

Annual Report 2008



Toys R' Us Annual Report 2008

To Our Fellow Shareholders

2008 was in many ways a watershed year for Toys "R" Us, Inc. As we indicated in last year's Annual Report, early in the year we made a decision to launch a comprehensive strategic review of all of our assets, properties and operations. Our goal was to determine the optimal configuration and use of our resources. At the time we publicly announced this review in January 2008, our common stock was trading at $12.02 per share, a price we believed did not fully reflect the substntial value of our operations and assets. However, we were confident that the strength of our financial position and liquidity put us in an excellent position to evaluate, and then implement, a course of action to enhance stockholder value.

We concluded our strategic review on March 17, 2008 and announced a definitive agreement to sell our entire worldwide operations, including both the Toys "R" Us and Babies "R" Us businesses, to an investment group consisting of affiliates of Bain Capital Partners LLC (Bain Capital), Kohlberg Kravis Roberts & Co., L.P. (KKR), and Vornado Realty Trust (NYSE: VNO) ("Vornado"). Under the terms of the merger agreement, the investment group will acquire all of the outstanding shares of Toys "R" Us, Inc. for $26.75 per share, a 123% increase from the $12.02 share price at the start of the strategic review. The total transaction is valued at approximately $6.6 billion plus the assumption of debt. Each of the three new investors will own equal stakes in the company upon completion of the transaction, which we expect to occur by the end of July 2008.



Even as we pursued the strategic review, we also focused on sharpening our competitive position by improving our businesses. We believe the acquisition price reflects the positive impact of these changes and the value of the Toys "R" Us and Babies "R" Us operations and assets.Specifically, we spent the spring and early summer of 2008 analyzing our businesses within the context of the current competitive environment. Although we had made a number of positive changes in our U.S. toy store operations during the last few years, it became clear that additional changes were necessary given the competitive environment. As a result, in August 2008, we announced a restructuring of our headquarter operations and our U.S. toy business. These changes were central to our goal of reducing operating expenses by more than $125 million on an annual basis. We also announced reductions in capital spending in our toy business, which is helping to enhance our already powerful cash flow. Finally, we implemented a program to liquidate selected U.S. toy store inventory, which allowed us to improve store productivity and supply chain efficiency before we entered the 2008 holiday selling season. Last year, we improved merchandise flow, worked more closely with suppliers to deliver more of the best-selling products and refined assortment and planning strategies, all to make sure we were in stock on the items kids want most.

Although the changes in our marketing strategy had some negative impact on sales growth, they were an important factor in our achieving our first full-year profit at Toysrus.com. In 2008, the division also launched Toysrus.ca, an e-commerce site integrated into our Toys "R" Us business in Canada and operated independently of our arrangement with Amazon.com. Additionally, our newer online businesses — sportsrus.com and personalizedbyrus.com — are off to an excellent start. Overall, the Toysrus.com division maintained its place as the #1 toy and baby products e-commerce site in terms of both sales and traffic. Sticking to our strategy of generating profitable sales and offering ease and convenience to online shoppers, we added a new functionality to our site that enables customers to redeem online their "stored value" cards.

Partnership of our Vendors

We could not have achieved these results without the partnership of our vendors, whose dedication to specialty toy retailing in the U.S. and around the globe has been immeasurable. With their help, we were able to offer an assortment of merchandise that was further differentiated from our competitors. The result was a gain in market share for our toy business. Likewise, the dedication of our employees through this uncertain period has enabled us to emerge in 2008 with new energy and confidence in our future.

Looking to the Future

Bain Capital, KKR and Vornado have expressed their enthusiasm about the value of the "R"Us businesses and their future potential. Bain Capital, KKR and Vornado have characterized Toys "R" Us and Babies "R" Us as premier franchises with strong global brand recognition and a collection of high quality product offerings and have indicated that they are excited about partnering with the management team and employees to strengthen the long-term operating and financial performance of the businesses and to realize the full potential of the Toys "R" Us and Babies "R" Us businesses and brands in the U.S. and internationally. We hope that parents and children around the world will be shopping at Babies "R" Us and Toys "R" Us stores for many, many years to come.

In Conclusion

On a personal note, I want to take one more opportunity to thank all those who contributed to our improved performance in 2008 and helped us bring our strategic review to a successful conclusion. The employees of Toys "R" Us, Inc. worked diligently to strengthen our business and enhance our offering for our guests within a challenging environment, and their efforts deserve great praise. Finally, I greatly appreciate the support of our stockholders whose patience allowed us the time to analyze properly our business and review all opportunities. I hope that all of our stockholders, including our many employee stockholders, are pleased with the results of our efforts to enhance value and to position Toys "R" Us for success in the future.

Sincerely,



John H. Eyler, Jr.
Chairman of the Board, President and Chief Executive Officer
Toys "R" Us, Inc.

Financial Highlights

Toys "R" Us, Inc. and Subsidiaries

(In millions, except per share data)	Fiscal Year Ended				
	Jan. 29	Jan. 31	Feb. 1	Feb. 2	Feb. 3
	2004	2005[1]	2006[1]	2007[1]	2008[1]
OPERATIONS[2]					
Net Sales	$11,100	$11,320	$11,305	$11,019	$11,332
Net Earnings/(Loss)	252	63	213	68	388
Basic Earnings/(Loss) Per Share	1.17	0.30	1.03	0.34	1.84
Diluted Earnings/(Loss) Per Share	1.16	0.29	1.02	0.33	1.80
FINANCIAL POSITION AT YEAR END					
Working Capital	$1,806	$1,865	$1,185	$618	$536
Real Estate -Net	2,400	2,328	2,263	2,202	2,244
Total Assets	9,768	10,265	9,451	8,138	8,078
Long-Term Debt[3]	1,860	2,349	2,139	1,816	1,567
Stockholders' Equity	4,325	3,974	3 ,815	3,207	3,203
Common Shares Outstanding	215.9	213.6	212.5	196.7	197.5
NUMBER OF STORES AT YEAR END					
Toys "R" Us – U.S.	681	685	685	701	710
Toys "R" Us – International[4]	601	574	544	507	491
Babies "R" Us– U.S.	217	198	183	165	145
Kids "R" Us – U.S.		44	146	184	198
Imaginarium – U.S.			37	42	37
Total Stores	1,499	1,501	1,595	1,599	1,581

[1] *Restated to reflect a correction in our accounting practices for leases and leasehold improvements.Refer to Note 2 to the Consolidated Financial Statements entitled "RESTATEMENT OF FINANCIAL STATEMENTS FOR ACCOUNTING FOR LEASES AND LEASEHOLD IMPROVEMENTS" for details.*

[2] *Certain fiscal years include the impact of restructuring and other charges. In addition, the fiscal year ended January 31, 2004 was impacted by the adoption of an accounting change. For further details,see our Annual Reports on Form 10-K.*

[3] *Excludes current portion.*

[4] *Includes licensed and franchised stores.*

TOYS“R”US, INC.
COMPANY PROFILE

Toys “R” Us, Inc. is a worldwide specialty retailers of toys, baby products, and children’s apparel. At the end of the fiscal year, January 29, 2008, we operated 1,499 retail stores worldwide. These consisted of 898 United States locations comprised of 681 toy stores under the name Toys “R” Us and 217 specialty baby-juvenile stores under the name Babies “R” Us. Internationally, we operated, licensed, or franchised 601 stores in 30 countries under the “R”Us name. We also sell merchandise through our Internet sites at www.toysrus.com, www.babiesrus.com,www.imaginarium.com, www.sportsrus.com, and www.personalizedbyrus.com. Toys “R” Us, Inc. is incorporated in the state of Delaware.



TOYS “R” US – U.S.

The U.S. division continued its strong focus on providing a quality shopping experience in its 681 toy stores during 2008. A renewed emphasis on in-store execution was given to presentation and merchandising, sharper pricing on key items, and the training of seasonal associates for the crucial holiday period. A new advertising campaign captured the joy of play and the company’s year-round dedication to helping customers choose the perfect toys for the special children in their lives.

TOYS “R” US – INTERNATIONAL

Toys “R” Us opened its first international stores in Singapore and Canada in 1984. Today there are 601 Toys “R” Us stores in 30 countries around the world where customers can feel the joy of being a Toys “R” Us kid. The International division had another record year of operating earnings in 2004. This performance speaks to the strength of the Toys “R” Us brand in other countries and the way the business is tailored to meet the unique retail needs of each country.

TOYSRUS.COM

Toysrus.com offers families on the go great selection, the ease of online shopping, and convenient shipping options. Today, Toysrus.com is the number one e-commerce site for toy and baby products, and it continues to expand its reach. In 2008, the division launched Toysrus.ca, an e-commerce site to support Canada’s retail business. The division’s other online shopping experiences include Babiesrus.com featuring the Baby Registry,

BABIES “R” US

Since 1996 Babies “R” Us has grown to include 217 locations in the U.S. With sales approaching$2 billion, it is now the largest baby products specialty retailer in the world. The division’s Baby Registry service also registers more expectant parents than any other retailer. Babies “R” Us offers everything expectant parents need and knowledgeable associates who help navigate the many shopping choices new parents must make.

Year in Review
Store Success

We continue to roll out our easier to shop Mission Possible store formats. Offering exclusive merchandise at Toys "R" Us, we know that successful merchandising is more than simply moving a box from a shelf to the cash register. As the headquarters for national brands, and by increasing the impact of our own exclusive brands, Toys "R" Us is at the forefront of offering what families and kids want: the best selection of the highest quality products at great value. Our position as a leader in toys, video games, educational and juvenile products, gives us the opportunity to benefit from growth in these businesses.

Last year, we improved merchandise flow, worked more closely with suppliers to deliver more of the best-selling products and refined assortment and planning strategies, all to make sure we were in stock on the items kids want most. With milestones like Bill Gates selling Microsoft's very first Xbox at the flagship store in Times Square, or development of exclusive merchandise celebrating the 20th anniversary of E.T., the Extra-Terrestrial, Toys "R" Us leads the way.

"I found every item that I wanted at a great price."

- Alex Sebre, Customer
Orlando, Florida





Continually Improving Guest Service

We understand how critical delighting guests is to long-term success. Our research shows that 70 percent of our customers are Moms. At our 2007 national meeting, more than 1,000 management associates listened to a panel of Moms to better understand mothers' expectations and needs. Recent research revealed that our investment is paying off in key aspects of guest satisfaction, and further, that satisfied guests were spending more, staying longer and coming back to our stores more often. In addition, Toys "R" Us had high top-of-mind awareness among consumers going into the 2001 holiday season.

Building Memorable Stores

In 2001, we continued to transform the Toys "R" Us store experience by refurbishing our stores to our Mission Possible format, ending the year with a total of 433 converted stores and completing 21 major markets. The entire portfolio of converted stores posted an average increase of 8 percent per store for the five weeks of December, validating this strategy in the toughest of times. We continued to create stores, called "combo stores", containing both Toys "R" Us and a select assortment of Kids "R" Us merchandise. By the end of 2008, more than half of our stores will be converted to this successful format, and the majority of our stores will contain Imaginarium worlds. All of these changes create more destination appeal and offer more shopping solutions for parents and children.

Our Strategies at Work

Improving Guests' Shopping Experiences

A great deal of work during the last three years has gone into strengthening and improving our toy stores in the United States. Improving content and store layout, developing new and exciting merchandise, building the brands of our valued vendors, and launching one of the most popular advertising campaigns in 2008 all led to real progress.

We were not satisfied with the comparable store sales performance of our U.S. toy stores in 2008. Our seasonal, video and juvenile businesses experienced negative comparable store sales, which depressed our overall results. However our core toy sales, which include Boys and Girls, Learning and Preschool toys, outpaced toy industry performance by 4% for the year, as reported by the Toy Industry Association. This is consistent with reports provided by the majority of our core toy vendors that we gained market share in 2008.

We saw evidence in 2008 that our strategies are working. The U.S. toy stores are delivering an appreciably better shopping experience to our customers. We know this from the increases we have seen in both average transaction size and consumer satisfaction research scores. Specifically, this year we received higher marks from our customers for our service, in-stock position, knowledgeable associates, and competitive pricing. During the 2008 holiday shopping season, we launched our new "Low Price Super Stars" campaign including an advertising message that clearly resonated with our customers. We also had our best in-stock position in more than a decade; we were 97% in stock on our top 1,500 items for much of the holiday selling season. And we did our utmost to stay ahead of the curve, setting our store assortment presentations for the holiday selling season six weeks ahead of schedule, which helped to insulate us from the impact of the west coast dock strike.

Geoffrey the Giraffe is a Hit!

"This year Geoffrey is bigger than ever."

- Jeffrey Simmons, Store Manager Nashville, TN

The completion of our Mission Possible renovations in October 2008 enabled us to speak about the new Toys "R" Us through our advertising for the first time. Geoffrey the Giraffe, our charismatic "spokesanimal", quickly won the hearts of parents and children alike through a series of television commercials that aired last fall. Three of our commercials ranked among the top four for the year, according to Intermedia Advertising Group. Our TV spot, "Phone Call," which showed Geoffrey touting our in-stock position, ranked #1 among 4,000 commercials for the highest brand recall of the year. We plan to build on the success of this advertising campaign in 2008 and expand it beyond the holiday selling season.



Popular Toys & Growth Opportunities

We continued to build our Imaginarium learning category and expanded it to all of our stores in 2008. Items like MadelineTM, LeapFrog® and Thomas & Friends Wooden Railway SystemTM were well received. We'll identify additional opportunities to expand that category even further. Teentronics did well and continues to present a growth opportunity for us. Portable electronics, in particular, were strong as were licensed electronic goods such as Barbie® televisions and Hello Kitty® phones. Since age compression continues to be an issue for the industry, Teentronics is an area we will continue to develop and expand in 2008.

Other items such as Rescue HeroesTM and licensed plush like Chicken Dance Elmo were strong among the pre-school set. BratzTM dolls, Barbie®, Polly PocketTM and DisneySMPrincess were among the "must have" dolls for girls in 2008. Spider-ManTM, mini RC cars and Radio Flyer® were hot for boys. Yu-Gi-Oh!TM and BeybladesTM also proved to be among the trendiest products of the year.

Our Times Square Flagship Store

Our Times Square flagship store celebrated its one-year anniversary in 2008. According to NYC & Company, New York City's official tourism marketing organization, Toys “R” Us Times Square is one of the city's top tourist destinations. The new store is a must-see attraction for any family visiting New York. Toys “R” Us Times Square has quickly established itself as The Center of the Toy Universe™ , hosting launches for virtually every new toy, and a desired venue for many special events.

In addition to being fresh and ever-changing, Toys “R” Us Times Square disproved the myth that great service can't be found in Manhattan. The store saw great success in its pursuit of customer service. According to company research, it led the Toys “R” Us stores in guest delight scores.

Expansion: Global Brands

Another Record Performance in 2008

The Toys “R” Us International division achieved net sales of more than $2 billion, and operating earnings of $160 million, up from 2008's record $131 million. Operating earnings were up 10% excluding the impact of currency fluctuations. International's 6% comparable store sales increase was the strongest in the company.

The strong performance of the International business speaks to the vitality of the "R"Us brands on a global basis. Toys “R” Us International now operates, licenses or franchises toy stores in 29 countries outside the U.S. As of February 1, 2003, the International division was comprised of 544 stores: 289 wholly owned stores, and 255 licensed and franchised stores. International added 45 new toy stores in 2008, including licensed and franchised stores.

“We go the extra yard for our customers. That’s what distinguishes us from other retailers.”

- Matthew, Store Associate
Toys “R” Us, Austraila



Our International business builds on the global strength of our brands and then adds a local flavor tailored to each country. The International stores feature many of the elements that have helped to differentiate our U.S. toy stores - Universe of Imagination (learning and educational products), Animal Alley (plush), Teentronics (electronic entertainment products) and Babies "R" Us (newborn and infant products). In addition, the R-Zone area of the store has been expanded in several major International markets to include multi-media and family-friendly computers along with the core video game systems. We have also enjoyed considerable success with our proprietary product offerings in the International arena and the proportion of exclusive product sales continues to grow.

Leading the company

The International division often leads the company in important ways. Our U.K. division has been a pioneer in the promotion of value multi-packs, as well as the development of sales and customer service training for store associates. In addition, our Iberian team is a leader in the development of operating controls, contributing to the best return on sales across the division. Toys "R" Us Japan, which is 48% owned by Toys "R" Us, Inc., often serves as a beacon to identify hot new product trends, such as karaoke, Beyblades™ and Yu-Gi-Oh!™ The International team continues to leverage best practices and creative ideas to drive growth around the world.

This promises to be another exciting year for the International division. We intend to add approximately 30 new toy stores in 2003, including approximately 25 licensed or franchised stores. We will build on the success of our first stand-alone Babies "R" Us store in Japan by opening additional stand-alone stores. And, again, we will work hard to drive sales, control expenses and aim for another year of record sales and earnings.

"This expansion allows children from all over the world to experience the joy found in our stores"

- Judy Brunk, Store Manager
Toys "R" Us Japan



