year	-0.2	6.9
Tax on other comprehensive income*	-2.6	2.5
	-2.8	9.4
Income tax expense for the year is specified as follows:		
Current tax	-7.6	-16.8
Deferred tax	-7.4	23.7
	-0.2	**6.9**

* Relates to tax on gain/loss on cash flow hedges

Tax on the result for the year can be explained as follows:

	2017/18		2016/17	
	DKK million	%	DKK million	%
Result for the year:				
Calculated 22% tax of the result before tax	446.8	22.0	9.9	22.0
Adjustment of the tax rates in foreign subsidiaries relative to the 22%	0.5	0.0	0.4	0.1
Tax effect of:				
Non-deductible costs	-255.6	0.0	-3.4	-7.0
Impairment on goodwill non-tax	-289.5	-14.3	0.0	0.0
Reversed tax loss carry forward etc.	-157.5	-7.8	0.0	0.0
	-0.2	**0.0**	**6.9**	**15.1**
Effective tax rate	**0.0**		**15.1**	

Non-deductible costs mainly relates to non-deductible non-deductible advisory costs. In 2017/18 all tax loss carry forward from earlier years has been reversed.

Total unrecognised tax losses amounts to DKK 720 million (2016/17: DKK 37 million).

NOTES

11 Deferred tax

DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
Deferred tax 1 July	18.4	-8.1
Adjustments of deferred tax in profit and loss	7.4	23.7
Adjustments of deferred tax in other comprehensive income	2.7	2.8
Deferred tax 30 June	**28.5**	**18.4**
Deferred tax is recognised in the balance sheet as:		
Deferred tax ass	28.6	76.6
Deferred tax liability	-0.1	-58.2
Deferred tax 30 June	**28.5**	**18.4**
Deferred tax is related to:		
Intangible assets	10.2	-57.9
Property, plant and equipment	18.5	17.0
Inventory	0.6	0.0
Tax loss carry forward	0.0	66.0
Other receivables	-0.1	-0.2
Provisions and short term debt	6.9	8.4
Re-tax balance	-6.0	-16.0
Transactions on equity	-1.6	1.1
Deferred tax 30 June	**28.5**	**18.4**

Deferred tax assets relate mainly to temporary differences on tangible assets and tax losses carried forward in 2016/17.

NOTES

12 Intangible assets

DKK million	Goodwill	Brands	Customer relationships	Leasehold rights	Licenses, rights and software	Development projects in progress	Total
Cost 1 July 2017	1,316.1	257.2	8.9	14.9	189.1	0.0	1,786.2
Additions during the year	0.0	0.0	0.0	15.6	0.0	12.8	28.4
Disposals during the year	0.0	0.0	0.0	0.0	-27.0	0.0	-27.0
Exchange differences	0.0	0.0	0.0	-0.5	0.0	0.0	-0.5
Cost 30 June 2018	**1,316.1**	**257.2**	**8.9**	**30.1**	**162.1**	**12.8**	**1,787.1**
Amortisation and impairment 1 July 2017	0.0	0.0	1.7	5.4	6.1	0.0	13.2
Amortisation	1,316.1	257.2	7.2	5.2	19.1	0.0	1,604.8
Amortisation and impaiment	0.0	0.0	0.0	0.0	-2.8	0.0	-2.8
Exchange differences	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation and impairment 30 June 2018	**1,316.1**	**257.2**	**8.9**	**10.6**	**22.4**	**0.0**	**1,615.2**
Carrying amount 30 June 2018	**0.0**	**0.0**	**0.0**	**19.5**	**139.7**	**12.8**	**172.0**
Remaining amortisation period	**-**	**-**	**-**	**1-5 years**	**1-9 years**	**-**	
Cost 1 July 2016	1,316.1	257.2	8.9	13.8	6.8	98.4	1,701.1
Additions during the year	0.0	0.0	0.0	1.5	0.8	83.1	85.4
Transfer	0.0	0.0	0.0	0.0	181.5	-181.5	0.0
Exchange differences	0.0	0.0	0.0	-0.4	0.0	0.0	-0.4
Cost 30 June 2017	**1,316.1**	**257.2**	**8.9**	**14.9**	**189.1**	**0.0**	**1,786.2**
Amortisation and impairment 1 July 2016	0.0	0.0	0.6	1.9	0.1	0.0	2.6
Amortisation	0.0	0.0	1.1	3.5	6.0	0.0	10.6
Exchange differences	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation and impairment 30 June 2017	**0.0**	**0.0**	**1.7**	**5.4**	**6.1**	**0.0**	**13.2**
Carrying amount 30 June 2017	**1,316.1**	**257.2**	**7.2**	**9.5**	**183.0**	**0.0**	**1,773.0**
Remaining amortisation period	**-**	**-**	**7 years**	**1-5 years**	**2-10 years**	**-**	

Except from goodwill and brand, all intangible assets have finite lives.

Development projects in progress relates to a new web warehouse in Greve, which is expected done in 2019.

NOTES

13 Impairment test

As explained in note 2 of the financial statements, Management has negotiated with the Group's lenders to ensure sufficient financing as to continue its operations for 2018/19. It has not been possible to obtain commitments for additional financing and therefore Management has filed a request with the Danish court for reconstruction under the Bankruptcy Act for TOP-TOY A/S in reconstruction.

Due to the significant uncertainty regarding going concern and the outcome of the restructuring and the future activities in TOP-TOY A/S in reconstruction and its subsidiaries, Management has written-down goodwill, brand and costumer relationship related to the acquisition back in January 2016. Management does not expect that goodwill, brand and costumer relationship recovered neither from a realization perspective nor from continued operation after a reconstruction. There is significant uncertainty to the write-down as the outcome from the reconstruction is unknown.

14 Property, plant and equipment

DKK million	Leasehold improvements	Plant and Machinery	Total
Cost 1 July 2017	67.0	182.8	249.8
Additions during the year	24.4	41.6	66.0
Disposals during the year	-15.4	-30.1	-45.5
Exchange differences	-1.3	-2.6	-3.9
Transfer	0.0	0.0	0.0
Cost 30 June 2018	**74.7**	**191.7**	**266.4**
Depreciation and impairment 1 July 2017	16.4	62.0	78.4
Depreciation	12.2	43.1	55.3
Depreciation on disposals	-14.2	-20.3	-34.5
Exchange differences	0.0	0.0	0.0
Transfer	0.0	0.0	0.0
Depreciation and impairment 30 June 2018	**14.4**	**84.8**	**99.2**
Carrying amount 30 June 2018	**60.3**	**106.9**	**167.2**
Cost 1 July 2016	52.1	163.4	215.5
Additions during the year	16.4	18.8	35.2
Disposals during the year	-2.1	-5.9	-8.0
Exchange differences	-0.8	1.0	0.2
Transfer	1.4	5.5	6.9
Cost 30 June 2017	**67.0**	**182.8**	**249.8**
Depreciation and impairment 1 July 2016	4.4	20.8	25.2
Depreciation	10.8	41.1	51.9
Depreciation on disposals	-0.9	-4.7	-5.6
Exchange differences	0.0	0.0	0.0
Transfer	2.1	4.8	6.9
Depreciation and impairment 30 June 2017	**16.4**	**62.0**	**78.4**
Carrying amount 30 June 2017	**50.6**	**120.8**	**171.4**

NOTES

15 Investment in subsidiaries

Name and registered office	Voting right and ownership share	Country
TOP-TOY Holding III A/S, Vallensbæk Strand	100%	Denmark
TOP-TOY A/S, Vallensbæk Strand	100%	Denmark
TOP-TOY (Hong Kong) Ltd., Hong Kong	100%	Hong Kong
TOP-TOY Norge AS, Sarpsborg	100%	Norway
BR-Spielwaren GmbH, Hamburg	100%	Germany
TOP-TOY Iceland ehf, Reykjavik	100%	Iceland
NORSTAR A/S, Vallensbæk Strand	100%	Denmark
STARNOR AB, Ängelholm	100%	Sweden

All subsidiaries are separate legal entities.

DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
16 Inventory		
Finished goods	678.9	895.3
Value of inventories written down to fair value	72.5	78.2

At 30 June 2018 net write-downs amounted to DKK 94.0 million (30 June 2017: DKK 45.2 million). The net change in write downs is recognised in the cost of goods mainly negatively impact by discontinued product and old stock. In addition, 10.7 million was written down on product which level of volatile substances was higher than the limit the DEPA set for these products.

17 Trade and other receivables

Trade receivables	1.4	1.8
Receivables from shareholder	5.1	7.0
Derivatives	7.7	0.7
Other receivables	15.6	12.6
	29.8	22.1

18 Cash and cash equivalents

Cash	49.9	39.1
Credit institutions	0.0	-645.0
	49.9	-605.9

Cash at banks earns interest at floating rates based on daily bank deposit rates.
From 2017/18 Credit institutions are included in financing activities, and thereby not a part of Cash and cash equivalents.

NOTES

19 Share capital

	Issued shares			
	Number of shares		Nominal value	
	2017/18	2017/16	2017/18	2017/16
1 July	11,648,400	11,648,400	11,648,400	11,648,400
Share capital increase - 29 June 2018	4	-	4	-
Total share capital	**11,648,404**	**11,648,400**	**11,648,404**	**11,648,400**

The share capital consists of 11,648,404 shares of a nominal value of DKK 1. All shares have equal voting rights. On 29 june 2018 preferred shares and ordinary shares were merged, so all shares have equal economical rights.

20 Capital management

The primary objective of the Group's capital management is to maximise shareholder value.

In order to achieve this overall objective, the Group's capital management aims, e.g., at ensuring that it meets financial covenants connected with the interest-bearing loans and borrowings that define capital structure requirements. Failure to meet the financial covenants would permit the bank to call loans and borrowings.

Financial covenants have been waived in the spring 2018 as part of renegotiation of further increase in the revolver facilities. Please refer to note 2 related to the current financial situation.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions and the requirements of the financial covenants. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing loans and borrowings, trade and other payables, less cash.

DKK million	30 June 2018	30 June 2017
Interest-bearing loans and borrowings	1,700.4	1,563.1
Trade and other payables	387.1	420.6
Less cash	-49.9	-39.1
Net debt	2,037.6	1,944.6
Equity	-907.7	959.7
Total capital and net debt	1,129.9	2,904.3
Gearing ratio	**1.80**	**0.67**

NOTES

21 Provisions

DKK million	Restoration provision	Warranty and return provision	Other provisions	Total
Provisions 1 July 2017	16.6	3.6	9.9	30.1
Arising during the year	1.2	46.8	0.0	48.0
Utilised	-1.5	-45.9	-3.4	-50.8
Exchange differences	0.0	0.0	0.0	0.0
Provisions 30 June 2018	**16.3**	**4.5**	**6.5**	**27.3**
Distributed as follows in the balance sheet:				
Current	0.7	4.5	6.5	11.7
Non-current	15.6	0.0	0.0	15.6
	16.3	**4.5**	**6.5**	**27.3**

Warranty and return provision relates to any form for warranties on goods sold. The provision is expected to be used within one year. Restoration provision relates to restoration of leases upon termination which is based on historical information and management expectation. The expected costs are by nature uncertain. Other provision relate to tax and VAT cases. No provisions are discounted as the impact is insignificant.

22 Borrowings

DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
Credit institutions, non-current	819.8	834.5
Credit institutions, current	818.6	687.2
Total borrowings	**1,638.4**	**1,521.7**
Nominal value	1,700.4	1,563.1
Maturity of non-current and current borrowings, nominal value		
Less than one year	848.4	693.9
Between one and five years	852.0	173.4
More than five years	0.0	695.8
	1,700.4	**1,563.1**

NOTES

22 Borrowings (continued)

The Group has taken out the following interest-bearing loans and borrowing:

Interest-bearing loans and borrowings	Expiry	Floating rate	Nominal amount – 30 June 2018
Facility A	Expire up till 2022	3.5-6.2%	184.9
Facility B	Expire up till 2023	4.0-6.2%	667.1
Revolving facility	Expire up till 2022	2.8-3.5%	848.4
Total			1,700.4
Non-current			852.0
Current			848.4
Total			**1,700.4**

Interest-bearing loans and borrowings	Expiry	Floating rate	Nominal amount – 30 June 2017
Facility A	Expire up till 2022	3.5-4.7%	222.2
Facility B	Expire up till 2023	4.0-5.2%	695.8
Revolving facility	Expire up till 2022	2.8-3.5%	645.1
Total			1,563.1
Non-current			869.2
Current			693.9
Total			**1,563.1**

The nominal debt of DKK 852 million (2016/17: DKK 918 million) is with floating interest rate of which 83% (2016/2017, 67%) is hedged to a fixed interest rate via interest rate swaps in accordance with Group policy. Currency risk is hedged by cash flow in underlying Group companies. The Group's loans from credit institutions are subject to a normal loan covenants.

The 25th March 2018 a new senior facility agreement was signed. The revolving facility was increased with DKK 390 million. At 30 June 2018 a draw of DKK 175 million has been used. Loan cost of DKK 30.3 million related to the increase in the revolving facility has been capitalised and will be amortised until 2022.

NOTES

23 Trade and other payables

DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
Trade payables	195.5	196.0
Holiday obligation	72.9	78.6
Other Payroll related debt	39.5	61.1
VAT	44.0	50.1
Loyalty club	22.3	26.5
Derivatives	0.0	5.1
Other payables	12.9	3.2
	387.1	**420.6**

Trade payables are non-interest-bearing.

24 Change in working capital

Change in inventory	216.4	-58.5
Change in receivables	17.0	12.2
Change in trade payables and other debt	-32.6	-26.2
Change in working capital, total	**200.8**	**-72.5**

NOTES

25 Financial risk and financial instruments

Risk management policy

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has loans, trade and other receivables and cash that derive directly from its operations.

There have not been any changes in the Group's risk management policy compared to 2016/17.

The Group is exposed to market risk, credit risk and liquidity risk.

It is the Group's policy not to trade in derivatives for speculative purposes.

Credit risk

The Group is exposed to credit risk from financial instruments and cash and cash equivalents.

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The majority of the Group's sales are cash sales, thus the credit risk for trade receivables amounting to DKK 1.4 million (2016/17: DKK 1.8 million) is considered insignificant. The impairment on trade receivables is immaterial.

Cash and cash equivalents

At 30 June 2018, the Group has cash and cash equivalent of DKK 49.9 million (30 June 2017: DKK 39.1 million). Cash and cash equivalents includes cash, bank deposits and credit card receivables. Credit risk from balances with banks and financial institutions is managed by group management on a regular basis. The cash balances are concentrated at mainly counterparties rated AA.

Liquidity risk

Management of TOP-TOY A/S in reconstruction has filed a request with the Danish court for reconstruction under the Bankruptcy Act at 30 November 2018. Please refer to note 2 related to the current financial situation.

NOTES

25 Financial risk and financial instruments (continued)

Contractual maturities of financial liabilities:

DKK million	Carrying amount	Contractual maturity incl. interest Total	<1 year	1 – 5 years	>5 years
30 June 2018					
Non-derivative financial instruments					
Credit institutions	1,700.4	2,213.2	920.7	1,292.5	0.0
Trade payables	195.5	195.5	195.5	0.0	0.0
Derivative financial instruments					
Derivatives	0.0	0.0	0.0	0.0	0.0
	1,895.9	2,408.7	1,116.2	1,292.5	0.0
30 June 2017					
Non-derivative financial instruments					
Credit institutions	1.563,1	1,950.9	750.5	399.2	801.2
Trade payables	196.0	196.0	196.0	0.0	0.0
Derivative financial instruments					
Derivatives	5.1	5.1	5.1	0.0	0.0
	1,764.2	2,152.0	951.6	399.2	801.2

Changes in liabilities arising from financing activities:

2018 DKK million	1 July 2017	Cashflow	Non-cash changes Foreign exchange movement	30 June 2018
Long-term borrowings	869.2	0.0	-17.2	852.0
Short-term borrowings	693.9	173.0	-18.5	848.4
Total liabilities from Financing activities	1,563.1	173.0	-35.7	1,700.4

2017 DKK million	1 July 2016	Cashflow	Non-cash changes Foreign exchange movement	30 June 2017
Long-term borrowings	900.4	-9.8	-21.4	869.2
Short-term borrowings	407.7	286.2	0.5	693.9
Total liabilities from Financing activities	1,308.1	276.4	-20.9	1,563.1

NOTES

25 Financial risk and financial instruments (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations and revolving credit facility with floating interest rates.

The Group enters into interest rate swaps to mitigate this risk, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest rate amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. Hence changes in the interest rates will not have any significant impact on profit or loss. Information on the Group's hedging of interest on loans is disclosed in note 22.

Foreign currency risk

The Group is exposed to foreign currency risks arising from its operating and financing activities, as the Group has sales, purchases and financing in foreign currencies. In accordance with the Group's risk management policy, the Group hedges foreign currency risks arising from: recognised and unrecognised transactions using forward exchange contracts.

Currency risks on items of the statement of financial position are monitored and hedged by using primarily financial instruments. The risk exposure is considered limited.

The group is exposed to the currencies: NOK, SEK, USD, HKD, ISK and EUR. The Group's most material exchange rate risk is the exposure to USD purchases, and SEK/NOK net inflows from stores in Sweden and Norway. The income statement is affected by changes in exchange rates.

The Group policy is to hedge between 50-75% of the expected outflow of USD 7-8 months before the season starts, and 90-100% five months before the season starts. The Group hedges up to 90% of the expected net cash inflow of SEK and NOK no later than five months before the season starts.

The Facility A & B loans are exposed to 60% in SEK and 40% in NOK. The loans are not hedged, since they correlate on long term basis with the net inflow in the currencies.

Please find below a table of impact on profit for the year and equity from change in the Group's primary currencies adjusted for hedge accounting:

		2017-18		2016-17	
DKK million	**Change in exchange rate**	**Profit before tax**	**Equity**	**Profit before tax**	**Equity**
USD	1%	0.0	0.0	0.2	0.2
USD	-1%	0.0	0.0	-0.2	-0.2
SEK	1%	-4.2	-3.2	-2.5	-1.9
SEK	-1%	4.2	4.2	2.5	1.9
NOK	1%	-2.9	-2.2	-2.8	-2.1
NOK	-1%	2.9	2.2	2.8	2.1

The analysis is based on monetary assets and liabilities as of end 2017/18 and 2016/17. The movements arise from monetary items (cash, borrowings and payables) and hedging instruments where the functional currency of the entity is different to the currency that the monetary items are denominated in.

NOTES

25 Financial risk and financial instruments (continued)

Categories of financial instruments

DKK million	2017/18	2016/17
Financial assets measured at amortised cost		
Trade and other receivables	29.8	21.4
Other non-current assets	7.0	7.2
Cash and cash equivalents	49.9	39.1
	86.7	**67.7**
Financial assets at fair value		
Derivatives	7.7	0.7
	7.7	**0.7**
Financial liabilities measured at amortised cost		
Credit institutions	1,638.4	1,521.7
Trade payables	195.5	196.0
Other payables	12.9	3.2
	1,846.8	**1,720.9**
Financial liabilities at fair value		
Derivatives	0.0	5.1
	0.0	**5.1**

Other receivables and other payables are excluding non-financial instruments such as VAT, Loyalty club, holiday obligation and other payroll etc.

The fair value of the assets and liabilities listed above is not materially different from the carrying amount except from interest-bearing loans and borrowings:

Interest-bearing loans and borrowings (fair value)	**1,700.4**	**1,563.1**

NOTES

25 Financial risk and financial instruments (continued)

Fair values

Financial instruments measured at fair value

Financial instruments measured at fair value are limited to derivative instruments. As described below, the fair value of derivatives is based on observable market data and valuation techniques (level 2). The financial instruments are measured at fair value on a recurring basis.

Financial instruments measured at amortised cost

The carrying amount of the Group's financial instruments, measured at amortised cost, are reasonable approximations of fair values.

Valuation techniques

Management has assessed that cash, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values of other financial instruments:

Floating-rate borrowings are evaluated by the Group based on parameters such as interest rates and the Groups' individual creditworthiness. The fair value is estimated using a discounted cash flow model. The own non-performance risk at 30 June 2018 was assessed to be insignificant.

Derivative financial instruments with various counterparties are principally financial institutions with investment grade credit ratings. The applied valuation techniques are discounted cash flow models, which incorporate various inputs, including the credit quality of counterparties, foreign exchange spot and forward rates, and interest rate curves. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

Fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using a discount rate that reflects the issuer's borrowing rate at the end of the reporting period. The own non-performance risk at 30 June 2018 was assessed to be insignificant.

Methods and assumptions for calculating fair value

The methods applied and the assumptions used when calculating the fair value of the financial instruments is given for each class of financial instruments.

Hedge accounting and Interest rate Swaps

Interest rate swaps are valued using generally accepted valuation techniques based on relevant observable swap curves and exchange rates.

Both externally and internally calculated fair values are used based on discounted future cash flows. Where internally calculated fair values are used, these are reconciled quarterly with the externally calculated fair values.

The fair value of derivative financial instruments is calculated using valuation models, such as discounted cash flow models. The expected cash flows for the individual contract are based primarily on observable market data, such as interest yield curves and exchange rates.

NOTES

26 Leases

Operating leases

The Group leases spaces and cars under operating leases. The leasing period is typically between 3 and 10 years with the possibility of extending the contracts.

Non-cancellable operating lease payments are as follows:

DKK million	2017/18	2016/17
Less than one year	409.2	374.1
Between one and five years	853.4	737.7
More than five years	630.5	593.1
	1,893.1	**1,704.9**

For the year 2017/18, DKK 382.3 million was recognised (2016/17: DKK 409.2 million) in the income statement with regards to operating leases.

27 Collaterals and contingencies etc.

Contingent liabilities

The Group is party in a number of pending tax audits. In Management's opinion, apart from the receivables and payables recognised in the balance sheet at 30 June 2018 the outcome of these tax audits is not expected to have further effect on the group's financial position.

Collaterals, pledges and securities

The Group has entered into a royalty agreements which end in the beginning of 2028 with further option of 5 years. The minimum royalty in the agreement amounts into DKK 168.7 million (2016/17: DKK 185.0 million).

The Group is jointly liable for the Group's bank loans of DKK 852.0 million (2016/17: DKK 918.0 million) and the revolving facility of DKK 836.5 million (2016/17: DKK 645 million).

The Group has issued bank guarantees for DKK 17.3 million related to leasehold rights.

The Group has issued a share pledge over its shares and significant subsidiaries as security for the Group's loans under the Senior Facility Agreement.

The Group has provided pledges in the form of floating charges of DKK 3,278.0 million for significant group companies with the Groups banks.

The floating charges include all intangible assets, properties, plant and equipment, group and trade receivables and inventories. The book value of pledged assets amounts to DKK 1,019.5 million.

NOTES

28 Related party disclosures

TOP-TOY Holding II A/S is subject to controlling influence by TT Holding I S.à.r.l., 23, rue Aldringen, L-1118 Luxembourg, which holds 74% of the share capital.

TOP-TOY Holding II A/S has registered the following shareholders who hold 5% or more of the share capital:

TT Holding I S.à.r.l., 23, rue Aldringen, L-1118 Luxembourg
Odin DK Holding A/S, Roskildevej 16, 4030 Tune

In 2016/17 and 2017/18 there were no transaction between the Group and TT Holding I S.á.r.l. except transactions related to capital increases. The Group has had transactions with Odin DK Holding A/S regarding rent of premises in 2017/18 amounting to DKK 2.3 million (2016/17 DKK 19.5 million) and minor corrections of the purchase price.

Executives

The Group's related parties with significant influence includes the Group's Board of Directors and executives in the parent company, including these employees' family members. Related parties furthermore include the companies, where the mentioned related parties have significant interest.

The remuneration to the Management & Board of Directors is disclosed in note 4.

29 Events after the reporting period

Management of TOP-TOY A/S in reconstruction has filed a request with the Danish court for reconstruction under the Bankruptcy Act at 30 November 2018. Please refer to note 2 related to the current financial situation.

30 Standards issued but not yet effective

The IASB has released the following new standards and interpretations which may be material to the Group, however, not mandatory for the financial statements for the year ended 30 June 2018.

- IFRS 16 Leases
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28
- IFRS 15 Revenue from Contracts with Customers – Clarifications to IFRS 15
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- IFRIC 22 Foreign currency transaction and advance consideration
- IFRIC 23 Uncertainty over income tax treatments
- Parts of Annual improvements to IFRSs 2014-2016 cycle

The Group expects to adopt standards when they become effective.

As described in note 1, the Group has in connection with its transition to IFRS chosen to early adopt IFRS 9 Financial instruments.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS and is required to be applied on all sales contracts with customers. IFRS 15 is mandatory for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group has currently put the preliminary impact of the assessment on hold due to the current situation of the Group. The Group adopt IFRS 15 when it becomes effective.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and will be effective for annual periods beginning on or after 1 January 2019. The standard will significantly change the accounting treatment of leases that are currently classified as operating leases. IFRS 16 requires that all leases – with few exceptions – are recognised in the balance sheet as an asset with a corresponding liability. Further, the income statements will be affected as the lease expense for all operating leases under IFRS 16 will be split into depreciations and interest expenses, which under the current IAS 17 all is recognised in other external costs. The Group has currently put the preliminary impact of the assessment on hold due to the current situation of the Group. The Group adopt IFRS 16 when it becomes effective.

PARENT COMPANY FINANCIAL STATEMENTS

INCOME STATEMENT

Note	DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
	Other external costs	-1.2	-1.3
	Impairment losses	-1,197.0	0.0
	Result before tax	**-1.198.2**	**-1.3**
4	Tax on result for the year	-0,3	0.3
	Result of the year	**-1,198.5**	**-1.0**

STATEMENT OF COMPREHENSIVE INCOME

Note	DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
	Result for the year	-1,198.5	-1.0
	Other comprehensive income		
	Other comprehensive income to be reclassified to profit or loss in subsequent periods	0.0	0.0
	Other comprehensive income/(loss) for the year, net of tax	0.0	0.0
	Total comprehensive income for the year, net of tax	**-1,198.5**	**-1.0**

BALANCE SHEET

Note	DKK million	30 June 2018	30 June 2017
	ASSETS		
	Non-current assets		
5	Investment in group enterprise	0.0	1,197.0
	Deferred tax asset	0.0	0.3
	Total non-current assets	**0.0**	**1,197.3**
	TOTAL ASSETS	**0.0**	**1,197.3**

BALANCE SHEET

Note	DKK million	30 June 2018	30 June 2017
	LIABILITIES		
	Equity		
6	Share capital	11.6	11.6
	Retained earnings	-14.2	1,184.3
	Proposed dividends	0.0	0.0
	Total equity	**-2.6**	**1,195.9**
	Current liabilities		
	Trade payables	0.3	0.5
	Payables from group enterprises	2.3	0.9
	Total current liabilities	**2.6**	**1.4**
	TOTAL EQUITY AND LIABILITIES	**0.0**	**1,197.3**

PARENT STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Retained earnings	Proposed dividend	Total equity
Equity 1 July 2017	**11.6**	**1,184.3**	**0.0**	**1,195.9**
Result for the year	0.0	-1,198.5	0.0	-1,198.5
Total other comprehensive income	0.0	0.0	0.0	0.0
Total comprehensive income for the year	11.6	-14.2	0.0	-2.6
Transactions with owners				
Issue of share capital	0.0	0.0	0.0	0.0
Group contribution	0.0	0.0	0.0	0.0
Total transactions with owners	0.0	0.0	0.0	0.0
Equity 30 June 2018	**11.6**	**-14.2**	**0.0**	**-2.6**
Equity 1 July 2016	**11.6**	**1,185.3**	**0.0**	**1,196.9**
Result for the year	0.0	-1.0	0.0	-1.0
Total other comprehensive income	0.0	0.0	0.0	0.0
Total comprehensive income for the year	0.0	-1.0	0.0	-1.0
Transactions with owners				
Dividend distributed	0.0	0.0	0.0	0.0
Total transactions with owners	0.0	0.0	0.0	0.0
Equity 30 June 2017	**11.6**	**1,184.3**	**0.0**	**1,195.9**

CASH FLOW STATEMENT

Note	DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
	Operating result before tax	-1,198.5	-1.3
	Impairment losses	1,197.0	0.0
	Cash flow from operating activities before changes in working capital	-1.2	-1.3
	Change in payables from group companies	1.4	0.9
	Change in trade payables	-0.2	0.4
	Cash flow from operations	0.0	0.0
	Cash flow from operating activities before tax	0.0	0.0
4	Income tax paid	0.0	0.0
	Cash flow from operating activities	**0.0**	**0.0**
	Cash flows for the year	**0.0**	**0.0**
	Cash and cash equivalents 1 July	0.0	0.0
	Cash and cash equivalents 30 June	**0.0**	**0.0**

NOTES

1 Accounting policies

TOP-TOY Holding II A/S is the holding company of the TOP-TOY group with its principal activity to hold shares in subsidiaries.

The separate financial statements of the parent company have been included in the annual report as required by the Danish Financial Statements Act.

The separate financial statements for the parent company for 2017/18 are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and Danish disclosure requirements.

Basis of preparation

The parent company's financial statements have been presented in Danish kroner, rounded to the nearest DKK million.

The financial statements have been prepared on a historical cost basis.

Financial statements of the parent company

The accounting policies of the parent company are consistent with those applied in the consolidated financial statements, note 1 in the consolidated financial statements, with the following exceptions:

Investments in subsidiaries

Investments in subsidiaries are measured using the cost method in the parent company's financial statements. If an indication of impairment is identified, an impairment test is carried out as described in the accounting policies of the consolidated financial statements. If the carrying amount of investments exceeds the recoverable amount, a corresponding impairment loss is recognised. Impairment losses are recognised in the parent company's income statement as financial items.

Fees paid to auditors appointed at the annual general meeting

Pursuant to section 96(3) of the Danish Financial Statements Act, the Company has decided not to disclose audit fees as the Company is included in the consolidated financial statements of TOP-TOY Holding II A/S, which include consolidated disclosures.

2 Significant accounting judgements, estimates and assumptions

In connection with the preparation of the parent company financial statements, Management has made accounting estimates and judgements that affect the assets and liabilities reported at the balance sheet date as well as the income and expenses reported for the financial period. Management continuously reassesses these estimates and judgements based on a number of other factors in the given circumstances.

Management assesses that, in respect of the financial reporting for the parent company, no accounting estimates or judgements are made when applying the parent company's accounting policies which are significant to the financial reporting apart from those disclosed in note 3 to the consolidated financial statements, including the assessment of the valuation of investment in subsidiaries, which outcome is based on the impairment tests prepared as part of the consolidated financial statement.

NOTES

3 Employee expenses

There are no employees in the parent company. The Board of Directors and the Executive Board of the Parent company receive only remuneration from the subsidiaries. Please refer to the note 4 at the Consolidated Financial Statements.

4 Income tax

DKK million	1 July 2017 – 30 June 2018	1 July 2016 – 30 June 2017
Total tax for the year is specified as follows:		
Income tax recognised in profit and loss	-0.3	0.2
Tax on other comprehensive income	0.0	0.0
	-0.3	**0.2**
Income tax of the year is specified as follows:		
Current tax	0.0	0.0
Deferred tax	-0.3	0.2
	-0.3	**0.2**

Tax on the profit for the year can be explained as follows:

DKK million	2017/18 DKK million	2017/18 %	2016/17 DKK million	2016/17 %
Profit for the year:				
Calculated 22% tax of the profit before tax	302.1	22.0	0.2	22.0
Tax effect of:				
Non-taxable income	0.0	0.0	0.0	0.0
Non-deductible costs on write-downs	-301.8	22.0	0.0	0.0
Reverse of taxloss carry forward	-0.6	-	0.0	0.0
	-0.3	**-**	**0.2**	**22.0**
Effective tax rate	**-**		**22%**	

NOTES

5 Investments in group enterprises

DKK million	1 July 2017 - 30 June 2018	1 July 2016 – 30 June 2017
Cost at 1 July	1,197.0	1,197.0
Disposals	0.0	0.0
Additions	0.0	0.0
Cost at 30 June	**1,197.0**	**1,197.0**
Impairment at 1 July	0.0	0.0
Impairment	-1,197.0	0.0
Impairment at 30 June	**-1,197.0**	**0.0**
Carrying amount at 30 June	**0.0**	**1,197.0**

For the list of subsidiaries, please refer to note 15 in the consolidated financial statements.

NOTES

6 Share capital

For information on share capital, please refer to note 19 in the consolidated financial statements.

7 Financial risk management objectives and policies

The Company has only investment in the subsidiary TOP-TOY Holding III A/S and does not have any significant receivables or debt. Risk related to currency, credit and liquidity is maintained on group level. Please refer to note 25 to the consolidated financial statements for further information on the Group's exposure to the financial risks.

8 Capital management

The primary objective of the Company's capital management is to maximise shareholder value which is maintained on group level. Please refer to note 20 to the consolidated financial statements for further information on the Group's capital management.

9 Related party disclosures

Related parties are described in note 28 to the consolidated financial statements. Remuneration to Board of Directors and Executive Board are listed in note 4 to the consolidated financial statements held by the subsidiaries. Further the Company has intercompany group balances at the balance sheet. The Company does not have any other related party transactions.

10 Collaterals, pledges and contingencies etc.

The Company is jointly taxed with the Danish subsidiaries in the Group and operate as an administration company. The Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interests and royalties in the joint taxation unit with other Danish companies. At 30 June 2018, the net taxes payable to SKAT by the companies included in the joint taxation amounted to DKK 0 thousand. Any subsequent corrections of the taxable income subject to joint taxation amounted to taxes on dividends, etc., may entail that the companies' liability will increase.

The Company is jointly liable for the Group's bank loans of DKK 852.0 million (2016/17: DKK 918.0 million) and the revolver facility in the Group of DKK 836.5 million (2016/17: DKK 645 million).

TOP-TOY Holding II A/S has issued a share pledge over its shares in TOP-TOY Holding III A/S and significant subsidiaries as security for loans under the Senior Facility Agreement.

11 Events after the reporting period

Management of the subsidiary TOP-TOY A/S in reconstruction has filed a request with the Danish court for reconstruction under the Bankruptcy Act at 30 November 2018. Please refer to note 2 in the consolidated financial statement related to the current financial situation.

12 Standards issued but not yet effective

For the note on standards issued but not yet effective, please refer to the note 30 in the consolidated financial statements. None of the standards or interpretations are expected to have an effect on the parent company.

ABOUT THIS REPORT

The report is audited by Ernst & Young Godkendt Revisionspartnerselskab, Osvald Helmuths Vej 4, 2000 Frederiksberg, Denmark.

Legal notices

This report makes references to TOP-TOY, which consists of TOP-TOY Holding II A/S and its subsidiaries. The CVR number of TOP-TOY Holding II A/S is 37 25 47 03. The registered office is Vallensbæk Municipality in Denmark.

TOP-TOY is a registered trademark of TOP-TOY (Hong Kong) Ltd. BR and the
Guardsman (workmark and devices) are registered trademarks of TOP-TOY A/S.

TOYS"R"US, the TOYS"R"US & Star design and the Giraffe design are registered trademarks of Geoffrey, LLC. TOP-TOY A/S is a licensee of Geoffrey, LLC.

This report includes references to the private equity group EQT, including EQT VII, which is the majority owner of TOP-TOY.

METHODOLOGY AND REPORTING FRAMEWORK

Scope

This report focuses on our financial and non-financial performance during the financial year from 1 July 2017 to 30 June 2018.

Non-financial data

The report is based on quantitative and qualitative non-financial data collected from internal systems and key people across the organisation. Responsible managers have verified the relevant parts of the report to ensure it is an accurate reflection of TOP-TOY's performance.

Non-financial data in the report complies with the statutory statement on corporate social responsibility by the Danish Financial Statements Act, section 99a and section 99b.

The report meets the criteria of the UN Global Compact, including the commitment to issue an annual Communication on Progress (COP) report. For an overview of the link between our responsibility focus areas, as communicated in this report, and the UN Global Compact principles, please visit TOP-TOY.com/sustainability/

Financial data

The financial data in this report covers TOP-TOY HOLDING II A/S and its subsidiaries. TOP-TOY presents its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS).

The report is supported by more extensive online information about our company, policies and performance.
These are available at **www.top-toy.com**

LIST OF GROUP COMPANIES

Investment in group companies compromise the following at 30 June 2018.

Foreign branches

TOP-TOY A/S Danmark, filial Sverige, Sweden
TOP-TOY A/S, filial i Finland, Finland

Group companies

	Country	Votes and ownership
TOP-TOY Holding III A/S, Vallensbæk Strand	Denmark	100%
TOP-TOY A/S in reconstruction, Vallensbæk Strand	Denmark	100%
TOP-TOY (Hong Kong) Ltd., Hong Kong	Hong Kong	100%
TOP-TOY Norge AS, Sarpsborg	Norway	100%
BR-Spielwaren GmbH, Hamburg	Germany	100%
TOP-TOY Iceland ehf, Reykjavik	Iceland	100%
NORSTAR A/S, Vallensbæk Strand	Denmark	100%
STARNOR, Ängelholm	Sweden	100%

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For more information about TOP-TOY and our responsibility approach and our policies, visit: **www.top-toy.com**
Please forward any questions or comments to the Communications and Sustainability team at **com@top-toy.com**